

## Investors with RV Park & Self-Storage SBA 7(a) Loans - Should You Refinance to a Fixed Term?

The 7(a) Loan Program is the most popular loan issued by the [Small Business Administration](#). It allows RV Park and Self-Storage investors to acquire the funding they need and tends to be the highest leverage option.

SBA 7(a) loans have plenty of benefits that make them attractive for real estate investors. However, most RV park and self-storage SBA 7(a) loans have adjustable rates that change quarterly and are tied to the Wall Street Journal Prime Rate, which has increased from 3.50% to 7.00% since March of 2022.

Continue reading to find out everything you need to know about refinancing your SBA 7(a) loan to a fixed rate and why you should use [The Madison Group](#) for your next commercial real estate purchase or refinance.

### Reasons to refinance your SBA 7(a) loan

Aside from switching from an adjustable rate to a fixed term, there are several other reasons why you may want to refinance your SBA 7(a) loan. First, investors who were issued their 7(a) loan years ago may be able to refinance today at a lower interest rate. This can save investors thousands over the life of their loan and increase returns.

Another reason investors may refinance their SBA 7(a) loan is to extend their amortization. Investors with short-term loans may need more time to repay the principal balance, and refinancing would allow you to receive a new loan amortization of up to 30 years.

Lastly, depending on how long you have had your SBA 7(a) loan and the value of the commercial real estate, you may be able to obtain some cash out when refinancing the loan. Obtaining cash out with your refinance will provide you more buying power to purchase other commercial real estate.

## Eligibility to refinance your SBA 7(a) loan

Most conventional lenders like to see the commercial real estate perform for at least two years prior to refinancing the SBA 7(a) loan out.

Below are some basic criteria that conventional lenders typically require in order to refinance your SBA 7(a) loan:

- Loan to value of 75% or less
- Credit score of 700 or higher
- Debt service coverage ratio of 1.25 or higher
- Two years of operating history

## The WSJ Prime Rate

The [Wall Street Journal Prime Rate](#) measures the U.S. prime rate, which impacts interest rates on commercial loans like the SBA 7(a). The rate tends to fluctuate the same way as the discount rate set by the Federal Reserve.

The Prime Rate doesn't change at regular intervals. Instead, it fluctuates based on decisions made by the Federal Reserve's Federal Open Market Committee. The Prime Rate may change several times per year or may go several years without any changes.

The WSJ Prime Rate is important since it influences most consumer interest rates. When the Prime Rate increases, most interest rates on loans, credit cards, and other consumer debt increase as well.

In fact, since March 2022, the [WSJ Prime Rate has increased](#) from 3.5 percent to 7 percent—the highest in recent history. This means that RV park and self-storage investors with adjustable-rate SBA 7(a) loans should strongly consider refinancing their loans into a fixed rate to mitigate future rate increases.

To add fuel to this fire, the Federal Reserve's Federal Open Market Committee meets again in December 2022 and another rate hike is likely to occur. Refinancing your SBA 7(a) loan with The Madison Group is the best way to lock in a fixed rate conventional loan and avoid rate increases like this for the duration of the fixed rate period.

## Benefits of refinancing your SBA 7(a) loan

Refinancing into a fixed rate comes with plenty of additional benefits, including:

- **Lock in a fixed rate.** Refinancing and locking into a 5-, 7-, or 10-year fixed rate will help you mitigate increasing rates for the duration of the fixed rate period.
- **Higher cash flow.** Refinancing to a lower fixed rate gives you access to more capital that you can use to expand your investments. You'll also be able to predict your monthly payments better since they aren't tied to an adjustable rate.
- **Lower expenses.** A lower interest rate means lower costs over the life of the loan. Use [this helpful calculator](#) to see your new monthly payment if you refinance your current SBA 7(a) loan.

## Drawbacks of refinancing your 7(a) loan

Refinancing has many benefits for RV park and self-storage investors, but there are some downsides you should consider.

SBA 7(a) loans typically have a prepayment penalty structure that needs to be considered when refinancing. The typical prepayment penalty for an RV park or self-storage SBA 7(a) loan is 5% in year one, 3% in year two, 1% in year three, and 0% anytime thereafter.

Securing a new loan can be time consuming. However, The Madison Group's [commercial lending programs](#) are ideal for investors who want to lock in their fixed rate and close their refinance with an experienced team.

## What documentation is needed to refinance my 7(a) loan?

Borrowers should be prepared to provide the original loan documents for the lender to review before refinancing. Borrowers will also need a payoff letter to fund the remaining portion of your loan that's being refinanced. Additional information, such as profit and loss statements, personal financial statements, tax returns, and other financial statements are required. Sometimes additional documentation may also be required depending on your circumstances.



## Final thoughts

Refinancing your SBA 7(a) loan into a fixed rate could be one of the best decisions you can make in a rising rate environment. With the WSJ Prime Rate steadily increasing, now is the best time to consider refinancing into a fixed rate.

For more information on refinancing and how to get the process started, contact [The Madison Group](#) today or email us at [info@madisongrouppfunding.com](mailto:info@madisongrouppfunding.com).

**Contact us now to discuss your financing options:**  
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