

SBA 504 Refinance Guide

Effective October 12, 2011, the SBA has announced changes to the eligibility of the temporary SBA-504 refinance program that will be in place until September 27, 2012. Given the record low fixed rates currently available under the 504 program, this is a unique opportunity for small business owners.

What is Eligible? Business debt that would have been eligible for the 504 program originally may now be refinanced. In addition, SBA will now also allow businesses who have equity in their properties to include working capital to pay for other eligible business expenses that will become due over the next 18 months so long as the amount needed to refinance and the amount needed for eligible business expenses do not exceed a 90% LTV based on a new appraisal. Other business expenses include salaries, lease obligations, debt obligations, vendor expenses, utilities, and other general business expenses the business can document by past receipts or documentation that will become due in 18 months.

What Conditions Must the Borrower Meet?

- 1) All normal 504 eligibility such as the business must occupy 51%, no investment properties, must be for profit, must be met.
- 2) The business must have been in business for 24 months.
- 3) The loan being refinanced must be at least two years old (including any renewals of that loan);
- 4) The borrower cannot have been more than 29 days past due during the past 12 months on the Note being refinanced.
- 5) If the business wishes to include other business expenses in addition to the primary eligible debt being refinanced, they can not exceed a 90% loan to value.

Fees / Cost: An additional risk fee of .1655 of 1% will be added to each monthly payment of a 504 borrower who is refinancing in addition to the normal SBA-504 fees to keep the program operating at zero subsidy cost. This will cause effective interest rates to be approximately 20 basis points higher on refinance projects than on normal SBA-504 projects.

Two SBA-504 Refinance Project Examples

Borrower wishes to refinance a \$1,000,000 Note that has a balloon and that has a current appraisal of \$1,400,000. The first example shows the ability to use the new "cash out for working capital" feature. The second example deals with just the requested refinance.

Example #1 – Requesting Maximum Working Capital

Appraised Value of Property	\$ 1,400,000
Outstanding Balance of Debt	\$ 1,000,000
90% LTV	\$ 1,260,000
New Bank First	\$ 700,000 (50%)
New SBA-504	\$ 560,000 (40%)
Borrower Equity Contribution	\$ 140,000 (10%)
Payoff of Outstanding Balance	\$ 1,000,000
Amount Available for Working Capital	\$ 260,000

Example #2 – Requesting ONLY 80% LTV

Appraised Value of Property	\$ 1,400,000
Outstanding Balance of Debt	\$ 1,000,000
80% LTV	\$ 1,120,000
New Bank First	\$ 560,000 (40%)
New SBA-504	\$ 560,000 (40%)
Borrower Equity Contribution	\$ 280,000 (20%)
Payoff of Outstanding Balance	\$ 1,000,000
Amount Available for Working Capital	\$ 120,000

OTHER REGULAR SBA-504 PROGRAM GUIDELINES THAT MUST ALSO BE MET

ELIGIBILITY

- Must be a for-profit business. Non-profit groups such as churches are not eligible.
- Must achieve an eligibility goal of SBA (usually easy to do).
- Must be classified as small (Business net worth under \$15 million & net profits past two years under \$5 million).

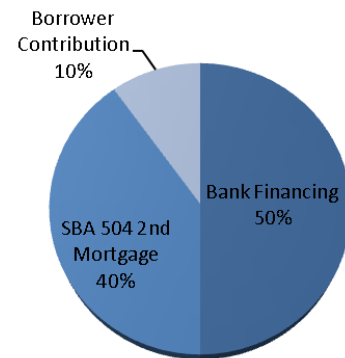
NEW

- Owner must occupy 51% of an existing building.
- Investment properties such as apartments and strip shopping centers are not eligible.
Business expansion is NOT allowed to be included in a 504 refinance project; however, business maintenance items such as a new roof, painting, new air conditioner, are allowed under the eligible business expenses rule.

ELIGIBLE ALLOWABLE USES OF PROCEEDS ON 504 LOANS

- Acquisition of vacant land for construction.
- Acquisition of existing land and building.
- Building construction and/or renovation.
- Machinery, equipment, furniture, fixtures located in building being financed.
- Related Soft costs such as architectural fees, engineering, survey's, appraisals, etc.
- Refinance of Debt Where 85% of Proceeds Were Used for Eligible Fixed Assets Outlined Above **NEW**
- Other Eligible Business Expenses that will be paid in the next 18 months. **NEW**

Typical SBA 504 Loan Structure



TYPICAL 504 PROJECT

Project Costs

Land Purchase...	\$ 200,000
Building Construction...	\$ 700,000
Machinery...	\$ 75,000
Soft Costs...	\$ 25,000
TOTAL PROJECT	\$1,000,000

Project Sources

Bank – 1 st Mortgage...	\$ 500,000
SBA/CSRA 504 – 2 nd Mortgage...	\$ 400,000 *
<u>Borrower Equity (Down Payment)...</u>	<u>\$ 100,000</u>
TOTAL SOURCES	\$1,000,000

*MAXIMUM AMOUNT OF 504 2nd MORTGAGE LOAN \$5,000,000 **NEW**
(Manufacturers can apply for up to \$5,500,000 in the second mortgage)

RATES, TERMS, AND FEES

- Bank sets rate on their first mortgage loan. If SBA term is 20 years, bank term must be at least 10.
- Bank must pay a one-time fee of ½ of 1% fee to SBA for participating in the program.
- All SBA 504 bond costs are financed into the loan.
SBA 504 loans are assumable.

COLLATERAL

Typically project collateral stands for the loan on SBA-504 loans.

Contact Your Local WBD Office
www.wbd.org | (800) 536-6799