



504 Debt Refinance Without Expansion
(Straight Refinance)

504 REFINANCE IS GREAT FOR

- Accessing cash/working capital
- Pending balloon payments
- Stretching payments out over a long term loan (up to 25 years)
- Consolidating multiple loans
- Minimizing out-of-pocket costs (equity in the collateral often fulfills the down payment requirement)
- Low, fixed interest rate on 504
- Improving cash flow

ELIGIBLE BUSINESSES

- Must be a for-profit, owner occupied small business in the U.S.
- In operation for at least 2 years
- No change in ownership in the prior 2 years
- Property being refinanced at least 51% owner-occupied or is long-term equipment

LOAN STRUCTURE

- \$5 million limit on 504 portion (\$5.5 million for manufactures)
- Bank's loan must be equal to, or greater than, the SBA 504 debenture amount
- Project cannot involve expansion to the business
- Loans for debt refinance without expansion need to be disbursed within 9 months of loan approval

LOAN TO VALUES (LTV)

- No Cash-out: 90% LTV
- Cash-out: 85% LTV
 - ⇒ Up to 20% of the appraised value as cash out for Eligible Business Expenses (EBE)
 - ⇒ EBEs include salaries, rent, repairs, maintenance, inventory, utilities
 - ⇒ Other obligations of the business that were incurred, but not paid, prior to the date of application or that will become due for payment within 18 months after the date of application
 - ⇒ EBEs do not include capital expenditures, personal expenses, partner buy outs, business acquisition, etc.
- Must still meet all other SBA eligibility guidelines

JOB CREATION

- One job for every \$75,000 of the debenture
- One job for every \$120,000 of the debenture for manufacturers
- Existing FTE jobs can be counted as jobs retained by the refinancing project*
- Projects are excluded from the job requirement goals if a Public Policy Goal is fulfilled (i.e., minority, woman, or veteran owned business; rural development; etc.)

QUALIFIED DEBT

- Must have incurred and be secured by an Eligible Fixed Asset(s) for not less than 6 months prior to date of application.*
- 85% or more of the loan proceeds of the original loan were used for 504 eligible purposes
- 100% incurred for the benefit of the small business seeking the financing
- Can be a government-guaranteed loan (7a, 504, USDA)* if:
 - ⇒ The refinancing will provide a substantial benefit (i.e. minimum 10% savings)
 - ⇒ For existing 504 loans, third party loan and 504 must be refinanced or the third party loan must be paid off
 - ⇒ For existing 7a loans the lender must certify that it is unable to modify the terms of the existing loan

In the case of same institution debt, if the TPL is the 7a lender, the loan will be eligible for 504 refinancing only if the lender is unable to modify the terms of the existing loan.

INTEREST RATE & TERMS

- Fixed-rate
- Fully amortizes over the life of the loan (no balloons)
- Real estate— a 10, 20, or 25 year term; based on appraisal
- Rate locked when debenture is sold
- Effective rate for refi is 0.0348% higher than regular 504 loan due to higher servicing fees

504 REFINANCE IS GREAT FOR

- Refinancing existing qualified debt in conjunction with a project involving acquisition, construction or improvement of land, building, or equipment for use of the small business
- Pending balloon payments
- Stretching payments out over a long term loan (up to 25 years)
- Consolidating multiple loans
- Minimizing out-of-pocket costs (equity in the collateral often fulfills the down payment requirement)
- Low, fixed interest rate on 504
- Improving cash flow

ELIGIBLE BUSINESSES

- Must be a for-profit, owner occupied small business in the U.S.
- Property being refinanced at least 51% owner-occupied or is long-term equipment

LOAN STRUCTURE

- \$5 million limit on 504 portion (\$5.5 million for manufactures)
- Bank's loan must be equal to, or greater than, the SBA 504 debenture amount
- The debt being refinanced will be added to the expansion cost to establish the total project costs

KEY POINTS

- Debt refinance is allowed for up to 100% of the expansion costs of the project* (no requirement on age of debt)
- No Cash-out option: maximum LTV is 90% of the fair market value of the eligible fixed asset(s)
- Borrower has to be current on payments for at least 1 year prior to the date of application
- Refinance must provide a Substantial Benefit to the small business
 - ⇒ New installment amounts attributable to the debt being refinanced must be at least 10% less than the existing installment amount(s)
 - ⇒ Prepayment penalties, financing fees, and other financing costs must also be added to the amount being refinanced in calculating percentage reductions in the new installment payment
 - ⇒ Loans with balloon payments meet the substantial benefit test
 - ⇒ Loans with seasonal payments meet the test if there is 10% improvement in the installment when calculated by averaging all payments of the most recent 12 month period
- Must still meet all other SBA eligibility guidelines

JOB CREATION

- One job for every \$75,000 of the debenture
- One job for every \$120,000 of the debenture for manufacturers
- Existing FTE jobs can be counted as jobs retained by the refinancing project*
- Projects are excluded from the job requirement goals if a Public Policy Goal is fulfilled (i.e., minority, woman, or veteran owned business; rural development; etc.)

QUALIFIED DEBT

- 85% or more of the loan proceeds of the loan(s) being refinanced were used for 504 eligible purposes
 - 100% incurred for the benefit of the small business seeking the financing
 - Can be a government-guaranteed loan (7a, 504, USDA)* if:
 - ⇒ The refinancing will provide a substantial benefit (i.e. minimum 10% savings)
 - ⇒ For existing 504 loans, third party loan and 504 must be refinanced or the third party loan must be paid off
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- In the case of same institution debt, if the TPL is the 7a lender, the loan will be eligible for 504 refinancing only if the lender is unable to modify the terms of the existing loan.

INTEREST RATE & TERMS

- Fixed-rate
- Fully amortizes over the life of the loan (no balloons)
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504 Refinancing Solutions

REFI STRUCTURE EX: STRAIGHT REFI, NO CASH OUT

As-Is Appraised Value =	\$5,000,000		
Existing Debt =	\$4,400,000		
Closing Costs =	\$100,000		
<u>USE OF FUNDS:</u>		<u>SOURCE OF FUNDS:</u>	
Existing Equity	\$500,000	Bank	50% \$2,500,000
Refinance Existing Debt	\$4,400,000	SBA	40% \$2,000,000
Closing Costs	\$100,000	Borrower	10% \$500,000
Total Project Costs*	\$5,000,000	Total Sources	100% \$5,000,000
*Total Project Costs = Appraised Value of Collateral			

- REFI CHECKLIST:**
- ⇒ Copies of current promissory note and recorded mortgage for debt being re-financed
 - ⇒ Detailed breakdown of original project costs
 - ⇒ Payment transcripts for the prior 12 months
 - ⇒ Documentation of equity injection if appraised value of the project assets is not sufficient to meet equity requirements
 - ⇒ Real estate appraisal dated within 12

REFI STRUCTURE EX: STRAIGHT REFI, CASH OUT

As-Is Appraised Value =	\$1,500,000		
Existing Debt 7(a) =	\$1,000,000		
<u>USE OF FUNDS:</u>		<u>SOURCE OF FUNDS:</u>	
Existing Equity	\$225,000	Bank	45% \$675,000
Refinance Existing Debt	\$1,000,000	SBA	40% \$600,000
Cash out for EBE*	\$275,000	Borrower	15% \$225,000
Total Project Costs	\$1,500,000	Total Sources	100% \$1,500,000
SBA Requirements:	Total Financing = max 85% LTV \$1,275,000 85% LTV		
	*Cash out for EBE = max 20% LTV \$275,000 18.3% LTV		

CONTACT US:

Judy Roach, President & CEO
 jroach@sbcc-ok.com
 (918) 584-3638

Jennifer Reagan, Portfolio Manager & Loan Officer
 jreagan@sbcc-ok.com
 (918) 585-5357

www.sbcc-ok.com

REFI STRUCTURE EX: WITH EXPANSION

As-Is Appraised Value =	\$1,000,000	New Costs	\$2,000,000
Existing Debt =	\$700,000		
<u>USE OF FUNDS:</u>		<u>SOURCE OF FUNDS:</u>	
Existing Equity	\$300,000	Bank	50% \$1,500,000
Existing Debt*	\$700,000	SBA	40% \$1,200,000
New Construction	\$1,400,000	Borrower	10% \$300,000
Equipment	\$300,000	Total Sources	100% \$3,000,000
Soft Costs	\$300,000		
Total Project Costs	\$3,000,000	*Note: 1) Existing debt does not exceed 100% of new costs 2) Is fully added to 504 project before split	