



U.S. Small Business
Administration



504 Refinancing Loan Program

504 – OFA Staff and SLPC Management team

504 – OFA Team

- **Linda Reilly**, Chief, 504 Loan Program, linda.reilly@sba.gov;
202-205-9949
- **Ginger Allen**, Finance and Loan Specialist, ginger.allen@sba.gov;
- 202-205-7110

SLPC Management Team

- **Hien Nguyen**, Center Director, Hien.Nguyen@sba.gov; 916 735 1221
- **Dennis Stytz**, Deputy Center Director, Dennis.Stytz@sba.gov; 916 735 1225
- **David Miller**, Supervisory Loan Specialist, David.Miller@sba.gov; 916 735 1220
- **Peter Palsson**, Supervisory Loan Specialist, Gisli.Palsson@sba.gov; 916 735 1218
- For general questions, contact 504Questions@sba.gov

504 Debt Refinancing Program

- SBA received statutory authority to reauthorize the 504 Debt Refinancing Program for up to \$7.5 billion annually. This is in addition to the \$7.5 billion authorization for the 504 program. With this change, total 504 lending has a \$15 billion authorization for FY18.
- SBA published the Interim Final Rule on May 25, 2016 and the Policy Notice on May 26, 2016. The Interim Final Rule had a 30-day effective date after publication and SBA launched the 504 Debt Refinancing program on June 24, 2016.
- The Final Rule published on May 7, 2018 becomes effective on June 6, 2018.

504 Debt Refinancing Program

Fees Update

As per SBA Information Notice 5000-180011, for loans approved under the 504 Debt Refinancing Program during FY 2019, the total annual guarantee fee is 0.395% (39.5 basis points).

SBA will review the fee annually and issue notices of any change.

504 Refinancing Program dependent on zero subsidy.
FY 20 budget includes the program

Final Rule Changes – Debt Refi w/o Expansion

1

Qualified Debt

2

Current on All Payments Due

3

Refinancing Projects - Special Purpose Properties

4

Eligible Business Expenses Update

5

Documentation Requirements Update

1 Qualified Debt Update

The definition of “Qualified Debt” allows loans that were refinanced within 2 years prior to the date of application to be eligible for refinancing if:

- the effect of the most recent loan was to extend the maturity date without advancing any additional proceeds (except to cover closing costs); and
- the collateral for the most recent loan includes, at a minimum, the same Eligible Fixed Asset(s) that served as collateral for the prior loan that was refinanced.

2 Current on All Payments Due

*Modification or refinance within the year prior to application is eligible:

- Purpose was to extend the maturity date of the loan
- No additional proceeds were advanced (except for closing costs); and provided that
- Applicant has been current on all payments due with no deferments for the 1-year period prior to the date of application
- ***NOTE:** This does not apply to debt refinance with expansion under the 504 Loan Program

3 Borrower Contribution – Special Purpose

Special Purpose collateral:

- Borrower must contribute at least 15%
- Economic Recession: Borrower contribution may be reduced to 10%

4 Eligible Business Expenses

Debt does not qualify as an EBE unless:

- Incurred with a business credit card or business line of credit and
- Applicant certifies the debt was exclusively for business uses
- CDCs must document the nature of the expense and provide an itemization in the credit memorandum

4 Eligible Business Expenses

- Both the CDC and the Borrower must certify in the application that the funds will be used for EBE.
- Borrower may be asked to show that loan proceeds provided for EBE were actually used for EBE
- Loan proceeds must not be used to refinance any personal expenses.

5 Disbursement Period

Disbursement Period - Increased from 6 months to 9 months

- May request an exception to policy for an extension for an additional 6 months for good cause
- Total allowable months with an exception to policy is 15 months

Debt Refi w/o Expansion

Max Borrower contribution required 15%, unless SBA determines risk mitigation requires more

Federally guaranteed loans ineligible

TPL loan can be reduced to less than 50% of project cost provided:

- 1) the TPL loan is equal to or greater than the SBA loan, AND
- 2) SBA not to exceed 40% of the total project cost or 35% for Special Use properties

Subject to supplemental annual fee. Current total FY19 annual fee is 0.395%

Debt Refi with Expansion

Max Borrower contribution required 20%

Federally guaranteed loans eligible if allowed by originating Federal Agency

TPL loan must be at least equal to 50% of Project costs

SBA not to exceed 40% of the total project cost or 35% for Special Use properties

No supplemental annual fee. Current total annual FY19 fee is 0.368%

Debt Refi w/o Expansion

“Eligible Business Expenses” up to 20% of appraised value of the Eligible Fixed Assets w/max LTV of 85%. Collateral must be fixed assets securing the Qualified Debt. No additional collateral can be added to meet LTV requirements.

Min. 2 year requirement: Age of original eligible debt, time debt secured by the same Eligible Fixed Asset & time applicant in business

Borrower must be current on all payments for preceding year as of date of app. Loan may have been modified/refinanced within the year if no additional funds disbursed and if purpose was to extend maturity date.

Debt Refi with Expansion

No “cash out”. Costs such as prepayment penalties, financing fees or other refi costs required by original debt instrument may be included.

“Substantial benefit” test – must provide better rates or terms – 10% lower payment

Borrower must be current on all payments due on the existing debt for not less than 1 year or for the time the debt has been open if less than 1 year. No allowance for modification or refinance to extend maturity date.

504 Deal Structures Examples

10 – 20 – 25

Which Debenture Term to Choose



Refinance with Expansion Deal Structure 1

- Manufacturing Firm: \$1,000,000 Building:
- \$700,000 Mortgage/DOT
- Wanting to do a \$3,000,000 Expansion.
- What would the Project look like?

Refinance with Expansion Deal Structure 1

- Equity in the building \$300,000
- Refinance \$700,000 Mortgage/DOT
- Expansion Construction \$3,000,000
- TPC \$4,000,000
- Borrower \$400,000 (Equity Covers \$300,000)
- TPL \$2,000,000
- SBA \$1,600,000

Refinance with Expansion Deal Structure 2

- Assisted Living Facility: \$4,000,000 Building:
- \$3,000,000 Mortgage/DOT
- Wanting to do a \$2,000,000 Expansion.
- What would the Project look like?



Refinance with Expansion Deal Structure 2

- Equity in Building: \$1,000,000 (do we use it all?)
- Refinance \$1,000,000 Mortgage/DOT
(limited to 50% of the expansion)
- Expansion Construction \$2,000,000
- TPC \$3,529,412
- Borrower \$529,412 (equity covers the contribution)
- TPL \$1,764,706 Participation + \$2,000,000 remaining balance
- SBA \$1,235,294



Refinance Without Expansion Deal Structure 1

- **Request:** Refinance \$xxx,xxx (any amount of business loans) none of which are secured by eligible fixed assets.
 - Acceptable Structure: **None**
- There is no Qualified Debt to refinance so the Project would not be eligible under the program. Each Project must have at least one Qualified Debt to be Eligible.

Refinance Without Expansion Deal Structure 2

- **Request:** Refinance \$100,000 existing acquisition mortgage plus \$400,000 2nd mortgage borrowed 5 years ago for property renovations. Appraisal \$1,000,000.

Acceptable Structure:

Appraised value of Property	\$ 1,000,000
Qualified Debt	\$ 100,000
Qualified Debt	\$ 400,000
Total Loan Proceeds	\$ 500,000
TPL	\$ 250,000
SBA 504 Debenture	\$ 250,000
Borrower Equity Contribution	\$ 500,000

- All eligible. The Total Project Costs in these refinance projects is the appraised value of the eligible fixed asset(s). TPL must be equal to or greater than the debenture amount, at least \$250,000 in this example.

Refinance Without Expansion Deal Structure 3

- **Request:** Refinance \$300,000 existing Qualified Debt plus \$400,000 for a business line of credit and other Eligible Business Expenses. Appraisal \$1,000,000.

Acceptable Structure:

Appraised value of Property	\$ 1,000,000
Qualified Debt	\$ 300,000
Eligible Business Expenses	\$ 200,000
Total Loan Proceeds	\$ 500,000
TPL	\$ 250,000
SBA 504 Debenture	\$ 250,000
Borrower Equity Contribution	\$ 500,000

- The \$300,000 Qualified Debt can be included but only \$200,000 of the Business Expenses as they are limited to no more than 20% of the Project. LTV remains below the 85% maximum for transactions involving Eligible Business Expenses.

Refinance Without Expansion Deal Structure 4

- **Request:** Refinance three Qualified Debts totaling \$1,250,000. Land purchase, building construction and property improvements. Appraisal \$1,000,000.

Acceptable Structure: #1 \$350K cash to close

Appraised value of Property	\$ 1,000,000
Qualified Debt	\$ 900,000
TPL	\$ 500,000
SBA 504 Debenture	\$ 400,000
Borrower Equity Contribution	\$ 100,000

Acceptable Structure #2 add eligible fixed assets

Appraised Value including additional fixed assets	\$ 1,389,000
Qualified Debt	\$ 1,250,000
TPL	\$ 694,500
SBA 504 Loan	\$ 555,500
Borrower Equity Contribution	\$ 139,000

- Applicant would have to put in \$350K cash or add eligible fixed assets as collateral sufficient to maintain the required 10% equity in this example or 15% in the case of a special purpose property.

Refinance Without Expansion Deal Structure 5

- **Request:** Refinance \$800,000 in Qualified Debt on a bowling alley. Appraisal \$1,000,000.

Acceptable Structure:

Appraised value of Property	\$1,000,000
Qualified Debt	\$800,000
Total Loan Proceeds	\$800,000
TPL	\$450,000
SBA 504 Debenture	\$350,000
Borrower Equity Contribution	\$200,000

- The request can be structured to meet program guidelines. A special purpose property requires Borrower contribution of at least 15% with SBA share no more than 35%. Equity above the 15% required may reduce either the TPL or 504 share as long as the TPL is equal to or greater than the SBA.

Refinance Without Expansion Deal Structure 5

- **Request:** Refinance \$700,000 in mortgage debt originally taken out 5 years ago and refinanced 10 months ago for better rate and terms plus \$200,000 to cover Eligible Business Expenses. Property is a car wash appraised at \$1,000,000.

Acceptable Structure:

Appraised value of Property	\$ 1,000,000
Qualified Debt	\$ 700,000
Eligible Business Expenses	\$ 150,000
Total Loan Proceeds	\$ 850,000
TPL	\$ 500,000
SBA 504 Debenture	\$ 350,000
Borrower Equity Contribution	\$ 150,000

- The mortgage debt would be a qualified Debt if the earlier refinancing was in effect a replacement for the prior loan with no new funds advanced other than closing costs. Only \$150,000 of the Eligible Business Expenses would be eligible as the project is limited to 85% LTV.

