U.S. SMALL BUSINESS ADMINISTRATION

Reauthorization of the 504 Debt Refinancing Program
Refinance Program Timeline

• In December 2015, SBA received statutory authority to reauthorize the 504 Debt Refinance Program for up to $7.5 billion.
• With this permanent program change, total 504 lending has a $15 billion authorization.
• SBA published the Interim Final Rule of May 25, 2016 and the Policy Notice on May 26, 2016.
• The SBA Sacramento Loan Processing Center (SLPC) will begin accepting 504 refinance applications on June 24, 2016.
SBA Policy Notices

• Policy Notice 5000-1382
  Outlines all regulations and standard operating procedures of the 504 Program which apply to refinancing.

• Policy Notice 5000-1383
  SBA Form changes relating to new Debt Refinance Program.
Three Statutory Changes to the Debt Refinancing Program

• The Refinancing Program can only be in effect when the overall 504 Program is at zero-subsidy.
• The number of 504 Refinance Loans cannot exceed 50% of a CDC’s previous year total 504 financing.
• All refinancing projects must satisfy job creation and retention requirements that apply to any 504 project.
Refinancing Program Eligibility Requirements

• The business must have been in operation for at least two years, with no change in ownership during that time.
• “Eligible Fixed Assets” are one or more long-term fixed assets (land, buildings, machinery and equipment) acquired, constructed or improved by the applicant small business.
• “The Refinancing Project” is the fair market value of the Eligible Fixed Assets securing the “Qualified Debt” plus any other fixed assets added when needed to comply with the 90% Loan-to-Value Limitation.
• Any refinancing must include “Qualified Debt” and may also include “Eligible Business Expenses”
Refinancing Program Eligibility Requirements (continued)

What is “Qualified Debt”?  
• Qualified Debt means a commercial loan of which at least 85% of the original proceeds were used to acquire an Eligible Fixed Asset (even if the original loan has been refinanced again).  
• The debt must have been in place for no less than 2 years prior to SBA application.
Refinancing Program Eligibility Requirements (continued)

- Qualified Debt must have originally been made for the benefit of the applicant Operating Company.
- The debt must have been secured by the Eligible Fixed Assets for at least two years.
- All payment of the debt by Borrower must have been current for not less than one year preceding the date of application.
Refinancing Program Eligibility Requirements (continued)

• Qualified Debt cannot currently have a government guarantee.
• The debt cannot be a Third Party Loan which is part of an existing 504 Project.
• The total debt may consist of a combination of two or more loans if each satisfies the Qualified Debt requirements.
What are “Eligible Business Expenses”? Eligible Business Expenses can include “Other Secured Debt” which does not meet all the Qualified Debt requirements, but has been in place and current by the same Borrower.

These expenses can also include “Business Operating Expenses” of the applicant which have been incurred but not paid prior to the date of application, or that will be due for payment within 18 months after date of application.

Eligible Business Expenses must be itemized and documented as part of the 504 application process.
Loan-to-Value (LTV) Limitations

- For projects that refinance only Qualified Debt and Other Secured Debt, the maximum LTV of the Refinancing Project is 90% - if the appraised value of the Eligible Fixed Assets is less than 90%, additional collateral or cash must be pledged.

- For projects that include Business Operating Expenses, a maximum 75% LTV will apply and the Business Operating Expenses portion of the Refinancing Project cannot exceed 25%. Additional assets cannot be pledged to increase the amount of Business Operating Expenses.
Fees

- All SBA 504 processing fees remain the same except for the "Ongoing Guarantee Fee" which is paid by the borrower as part of the interest rate calculation.

- For loans approved during Fiscal Year 2016, the Ongoing Guarantee Fee will be 0.958%, as compared to the current 504 Loan Program Ongoing Guarantee Fee of 0.914%. The Ongoing Guarantee Fees will continue to be reviewed annually by the SBA and issue a notice of change, if necessary.
Other Eligibility Requirements

- Borrower (Eligible Passive Company and/or Operating Company) must meet all current 504 Loan Program Occupancy requirements.

- All loan applications considered under the 504 Debt Refinancing Program must be processed through the SLPC and cannot be approved by a CDC under its PCLP authority.
Documentation Requirements

• CDC’s must prepare its credit memorandum to include an analysis stating that the proposed debt refinancing satisfies all requirements of the 504 Debt Refinancing Program.

• As part of the 1244, the Borrower and the CDC must certify that the debt being refinanced is eligible, and the Third Party Lender must certify in its commitment letter that it has no reason to believe that the debt is not eligible.
As part of the SBA application, CDC’s must submit a transcript of the last 12-month payment history on all debt being refinanced.

Appraisals are not required at the time of application, cannot be more than 6 months old at the time of application and must comply with all other SBA appraisal requirements.

Although not required for submission as part of the application process, CDC’s must obtain and retain evidence that the liens are securing the Qualified Debt with the Eligible Fixed Assets and that the liens have been in place for at least 2 years.
Refinancing Other Lender Debt

• If the debt being refinanced is not Same-Institution debt, the Interim Lender must execute SBA Form 2288R (Interim Lender Certification for Refinancing Program), which is similar to the document currently required for all 504 closings.

• Existing loan documents may be assigned to new Third Party Lender and modified to comply with 504 requirements.
Refinancing Same Institution Debt

• The Third Party Lender may modify its existing loan documents or require that the Borrower must execute and record new documents.

• If the debt being refinanced is Same-Institution debt, no Interim Lender may be used and an Escrow Account is required.

• Third Party Lender must execute SBA Form 2416, Lender Certification for Refinanced Loan.
Refinancing Same Institution Debt (continued)

• CDC must create an Escrow Account (controlled by an Escrow Agreement) at the time of closing which holds the Borrower’s cash contribution (if applicable) and the net debenture proceeds.

• Escrow Agreement must be executed by Borrower, Third Party Lender, CDC and the Escrow Agent and the account can be held by CDC Attorney, Title Company or other party approved by SBA District Counsel.

• A copy of the Escrow Agreement (and evidence of Borrower cash contribution, if applicable) must be provided to SBA District Counsel at the time of closing the 504 loan.
Refinancing Same Institution Debt (continued)

• At the time of the 504 debenture sale, the net debenture proceeds must be wired to the Escrow Account with all funds being released only upon written approval by the CDC and SBA, provided that the 504 loan has the required lien position on the project collateral.

• The debt being refinanced must be fully satisfied by the payment of the escrowed funds.
Form Changes

• Included in SBA Information Notice 5000-1383
• Revisions have been made to SBA Forms 1244, 2450, 2234 Parts B and C, 2288R and 1506 to implement the provisions of the 504 Debt Refinancing Program.
• Additional 504 Forms were re-issued without changes to complete the forms series, including SBA Forms 2233, 2234 Part A, 2416 and 2288.
• All applications for 504 Debt Refinancing loans must use these updated forms.
Form 1244 – Application for Section 504 Loan

• Page 1, Part A: Added options to “Check if Debt Refinancing Loan Application With Expansion” or “Without Expansion” for statistical data tracking purposes

• Page 12, Part D: Under Item 3, added “Option B,” for information regarding “Debt Refinancing Without Expansion”
Form 2450 – Eligibility Information Required for 504 Submission (Non-PCLP)

Pages 3-4, Section V:
- Added language related to loan eligibility in the case that debt refinance is included in project costs without expansion
- Revised (d) to “Is secured by 504 Eligible Fixed Assets.”
- Revised (f) to “…the applicant has been current on all payments due for not less than one year prior to the date of application, (which means that no payment was more than 30 days past due from either the original payment terms or modified payment terms if such modification (including deferments) was agreed to in writing no less than one year prior to the date of application).
Form 2234, Part B – Supplemental Information for PCLP Processing

- Page 2: Revised language in “Use of Loan Proceeds” related to “Other Expenses” for consistency with Form 1244
Page 7-10, Section VII:

- Added language related to loan eligibility in those cases when debt refinance is included in project costs without expansion
- Revised (d) to “Is secured by 504 Eligible Fixed Asset”
- Revised (f) to “…the applicant has been current on all payments due for not less than one year prior to the date of application, (which means that no payment was more than 30 days past due from either the original payment terms or modified payment terms if such modification (including deferments) was agreed to in writing no less than one year prior to the date of application).
Form 2288R – Interim Lender Certification for Refinanced Loan

- Updated title of form to reflect permanent debt refinancing program
- Page 1: Added language regarding timing of the Interim Lender Certification (i.e. “not more than 60 days prior to debenture funding”)
- Page 3: Revised the text of the Interim Lender Certification
- Changed form number from 2288TR to 2288R
Form 1506 Servicing Agent Agreement

• Page 1: Added options to “Check if Debt Refinancing Loan Application With Expansion” or “Without Expansion” for statistical data tracking purposes

Examples

504 Debt Refinancing
Deal Structures
Ineligible Request
Refinance $ XXX,XXX (any amount of business loans) none of which are secured by fixed assets.

Comments
There is no Qualified Debt to refinance so the project would not be eligible under this program. Each project must have a Qualified Debt to be eligible.

Acceptable Structure
NONE
## 504 Debt Refinancing Program

### Request
Refinance $100K existing acquisition mortgage plus $400K 2nd mortgage borrowed 5 years ago for other business purposes. Property is appraised at $1,000,000.

### Acceptable Structure

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Appraised value of Property</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Qualified Debt</td>
<td>$100,000</td>
</tr>
<tr>
<td>Other Secured Debt</td>
<td>$400,000</td>
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<tr>
<td><strong>Total Project Financing</strong></td>
<td><strong>$500,000</strong></td>
</tr>
<tr>
<td>Third Party Loan</td>
<td>$250,000</td>
</tr>
<tr>
<td>SBA 504 Loan</td>
<td>$250,000</td>
</tr>
<tr>
<td>Borrower Equity Contribution</td>
<td>$500,000</td>
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</tbody>
</table>

### Comments
All eligible. Project financing (TPL loan + 504 debenture) is $500,000. TPL loan amount must be equal to or greater than the debenture amount, at least $250,000 in this example.
504 Debt Refinancing Program

Request
Refinance $100K existing acquisition mortgage plus $400K 2nd mortgage borrowed 5 years ago for other business purposes. Property is appraised at $1,000,000.

Acceptable Structure
- Appraised value of Property $1,000,000
- Qualified Debt $100,000
- Other Secured Debt $400,000
- Total Project Financing $500,000

Comments
All eligible. Project financing (TPL loan + 504 debenture) is $500,000. TPL loan amount must be equal to or greater than the debenture amount, at least $250,000 in this example.
504 Debt Refinancing Program

**Request**
Refinance $300K existing Qualified Debt plus $400K for other unsecured loan obligations and Business Operating Expenses. Property is appraised at $1,000,000.

**Acceptable Structure**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Refinancing Project (Appraisal)</td>
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<tr>
<td>Qualified Debt</td>
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<tr>
<td>Business Operating Expenses</td>
<td>$ 250,000</td>
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<tr>
<td>Total Project Financing</td>
<td>$ 550,000</td>
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<tr>
<td>Third Party Loan</td>
<td>$ 275,000</td>
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<td>SBA 504 Loan</td>
<td>$ 275,000</td>
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<tr>
<td>Borrower Equity Contribution</td>
<td>$ 450,000</td>
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</table>

**Comments**
The $300K Qualified Debt can be included but only $250K of the requested $400K in Business Operating Expenses can be included. Business Operating Expenses are limited to 25% of the Refinance Project amount. In this case $250K. Total LTV remains below the 75% maximum for transactions involving Business Operating Expenses.
## 504 Debt Refinancing Program

### Request
Refinance three Qualified Debt mortgages totaling $1,250K. Loan #1 to buy the land, Loan #2 to build the building, Loan #3 for property improvements. Property is appraised at $1,000,000.

### Acceptable Structure #1 with $350K cash to close
- Refinancing Project (Appraisal): $1,000,000
- Qualified Debt: $900,000
- Third Party Loan: $500,000
- SBA 504 Loan: $400,000
- Borrower Equity Contribution: $100,000

### Acceptable Structure #2 add eligible fixed assets
- Refinance Project: $1,389,000
- Qualified Debt: $1,250,000
- Third Party Loan: $694,500
- SBA 504 Loan: $555,500
- Borrower Equity Contribution: $139,000

### Comments
Applicant would have to put in $350K cash or add additional eligible assets with an appraised value sufficient to increase the Refinance Project to $1,389K and maintain the required 10% equity. 90% LTV acceptable as no funds provided for Business Operating Expenses.
504 Debt Refinancing Program

Request
Refinance $500,000 in Qualified Debt plus $200,000 in secured debt borrowed 3 years ago for equipment purchases and inventory, plus $50,000 for next year’s salary for an additional employee. Property is appraised at $1,000,000.

Acceptable Structure

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Refinancing Project (Appraisal)</td>
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<tr>
<td>Qualified Debt</td>
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<tr>
<td>Other Secured Debt</td>
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<td>Business Operating Expenses</td>
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<td><strong>Total Project Financing</strong></td>
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<td>Third Party Loan</td>
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<tr>
<td>SBA 504 Loan</td>
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<tr>
<td>Borrower Equity Contribution</td>
<td>$250,000</td>
</tr>
</tbody>
</table>

Comments
The request meets program guidelines. The Business Operating Expenses do not exceed 25% of the Refinance Project and the total LTV does not exceed 75%.
504 Debt Refinancing Program

Request
Refinance $100,000 Qualified Debt plus $650,000 to cover other obligations and/or business expenses, some of which will be incurred in the following 6 months. Property is appraised at $1,000,000.

Comments
The Qualified Debt is eligible however only $250,000 of the request for Business Operating Expenses is eligible. These expenses are limited to 25% of the Refinance Project amount.

Acceptable Structure

- Refinancing Project (Appraisal) $1,000,000
- Qualified Debt $100,000
- Business Operating Expenses $250,000

Total Project Financing $350,000
- Third Party Loan $175,000
- SBA 504 Loan $175,000
- Borrower Equity Contribution $750,000
Contacts – For More Information

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