

SBA 504 Temporary Refinance (no expansion) Program

Key Changes

1. Bank no longer required to be at 50% of appraised value. Instead:
 - a. Bank's new loan must be equal to or greater than SBA's loan; and
 - b. SBA's loan cannot exceed 40% LTV based on a current appraisal.
2. Unlock equity (up to 90% LTV) in existing owner-occupied real estate to fund business operating expenses such as:
 - a. Paying down lines of credit;
 - b. Paying operating expenses such as rent, utilities, inventory, unpaid business credit card debt, wages, etc.;
 - c. Maintenance and capital expenses (equipment) that do not expand the footprint of the building are eligible;
 - d. Eligible expenses must be unpaid at the time of application or will be incurred within 18 months of the application;
 - e. Need to identify eligible expenses to be paid in the SBA application; and
 - f. Payment of eligible expenses must be verified post SBA loan closing.
3. Clarification on requirement of being 30-days current on the refinanced loan for the past 12 months:
 - a. SBA now considers a borrower to be current even if the repayment schedule has been modified (i.e. interest only payments or deferments) as long as the borrower is compliant with the modification and the modification was made prior to October 12, 2011.
4. Change in the application of the "substantially all" requirement:
 - a. For refinanced debt, "substantially all" of the debt being refinanced should have been used for SBA 504 eligible project costs (i.e. land, building, long-term equipment). "Substantially all" is defined as 85% or more the original loan proceeds. SBA has modified this provision so it is applicable to the original loan if the loan has been refinanced multiple times in the past.

Eligibility Considerations

1. Refinanced loan must be collateralized by eligible fixed assets;
2. Refinanced loan (or the original loan if refinanced previously) must have been incurred more than two years prior;
3. Requires a new appraisal, which may be submitted post SBA loan approval;
4. Can refinance same-institution debt, or debt from another lender;
5. Cannot refinance federally guaranteed debt;
6. Must currently be 51% owner occupied for real estate;
7. Slightly higher rates compared with traditional SBA 504 loans;
8. Program expires September 27, 2012;
9. Applicant must meet the same eligibility, underwriting, environmental, and collateral requirements as traditional SBA 504 loans; and
10. Equity injection requirement is always 10% (minimum).

EXAMPLE 1: Standard Refinance – No Cash Out

<u>Original Regulations</u>			<u>AS REVISED</u>		
Appraised Value	\$1,000,000		Appraised Value	\$1,000,000	
Outstanding Debt	\$600,000		Outstanding Debt	\$600,000	
	Project	Loan to Value		Project	Loan to Value
Lender	\$500,000	50%	Lender	\$300,000	30%
SBA 504	\$100,000	60%	SBA 504	\$300,000	60%
Equity	\$400,000		Equity	\$400,000	
Total Project Cost	\$1,000,000		Total Project Cost	\$1,000,000	

New Benefits

- Maximize SBA participation when there is significant equity in a project;
- Leverage low, fixed-rate financing provided by SBA for a larger portion of the project;
- Improve cash flow by re-amortizing the loan with SBA participation; and
- Reduce lender’s portfolio exposure in certain industries.

EXAMPLE 2: Cash Out Refinancing

Appraised Value	\$1,000,000
Outstanding Debt	\$600,000
<i>Eligible for Cash Out</i>	<i>\$300,000</i>
Project	Project
Lender	\$500,000
SBA 504	\$400,000
Equity	\$100,000
Total Project Cost	\$1,000,000

Up to 90% LTV

*Lender loan must be equal to or greater than SBA loan
SBA loan cannot exceed 40% of appraised value*

New Benefits

- Leverage equity in real estate to:
 - Pay off business expenses not yet paid (credit card bills);
 - Pay down lines of credit;
 - Purchase inventory;
 - Pay other business operating expenses; and
 - Pay capital expenses such as maintenance, improvements, or equipment that do not increase the footprint of the land/building.