

# Available SBA loans baffle many

Businesses could save millions on refi — if only they would apply

By David Wichner  
ARIZONA DAILY STAR

Like homeowners, small businesses with good credit can save some real money these days by refinancing their mortgages to take advantage of low-interest rates.

A temporary federal program is designed to help small firms do just that by allowing them to use a type of federally guaranteed Small Business Administration loan to refi up to 90 percent of a property's value.

The potential savings of the two-year program, under the

SBA's 504 loan program, are enticing.

Trisports.com, a Tucson-based online store for triathletes, took advantage of the program and knocked nearly 4 percent off the interest rate on a \$3 million mortgage.

The expected savings?

"It's millions," said Seton Claggett, who co-owns Trisports.com with his wife, Debbie.

The idea behind the program, mandated under the Small Business Jobs Act passed by Congress in September 2010, was to boost jobs by allowing qualified small businesses to cut their mortgage costs.

But since the SBA launched the

program under regulations initially adopted in February, it has produced anemic results.

Congress allocated up to \$15 billion for the refi program through the end of 2012, including about \$7.5 billion through the just-ended 2011 federal fiscal year, in an effort that was supposed to help up to 20,000 businesses.

But through Sept. 23, only 265 refi loans totaling \$212 million had been processed, the SBA said.

In Arizona, only four 504 refis have been done, with a total value of \$2.8 million.

Industry experts say the program has been held back by restrictive requirements, lack of awareness among small businesses, lack of credit and equity among

potential borrowers and, some say, because of foot-dragging on the part of the SBA to adopt rules to implement parts of the program.

Chris Hurn, who heads a nationwide SBA lender, says the agency was slow to roll out the program and has failed to issue rules regarding important elements of the law.

"It's embarrassing, and it's clearly not the intent of the law or the spirit of the law," said Hurn, CEO of Orlando-based Mercantile Capital Corp.

Not only was the SBA slow to roll out the program, but it has failed to issue regulations allowing two important provisions — one to allow part of the refi proceeds to be used for working capital, and

another that would allow small firms to borrow up to 125 percent of the appraised property value.

That latter requirement would help a lot of businesses that have negative equity in their properties — including many in Arizona, where Hurn has about a half-dozen customers.

Based on public comments, the SBA is preparing new rules "in the near future" that will address many of the industry's concerns, SBA spokeswoman Hayley Meadvin said.

The SBA did issue rules extending the maturity period of loans to be refinanced.

That change helped the

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PHOTOS BY RON MEDVESCEK /  
ARIZONA DAILY STAR

## Bio5 closes in on new drugs for patients

By Michelle A. Monroe  
ARIZONA DAILY STAR

Less than a year after the University of Arizona's Bio5 Institute opened a drug-research branch in Oro Valley, researchers there say they're exceeding their goals.

The Oro Valley facility, which opened Nov. 19, was designed to get new therapies and drugs to patients faster by placing academia and industry closer.

Around two-thirds of the building is dedicated to groups under the direction of UA professors.

The remaining space is to be rented to pharmaceutical companies. While that space remains empty, Bio5 has seen some interest from potential tenants.

In June 2010, the university paid \$3.05 million — considered a bargain — for the 27,464-square-foot facility at 1580 E. Hanley Blvd. The building served as a drug-research center for Sanofi-Aventis before the French company, whose local operation started as a UA spinoff, moved to larger space at nearby Innovation Park.

Researchers at Bio5 Oro Valley hope to use the laboratories to get projects closer to clinical trials and thus closer to patients. The closer to human trials, the less risky, and more enticing, a project is to companies.

"Companies are very risk-



This lab with multiple workstations is one of the many areas for lease at the University of Arizona's Bio5 Oro Valley Lab.

averse right now, so it's a challenge," said Nina Ossanna, director of Bio5 business development and strategic planning. "I get faculty members dis-closing or telling me about new drugs that they have, but I haven't been able to license a new pharmaceutical for years."

Researchers say the new facility has helped them meet grant deadlines and get their drug candidates closer to market.

Hong-yu Li, a UA pharmacy pro-

fessor, leads a team researching cancer, currently focusing on thyroids. Li said he hopes to have a provisional patent on his research in the next few months.

"It's very exciting — we're already in the process of getting the compounds into animals (for testing)," Li said. Animal testing is necessary before human trials can begin.

Christopher Hulme, a UA phar-

Post-doctoral research fellow Federico Medda prepares samples of compounds to be tested for purity at Bio5's Oro Valley Lab.

Getting a new drug on the market, from research to production, costs about \$1 billion, according to Nina Ossanna, director of Bio5 business development and strategic planning.

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## REAL ESTATE



Dale Quinn

## Resource helps link buyers to homes

The Tucson Association of Realtors Multiple Listing Service has teamed up with an online software company to help eligible home buyers find down-payment assistance.

The local listing service and Atlanta-based Workforce Resource, www.workforce-resource.com, announced Friday the launch of a web-based tool to help home buyers realize just how many local down-payment assistance programs are available to them.

The tool, called Down Payment Resource, connects buyers to properties that qualify for government-funded down-payment help, affordable mortgages and rehabilitation loans.

In the past, it's been tough for buyers and their agents to identify what types of programs are available, said Philip Tedesco, CEO of the Tucson Association of Realtors Multiple Listing Service. So much so that cash for those programs goes unused, Tedesco said. And that leads the government to reduce funding for those programs.

This new tool should help keep that from happening, he said.

"It takes it totally out of the abstract and it gives you a real good idea of what's available," Tedesco said.

Locally, more than three-quarters of residential listings may be eligible for a down-payment assistance program, according to the Tucson Association of Realtors. Right now, Down Payment Resource is tracking 34 programs in the area, 25 of which are funded and available for use.

Just one example: the Pima County Homebuyer Assistance Program offers \$5,000 in down payment help to qualified low-income, first-time home buyers.

Wading through those programs — which are often layered throughout local and federal governments — is difficult

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## COMING MONDAY

ALWAYS RIGHT? Find out when it's OK to overrule customers.

## MORE INSIDE

These industries are looking to hire

If you're trying to find a job, don't miss this Wall Street Journal Sunday report. **Page D5**

Arizona program aids 'short sales'

State funding was supposed to prevent foreclosures, but that hasn't worked out. **Page D7**



# Vanguard realigning some funds

**By Mark Jewell**  
THE ASSOCIATED PRESS

Vanguard on Friday announced strategic and management changes at six of its mutual funds.

Five mutual funds will begin to exclusively employ a low-cost index investing approach, rather than relying partly on professional managers to guide investment selection.

In addition, Vanguard is replacing an outside manager at another fund in favor of a multi-manager approach.

Vanguard is the nation's largest mutual fund company, with \$1.6 trillion in U.S. fund assets in its lineup of more than 170 funds.

Some of the key changes:

- Vanguard LifeStrategy funds.

Changes were announced for all four funds in this series: LifeStrategy Growth, LifeStrategy Moderate Growth, LifeStrategy Conservative Growth, and LifeStrategy Income.

These stock-and-bond funds will now invest solely in three Vanguard index funds rather follow a blended strategy, which meant also investing in pricier actively managed funds.

The three underlying Vanguard index funds are Total Stock Market Index, Total International Stock Index, and Total Bond Market II Index.

In coming months, fund holdings will be gradually shifted away from the two actively managed funds that were historically part of

the LifeStrategy portfolios.

Once the transition is completed, expense ratios for the funds are expected to range from 0.14 percent to 0.18 percent. That equals \$14 to \$18 per year for every \$10,000 invested — about \$2 to \$4 less than current expenses.

- Vanguard Asset Allocation: Vanguard seeks approval from fund shareholders to merge this \$8.6 billion fund into the \$11 billion Vanguard Balanced Index Fund, which charges slightly lower expenses.
- Vanguard Growth & Income: This \$4 billion fund will be switched to a multi-manager approach, with three advisers assuming responsibility from Mellon Capital Management.

## MOVING UP

### Gimmler is Carondelet's senior major gifts director

Carondelet Foundation has hired **John Gimmler** as senior major gifts director.

He will guide fund-raising and development and manage a portfolio of major gift prospects and donors.

Gimmler had been a development consultant with the Carondelet Foundation since 2008.

In his career, he has directed nearly 100 capital campaigns and major gift programs. He has helped raise more than \$1 billion for a variety of nonprofit organizations, Carondelet said in a news release. He was international executive director of Rotary International's PolioPlus Campaign, which raised \$250 million to help eradicate polio in developing countries worldwide.

His bachelor's degree is from St. John's University.

### Quezada in manager post at Special Olympics Ariz.

**Miguel Quezada** is the new development manager of the Coronado Area Office of Special Olympics Arizona. Quezada is based in Tucson and will oversee fund-raising responsibilities for much of Southern Arizona.

He'll be seeking major gifts, corporate support and foundation grants for Special Olympics Arizona, a nonprofit agency. He will also supervise the Special Olympics Advisory Leadership Council.

Previously, Quezada served as director of development for Arizona's Children Association in Southern Arizona.

He also worked for the American Heart Association and the University of Arizona Alumni Association.

Quezada serves on the board of directors of the Association of Fundraising Professionals and of the Planned Giving Roundtable. He holds a bachelor's degree in business from the UA.

### Wilkerson new fire chief for Mtn. Vista district

**Ed Wilkerson**, who has more than 30 years of experience in public safety, will be the new fire chief at Mountain Vista Fire District on Nov. 1.

Wilkerson started as a paramedic in 1980. He worked as a firefighter, captain and battalion chief for fire departments in Washington and Oregon prior to becoming fire chief for Port Ludlow Fire & Rescue in 2005.

### Retail specialist Warren moves to Tucson Realty

**Joe Warren** is now a retail specialist with Tucson Realty & Trust Co.

He was with Commercial Retail Advisors for several years and most recently with Tierra Antigua Realty.

Warren is a Certified Commercial Leasing Specialist (CCLS) and a member of the local chapter of CCIM, as well as a member of the International Council of Shopping Centers.

Send notices of hirings and promotions to **Business, Arizona Daily Star, 4850 S. Park Ave., Tucson AZ 85714, business@azstarnet.com or fax 573-4144.** (Use "Moving Up" in the email subject line.)



Outbound shipping supervisor Tyler Earhart labels parcels for shipping to customers at TriSports.com, a local small business that, between a bank loan and CDC loan, cut its interest rate to a combined 5.25 percent.

## LOANS

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Claggetts qualify for their 504 refi through Bank of the West.

The couple had a 2006 mortgage on their Tucson warehouse and retail store that carried an interest rate of nearly 9 percent and included a balloon payment next year.

Like regular SBA 504 loans, the refi loans consist of a bank loan, with a senior secured position, for 50 percent of the overall loan value; an SBA-guaranteed debenture or type of bond issued by a local SBA Certified Development Company (CDC); and 10 percent equity put up by the borrower. Conventional commercial mortgages can require 20 percent to 35 percent equity.

Between the bank loan and CDC loan, Trisports cut its interest rate to a combined 5.25 percent.

The Claggetts look forward to using their mortgage savings to grow their already successful business, though they said the refi loan required intensive paperwork.

### SBA REFI RULES

Eligibility requirements for the Small Business Administration's 504 refinance loan program include:

- Refinanced properties must be mostly owner-occupied.
- The debt being refinanced was incurred to acquire land, to construct a building or to purchase equipment.
- The existing debt is collateralized by fixed assets.
- The existing debt was incurred for the benefit of the small business.
- The new financing provides a substantial benefit to the borrower when prepayment penalties, financing fees and other financing costs are taken into account.
- The borrower has been current on all payments of existing debt for one year prior to the date of refinancing.

"It's a good deal, but it's a lot of work," Seton Claggett said.

Beside the normally extensive documentation required for 504 loans, including past loan docu-

ments and bank transcripts, borrowers must create or retain a certain number of employees as a result of their loans.

Dave Newsom, Bank of the West vice president and relationship manager for the Tucson area, said many businesses aren't aware of the new refi program.

"If you can qualify for the loan, with interest rates where they are now, it's pretty much a no-brainer," Newsom said.

Arizona's biggest SBA lender in terms of loan volume, JPMorgan Chase, has yet to fund a 504 refi loan but has several possible loans in the pipeline, said Corie McGrath, senior vice president of small-business banking for Southern Arizona.

Allowing the 125 percent loan-to-value ratio could help some worthy but underwater businesses weather the down economy and grow, McGrath said.

"That could really help," she said. "It's always a concern when you see that appraisal."

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## REAL ESTATE

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for both buyers and Realtors, Tedesco said.

With the new tool, as agents or buyers search for properties on the multiple listing service website, [www.tarmls.com](http://www.tarmls.com), they'll find an icon that reads "DPR" (as in Down Payment Resource) toward the top of any listing eligible for a payment assistance program.

Clicking the icon, which shows an outstretched hand holding a house in its palm, reveals programs the property may qualify for. Buyers can then click another link and answer eight questions to help them determine if they meet the qualifications.

Realtors using the tool can search for eligible properties for their clients, quickly view details about assistance programs and add the tool into their own websites.

Tedesco said Workforce Resource tracks which government programs are available, both locally and federally, for each specific property.

The tool is especially important in today's sluggish housing market, where buyers sometimes need a little extra incentive before they decide to snatch up a property, Tedesco said.

And saving up for that down payment is still an obstacle for many potential buyers.

"Consumers still report that securing a down payment is the biggest challenge in buying a home today. With Down Payment Resource, TARMLS is providing a unique way to help its members and the community find affordable homes and assistance options," said Rob Chrane, president and founder of Workforce Resource.

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## BIO5

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macology and toxicology professor, and one of the co-directors of the Arizona Drug Discovery Center at Bio5 Oro Valley, said that in the past nine months they've submitted 2,000 compounds to the National Institutes of Health (NIH). These compounds can be used to find proteins that would indicate a possible new drug. Of those thousands, 650 compounds have been sent and processed to the 13 U.S. centers where they'll be screened.

"I'm hoping that the results will start emerging over the next three to six months," Hulme said.

If any of the compounds work, the team will be notified and start working on making them into a possible drug.

While the team continues to send compounds to NIH's library, they also are working with a team of industry leaders.

"We are in the phase of building relationships with these pharmaceutical companies," Hulme said.

Getting a new drug on the market, from research to production, costs around \$1 billion, Ossanna said. Many companies aren't willing to front the venture capital — private equity investment — so UA researchers have been depending on patient advocacy groups and grants.

Li is more interested in making a small, startup company for the beginning phases of the drug de-



Graduate student researcher Steven Gunawan works in the production lab at Bio5's Oro Valley facility. Bio5 wants to rent empty lab space to pharmaceutical companies to speed new drugs and therapies to patients.

velopment, like clinical trials, and then partnering with a larger one later on.

"A big company is very political, and I'm not trusting them in terms of efficiency of the work," Li said. "Getting into the later phases is getting into more money and in that case, the only way is to partner with a big pharmaceutical."

Another obstacle is that it can take up to 10 years for a drug to be

fully developed and FDA approved, which can be too long for smaller companies that may run out of time or funds.

As the research teams work to figure out which compounds will actually work and be marketable, the number of years and capital needed from companies is reduced.

For example, a pharmaceutical company can join the project

when there are only five years remaining before production, instead of 10.

"It's certainly a stepping stone in the right direction," said Alex Laetsch, a BIO5 research technician in the analytical lab, which analyzes and purifies compounds for both research groups.

Eugene Gerner, UA professor emeritus and founder of Cancer Prevention Pharmaceuticals, is

working with a team to try to commercialize drugs to prevent gastrointestinal cancers.

"Moving to Oro Valley allowed us to interface and interact with a number of companies with resources, which has been great since we're in a growth development stage of our company," Gerner said.

Meanwhile, many of the industry labs are under construction or being repainted, as Bio5 courts potential tenants.

"I think the priority was to get the people who were going to move in immediately in first," Ossanna said. BIO5 officials received several serious offers and are talking with prospective clients now, though they haven't rented any space yet.

Pharmaceutical companies donated many pieces of the lab equipment.

"A lot of the equipment in these labs is industrial-like rather than academic-like," Ossanna said. "Pharmaceutical companies are cutting their research staffs, and since our guys are from some of these companies, they called their old buddies and said, 'Hey, do you have any old equipment?'" and so we got some great donations."

Pharmaceutical companies depend more on research and university facilities as they make cuts to their own researchers.

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