

# The New York Times

You're the Boss. **The Art of Running a Small Business.** June 26, 2009.

## From the S.B.A., Another Small Step

By ROBB MANDELBAUM

The Small Business Administration has once more turned to its stimulus-supplied toolbox in the effort to open up the blocked spigot of capital. (That's the S.B.A.'s toolbox metaphor, not The Agenda's. We've simply extended it.) On Wednesday the agency gently loosened lending restrictions (pdf) for its underrated 504 loan program. The new policy aims to improve a small company's cash flow by restructuring existing debt — but only if that firm borrows new money to expand. What's unclear is how many firms are brave enough in this economy to take the government up on the offer.

In a 504 loan, the financing is split between the borrower, a conventional lender (such as a bank) and a nonprofit community development company. It's the community development company part that's unusual: These C.D.C.'s pool all the debt they issue nationwide into 20-year, fixed-rate bonds sold on Wall Street. (The bonds are guaranteed by the S.B.A.). "It's the least expensive capital that a small business can get out there," says Christopher Hurn, president of Mercantile Capital Corporation, a conventional, for-profit 504 lender. "There's no 20-year fixed money in the commercial lending space." Moreover, the borrower needs to only put 10 percent down, in contrast to, say, 30 percent in a conventional deal.

As the terminology suggests, a 504 loan is meant to stimulate community development, and must create or sustain a certain

number of jobs. The proceeds may be spent only on fixed assets such as land, a building, or machinery. "It was a forward-looking program for new investment rather than looking backward at previous transactions," says David W. Amick, executive director of Premier Capital Corporation, a C.D.C. in Indianapolis. The rules therefore greatly limited the ability to refinance as part of the project.

But note the "was" in Amick's statement. As of Wednesday, up to half of the proceeds of a 504 loan can now go to refinancing a previously purchased asset, so long as the new project constitutes an expansion of the business. The existing asset and the expansion must be related, but only loosely: New property and old must merely be deployed in the same line of business and owned by the same company. While other provisions of the stimulus law are set to expire within two years, the refinancing change is permanent. So is another 504-related provision, which took effect the day the stimulus law was signed and effectively lowers the job-creation threshold for the loans.

Yet the change is less drastic than it sounds. For one thing, it applies just to the C.D.C. portion of the debt. Bank lenders have always been able to structure some of their portion of the debt as refinancing, with some restrictions. And the C.D.C.'s have been able to refinance so-called "interim financing," or any loan for the project obtained within nine months of

the 504, according to Roslyn Goldmacher, chief executive of the Long Island Development Corporation, based in Bethpage, N.Y. "It won't bring more people to us, but it will just make it easier for us to deal with expansion projects, and give additional benefits to those borrowers."

Indeed, none of the 504 financiers interviewed expect a surge of lending because of the new rule, which is predicated on expansion. "I don't know too many businesses that are in expansion mode right now, do you?" says Mr. Hurn.

To truly stimulate lending, Mr. Hurn proposes fully lifting the restriction on refinancing. He points out that so far this fiscal year, the S.B.A. has guaranteed less than \$3 billion in 504 loans, far less than the \$7.5 billion it is authorized to support. "We're going to leave billions of dollars on the table," he says. But by broadening the refinancing rules, "you could soak up those S.B.A. dollars that sit there and never get used."

Still, Mr. Hurn describes the move as a useful, if small, first step. "I really view this as getting the trunk of the elephant under the tent — it puts the 504 on par with the 7(a) loan," he says. "It's been a travesty that for the last 26 years you've had one S.B.A. program, namely the 7(a), that allows for refinancing, but we've kept small businesses who need refinancing from the least expensive borrowing that's available." ■