



NEW SBA 504 Debt refinance



Released July 29, 2021



Debt Refinance WITH expansion



Debt Refinance WITH expansion

Used when a borrower is expanding on an existing facility that already has mortgage debt associated with it

NEW the amount of debt refinanced can be equal to
100% of the new expansion project costs

Debt Refinance WITH expansion

Appraised value of property as-is	\$1,000,000
Existing debt	\$700,000
New costs	\$2,000,000

<u>Uses</u>		<u>Sources</u>		
Existing equity	\$300,000	Bank / TPL loan	\$1,500,000	50%
Existing debt	\$700,000	RDC / SBA loan	\$1,200,000	40%
New costs	\$2,000,000	Equity	\$ 300,000	10%
Total uses	\$3,000,000	Total sources	\$3,000,000	

Debt Refinance WITH expansion

Appraised value of property as-is	\$3,000,000
Existing debt	\$2,500,000
New costs	\$2,000,000

Uses

Existing equity	\$500,000
Existing debt	\$2,000,000
New costs	\$2,000,000
Total uses	\$4,500,000

Sources

Bank / TPL loan	\$2,200,000	49%
RDC / SBA loan	\$1,800,000	40%
Equity	\$ 500,000	11%
Total sources	\$3,000,000	

Bank / TPL loan amount \$2,700,000

\$2,200,000 504 portion + \$500,000 original debt

Debt Refinance without expansion



Qualifying debt

The business must have a “Qualifying Debt” to refinance

This debt must be secured with commercial
real estate or large equipment

Qualifying debt

85% of the qualifying debt must have been originally used for the purchase or improvement of owner-occupied real estate or to purchase equipment

Operating company must occupy 51% of the collateral indoor square footage

Qualifying debt

If the original loan to be refinanced was used to purchase or improve non-owner occupied property, or for a stock purchase, inventory, working capital, start-up costs, or other ineligible 504 uses, the loan is **NOT** eligible for debt refinance

Qualifying debt

If a property does not currently have a mortgage on it, there is no debt to refinance and the borrower is **NOT** eligible for debt refinance

Qualifying debt

If a property has a line of credit attached as the only debt, and the proceeds of the line were not used for 504 eligible purposes (purchase or improvement of said property) it is **NOT** eligible for 504 refinance

To qualify:

Business must have been in operation for two years or more

Debt must have been entered into 6 or more months ago *NEW*

~~Borrower must have been current on debt for the past 12 months~~

NOW eligible:

**Loans that are currently financed or guaranteed
by the Federal Government, including 504 and 7a loans (!!!)**

If a 504 loan is refinanced, the TPL loan and 504 loan must BOTH be refinanced – only exception is if the TPL loan was paid off

Structure

10, 20 and 25 year debenture terms available

Bank's term must be a minimum of 7 years on a 10 year debenture and 10 years on a 20 or 25 year debenture

Rates

Interest rate will be slightly higher than traditional 504 loans

July 2021

Traditional 25 year

2.817%

Debt refinance 25 year

2.858%

Documentation

- 12-month transcript of loan payment history
- Copy of current note and mortgage
- Original HUD / closing statement showing use of funds

Documentation – same institution debt

- Transcript of Qualifying Debt ENTIRE loan payment history
- Bank must certify it has no knowledge or indication of default by the borrower
- Debenture proceeds must be funneled through an escrow account at the title company

Additional factors

- Bank must be in first lien position and SBA in second
- Loans **MUST** fund within 9 months of approval
- Job retention will be used to meet job creation criteria

Debt Refinance without expansion (no cash out)



Structure- No cash out refi

Total lending cannot exceed 90% LTV based on a current real estate appraisal

SBA 504 loan amount (before fees) cannot exceed the bank's loan amount

Project cost is the appraised value of the refinance assets

Debt Refinance No cash out

Appraised value of property as-is	\$2,000,000
Existing Debt	\$1,000,000

Uses

Existing equity	\$1,000,000
Existing debt	\$1,000,000
Total uses	\$2,000,000

Sources

Bank / TPL loan	\$ 500,000	25%
RDC / SBA loan	\$ 500,000	25%
Equity	\$1,000,000	50%
Total sources	\$2,000,000	

Debt Refinance No cash out

Appraised value of property as-is	\$2,000,000
Existing Debt	\$1,800,000

<u>Uses</u>		<u>Sources</u>	
Existing equity	\$ 200,000	Bank / TPL loan	\$1,000,000 50%
Existing debt	\$1,800,000	RDC / SBA loan	\$ 800,000 40%
		Equity	\$ 200,000 10%
Total uses	\$2,000,000	Total sources	\$2,000,000

Debt Refinance without expansion (cash out)



Structure- Cash out debt refinance

Borrowers can get cash out along with their refinance

- 85% total loan-to-value based on current appraisal
- 20% total cash out based on current appraisal
- Cash out must be used for “eligible business expenses”

Business Expenses

ELIGIBLE EXPENSES

- Payoff / down lines of credit
- Payoff business credit cards
- Business operating expenses
- Working capital
- Accounts receivable
- Inventory

INELIGIBLE EXPENSES

- Payoff term debt
- Improvements to property
- Purchase of equipment
- Payoff personal debt

Expenses may have been incurred prior to or within 18 months after application

Debt Refinance WITH cash out

Appraised value of property as-is	\$1,500,000
Existing Debt	\$1,000,000

<u>Uses</u>		<u>Sources</u>	
Existing equity	\$ 225,000	Bank / TPL loan	\$ 675,000 45%
Existing debt	\$1,000,000	RDC / SBA loan	\$ 600,000 40%
Cash out	\$ 275,000	Equity	\$ 225,000 15%
Total uses	\$1,500,000	Total sources	\$1,500,000

85% LTV=\$1,275,000; Max cash out 20%= \$275,000

Debt Refinance WITH cash out

Appraised value of property as-is	\$5,000,000
Existing Debt – Bank / TPL loan	\$2,000,000
Existing Debt– SBA / RDC loan	\$1,500,000

<u>Uses</u>		<u>Sources</u>	
Existing equity	\$ 750,000	Bank / TPL loan	\$2,250,000 45%
Existing debt	\$3,500,000	RDC / SBA loan	\$2,000,000 40%
Cash out	\$ 750,000	Equity	\$ 750,000 15%
Total uses	\$5,000,000	Total sources	\$5,000,000

85% LTV=\$4,250,000; Max cash out 20%= \$750,000

Debt refinance application:

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