

Improving Economy Increases Demand for SBA's 504

SBA Proposal Would Streamline Loan Application Process

JANE YU May 5, 2013

Gregg Roseen is no stranger to government-backed 504 loans. He's just never gotten one himself.

The president of Laguna Hills-based Roseen Builders Inc. gives credit to the U.S. Small Business Administration's lending program for helping keep business steady in recent years for his general contracting company, which specializes in building animal hospitals.

Small businesses can receive long-term, fixed-rate loans through the 504 program to buy real estate or machinery.

The program requires a 10% down payment by the borrower, and the rest is split between lenders and certified development companies—nonprofit organizations that work exclusively on 504 loans under SBA oversight.

Demand for the loans has grown in the thawing economy, and the number of loans has increased accordingly.

Those in Roseen's case have so far gone to his customers.

"The majority of our clients are purchasing property, and they want to build and own their buildings," Roseen said. "The 504 loans have allowed them to get into these properties with less money down and government backing."

Roseen Builders sees an average of \$5 million in annual revenue and has a team of five in a rented 1,700-square-foot office.

"We've been very lucky that veterinarian construction hasn't taken a dip like everything else has," Roseen said. "We've had a pretty good ability to maintain multiple projects per year using these loans."

Hoping for Loan

Now he's trying to get one of the loans for himself.

"I'm hoping this comes out good," said Roseen, who's looking to buy a 4,000-square-foot building in Irvine for \$680,000 to house the company's offices. He said he hopes to get approval by mid-May and complete the process by the end of June.

It's the company's first go at purchasing an office. Roseen called it "a very tedious process" but said he maintains a hopeful stance focused on the potential benefits for the company. His current space suffices for operations but is too small for storage, forcing him to maintain four separate warehouses. The plan is to split

the new building into a 1,500-square-foot office and a 2,500-square-foot warehouse, with the office space presenting options for the company's own layout instead of a landlord's.

"It also gives us room to grow," Roseen said. "It allows us to bring on more project managers."

Roseen Builders is one of many small businesses in Orange County that have tapped into the 504 loan program during a period of soft economic recovery and low interest rates, factors that have combined to push demand for such loans.

The rise in borrower interest and available funding for small-business loans is reflected in the latest tally of the dollar value and number of loans provided for businesses to buy commercial and industrial space in the county.

Financing of local commercial real estate purchases through the 504 program totaled \$170 million in 81 loans in the six months that ended March 31. That's a 40% increase from \$121 million in 69 loans in the same period a year earlier, according to data from the **CDC Small Business Finance Corp.**

The San Diego-based organization is the largest SBA 504 lender in the country. It made 207 SBA-backed loans worth \$181.1 million in the six months through March. Small Business Finance said it expects more than 650 jobs to be created in Orange County as a result of the loans and subsequent expansion efforts by small businesses here.

Part of the increase in loan applications comes from pent-up demand as "people were holding off because of uncertainty" in recent years, said **Mark Hogan**, senior loan officer at the Anaheim office of Small Business Finance.

"Now they realize [the rates] are as low as they can get," he said. "So there's nothing holding them back, although obviously it still has to be a good business decision. The loans have always been there; it comes down to consumer confidence."

Improving sentiments have been keeping participating banks busy.

Wells Fargo Bank saw "a surge in SBA lending in the second half of last year," said Steve Doss, regional sales manager in Escondido who also oversees the bank's SBA lending group in OC. "It's continued into 2013 but maybe not at the same brisk pace. But we still do anticipate demand for SBA lending will continue."

Wells Fargo made 43 SBA loans in OC during the six-month period through March, providing \$19.4 million, up 16% from a year earlier.

504, 7(a)

Doss said the bank's SBA division typically sees a roughly even split between 504 loans and the SBA's 7(a) loans, the latter of which are considered the most common and flexible type of loans and can be used for multiple purposes, such as acquisitions, building renovation and debt refinancing.

"We present all options for any kind of real estate," he added. "We propose 7(a), 504 and conventional. ... I will say that the rates under the 504 are at an all-time low. More lenders participate through 504 than 7(a), and it's a competitive product for them."

Irvine-based Plaza Bank has increased SBA loans more than threefold year over year.



Hogan: pent-up demand helping drive interest

The bank made nearly \$5 million in SBA loans to OC businesses from October through March, split between 7(a) and 504 loans.

Plaza recently made a 504 loan to an Anaheim-based company to buy a \$1.5 million machine.

It also worked with a wholesale supplier of electronics and solar products that received a 504 loan to purchase an office in Santa Ana. Plaza lent the company \$1.1 million through a conventional loan and later lent it an additional \$1.4 million through a 504 loan.

Increased Attention

The bank has devoted more resources to meet increased borrower demand as the economy has strengthened.

“Demand in commercial real estate has grown,” Executive Vice President Erich Bollinger said. “Qualified business owners want to buy real estate for their business, and the time is right. [Also], we have put a lot of resources behind these opportunities—salespeople, relationship managers and support teams—so we can move quickly and definitively when a client wants a loan.”

Wells Fargo’s Doss said he expects loan demand could increase further, thanks to some changes the SBA has proposed to help more borrowers qualify and to streamline the application process, which some lenders acknowledge can be cumbersome and limiting.

The proposals include a measure to revise the “rule on affiliation,” which limits which companies can qualify as small businesses based on their association with other companies.

“In the past, some of these rules the SBA had in place were somewhat restrictive,” Doss said. “It will make it a lot easier for borrowers who have multiple businesses to qualify for loans. The timeline ... is anyone’s guess, but overall, it will be a big lift for the businesses and hopefully reduce some paperwork, too.”