

SBA 504 Loan Program Debt Refinance Overview



**Northwest Business
Development Association**

Refinancing guidelines WITH expansion

1. Eligible Project Costs

- a. Commercial real estate (occupied at least 51% by the Operating Company).

Multiple OCs are allowed, however, all OCs making up the 51% or more occupancy must guaranty the loan.

- b. Equipment with remaining useful life of at least 10 years (based on equipment appraisal).
- c. Soft costs and prepayment penalties can be included in project costs

2. Eligible Expansion Costs

- a. Expand footprint or complete improvements to the subject CRE
- b. Acquire new CRE and/or equipment

Refinancing guidelines WITH expansion

3. Eligibility of Debt to be refinanced

- a. Amount of debt that is eligible to include as Eligible Project Cost cannot exceed 50% of the expansion costs (i.e., new money). If there is excess debt beyond the allowable 50%, the Third Party Lender can add it to its first lien loan.
- b. At least 85% of the subject debt(s) to be refinanced must have been originally used to either acquire land & building (or construct subject building), or to purchase equipment. If the asset was originally financed with another loan (one or more times), with the current commercial loan being the most recent refinancing, the current commercial loan will be deemed to satisfy this paragraph.

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Eligibility of Debt to be refinanced (continued)

- c. Land sales contracts, contracts for deed or capital leases are eligible for refinance, if refinancing such instruments results in transfer of ownership of the property to the applicant.

- d. A copy of the corresponding debt(s) and lien instruments must be submitted with the application.

Refinancing guidelines WITH expansion

Eligibility of Debt to be refinanced (continued)

- e. The debt to be refinanced must be collateralized by fixed assets. The lender of the existing debt must release, subordinate or assign its lien to SBA and the TPL.

- f. The debt must have been incurred for the benefit of the small business concern. The obligor of the subject debt must be either the subject EPC or the OC.
 - 1. An existing 504 loan may be eligible for refinancing if such refinance is needed for a larger transaction to provide funding for expansion.

 - 2. An existing 7(a) loan may be refinanced provided that lender is unwilling or unable to modify current payment schedule.

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Eligibility of Debt to be refinanced (continued)

- g. Use of funds (for expansion) is not restricted to subject project to be refinanced.
 - 1. Debt can be refinanced for a property that is not being expanded, as long as both locations are occupied by the OC.
 - 2. Costs essential to refinance (including prepayment penalties and related loan costs) can be included as eligible project costs.
 - 3. May refinance more than one loan.

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Eligibility of Debt to be refinanced (continued)

- h. The financing will result in a “substantial benefit” to borrower
 - 1. Must represent a cash flow savings of at least 10% of the existing debt. Be sure to include all costs, including prepayment penalties. Seasonal payments are based on average. Loans with balloons are considered eligible.
- i. Borrower has been current on all payments for at least 1-year preceding the date of application, including no deferments. This must be evidenced by a transcript of payment history of the loan to be refinanced.

Exception: If the deferment was COVID-19 related and granted on or after March 1, 2020, the loan may be eligible if the applicant brings itself current on all deferred payments prior to the loan being approved for refinance, and is otherwise current on all other payments for the last year.

Refinancing guidelines WITH expansion

Eligibility of Debt to be refinanced (continued)

- j. The new 504 loan terms must be better than existing terms. This can include:
 1. Lower interest rate;
 2. Improved collateral conditions;
 3. Less restrictive covenants;
 4. Longer maturity (commensurate with asset financed).

4. Ineligible Projects:

- a. Any debt owed to an associate, to an SBIC, or to a creditor in a position to sustain a loss, is not eligible to be refinanced.

**This concludes the guidelines
for refinance WITH expansion.**

Refinancing guidelines WITHOUT expansion

1. Eligible Projects:

- a. The project does not involve the expansion of a small business;
- b. The applicant has been in operation for the full 2-year period prior to the date of the application;
- c. Borrower occupies at least 51% of the total rentable square footage of the subject CRE;
- d. Substantially all (85% or more) of the proceeds of the existing debt were used to acquire an Eligible Fixed Asset and the remaining amount was incurred for the benefit of the small business seeking refinancing.

Refinancing guidelines WITHOUT expansion

Eligible Projects (continued):

- e. The qualified debt to be refinanced is either CRE and/or equipment, and:
 - 1. is a commercial loan of which it was for the benefit of the applicant;
 - 2. was incurred not less than two years before the date of the application;
 - 3. is not subject to a guaranty by a Federal agency or department;
 - 4. is secured by 504 Eligible Fixed Assets;
 - 5. is not a Third Party Loan on an existing 504 project;
 - 6. the business has not had an ownership change in the last two years that resulted in new and unproven management;

Refinancing guidelines WITHOUT expansion

Eligible Projects (continued):

The qualified debt to be refinanced is either CRE and/or equipment, and (continued):

7. the business has been current on all payments due, including no deferments, for not less than one year prior to the date of application. Modification or refinance within the year prior to application is eligible, provided that all of the following apply:
 - a. Purpose was to extend the maturity date of the loan.
 - b. No additional proceeds were advanced (except for closing costs); and provided that the applicant has been current on all payments due with no deferments for the 1-year period prior to the date application.

Deferment Exception: If the deferment was COVID-19 related and granted on or after March 1, 2020, the loan may be eligible if the applicant brings itself current on all deferred payments prior to the loan being approved for refinance, and is otherwise current on all other payments for the last year.

Refinancing guidelines WITHOUT expansion

Eligible Projects (continued):

- f. The net SBA debenture is equal to or less than the proposed TPL loan and meets equity requirements. Multi-use properties have a 10% equity requirement; special-purpose properties also have a 10% equity requirement based on a recent regulation change.
- g. Project cost is equal to the fair market value of the eligible fixed asset, and the LTV does not exceed 90%.
- h. Cash Out (for Eligible Business Expenses) is acceptable, provided that:
 - 1. LTV does not exceed 85%;
 - 2. Cash out portion does not exceed 20% of the FMV of the asset.(Please note you cannot add outside assets to the project collateral to reach these 2 requirements.)

Refinancing guidelines WITHOUT expansion

Eligible Projects (continued):

Cash Out (for Eligible Business Expenses) is acceptable, provided that (continued):

3. Cash out is limited to eligible business expenses that are currently due or will be incurred in the next 18-months (but have not been paid); this includes accrued expenses such as salaries, rent, utilities, inventory, and other expenses of the business that are not capital expenditures.
4. Eligible business expenses also include business credit cards and/or business lines of credit (provided that these obligations are in the OC's name). Borrower will be required to sign a certification attesting that obligation was incurred for the small business.
5. The application must include a specific description and an itemization of the amount of each expense.

Refinancing guidelines WITHOUT expansion

Eligible Projects (continued):

i. Other conditions:

1. Must meet Job Retention guidelines or Public Policy goal;
2. Appraisal must be dated within 12-months of application;
3. Lender to be refinanced is not in a position to sustain a loss.

How do I structure a 504 loan?

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