504 Debt Refinancing

PROJECT ELIGIBILITY AND CHECKLIST

Key Points to Remember

To qualify, the debt to be refinanced:

- □ must have been in place for at least 2 years
  - » *an extension of an existing note is ok*
- □ must have had no new disbursements for at least 2 years
- □ substantially all (≥85%) must have been used for 504-eligible uses (i.e. the acquisition or improvement of fixed assets)
  - » *Note: SBA differentiates between collateral securing a loan versus the loan's use of proceeds. Even if there is plenty of equity or the loan is secured by 504-eligible fixed assets, the loan is not eligible for 504 Refinancing if its original purpose did not include the acquisition or improvement of 504-eligible assets.*
- □ if a commercial mortgage, property must be ≥51% owner-occupied
  - » no investment real estate
- □ cannot be a government guaranteed loan for at least 2 years (USDA, 7a, 504, etc.)

Loan-to-Value ratios:

- □ ***Cash-Out Refinance:*** 85% LTV
  - □ cash out for eligible business expenses is limited to ≤20% of the appraised value
- □ ***No Cash-Out Refinance*** 90% LTV

Appraisal requirements:

- □ must be dated within 12 months of application
- □ prefer at application, but required for funding
- □ must name both Small Business Growth Corporation and the U.S. Small Business Administration as recipients on the report

Application Checklist

504 Refinance Documentation:

- □ Executed promissory note
- □ Statement/disbursement sheet showing use of proceeds
- □ Recorded mortgage/deed, land sale contract or contract for deed showing the applicant's interest in the real estate
- □ Executed security agreement
- □ Recorded UCC
- □ Transcript showing the borrower has been current on all payments for the debt being refinanced for at least one year or from the date the loan was issued if same institution debt
- □ Any modifications or extensions
- □ Pay-off statement
- □ Real estate appraisal (<12 months)

Company Information:

- □ Corporate tax returns for business and affiliates (3 yrs)
- □ Interim financial statements for business and affiliates with most recent aging of accounts receivable and payable (< 90 days)
- □ Schedule of existing company debts
- □ Two-year projection of income and expenses with assumptions

Owner Information (*for each ≥20% owner of the operating company or the real estate*):

- □ Personal financial statement
- □ Personal data sheet
- □ Last three years income tax returns
- □ Copy of Driver's license

Other:

- □ Application fee of $1,000 payable to Small Business Growth Corporation

Has a deferment been granted due to COVID-19?

If yes, there are a few extra requirements:

- □ The applicant must bring itself current on all the payments that were deferred prior to the loan being approved for debt refinancing - applicant must make up any payments as if no deferment was ever granted;
- □ The deferment on the loan to be refinanced must have been granted on or after March 1, 2020
- □ The applicant must otherwise be current on all payments

GROWTH CORP

Common Eligibility Issues

504 REFINANCE RULES, ISSUES AND POSSIBLE WORKAROUNDS

GROWTH CORP

RULE	ISSUE	POSSIBLE WORK-AROUND?
Qualified Debt must be in place for at least 2 years prior to application.	Loan #456 was made only 12 months ago, but loan #456 was a refinance of loan #123, the proceeds of which were 504 eligible.	SBA will consider the qualified debt to be "in place" for 2 years if, together, loan #123 and #456 have been in place for at least 2 years. All loan documents/genealogy from loan #123 will have to be provided in the application as well.
Substantially all (≥85%) of the loan's proceeds were used for a 504-eligible purpose.	Loan #123 was for the purchase of stock in operating company.	Since loan #123 was for the purchase of the stock of the operating company, which includes goodwill, inventory, receivables, etc., it does not qualify as being ≥85% for the acquisition or improvement of fixed assets so it is ineligible.
	Loan #123 financed the purchase of real estate 5 years ago. Last year, the borrower refinanced the building and took cash out to do improvements.	If there is not sufficient documentation (purchase contracts, receipts, disbursement authorization, etc) to prove ≥85% of the revolving line of credit was used to acquire/improve 504-eligible assets, then it would be ineligible.
	Loan #123 financed the purchase of real estate but has been paid in full. The borrower subsequently received a line of credit, which is secured by the real estate. The line of credit financed working capital.	Loan #123 was paid in full, therefore there is no qualified debt. Since the line of credit was used to finance working capital, it would not be eligible for 504 refinancing.
No additional disbursements (*other than to cover closing costs*) in the last 2 years.	Loan #123 is a revolving line of credit.	If there were disbursements within the past two years the loan would not be eligible until there are no new disbursements for 2 years. If there were no disbursements in the past 2 years, the loan may be eligible, but please provide the loan's disbursement and payment history.
The loan cannot be a Federally-guaranteed loan.	Loan #123 is only 12 months old, but refinanced two prior loans: an SBA 504 loan and a third party lender first mortgage loan.	Since loan #123 involved the refinance of government-guaranteed loans, loan #123 would not be eligible until it has been in place for at least 2 years.
Eligible business expenses are limited to a maximum of 20% of the fair market value of the eligible 504 asset and the total advance cannot exceed 85%.	Loan #123 is eligible and totals 80% of the FMV of the 504-eligible asset. The borrower would like to take cash out equal to 20% of the FMV to pay off a line of credit.	Loan #123 can be refinanced. However, the entire line of credit would not be paid off as the qualified debt plus the line of credit would exceed the maximum advance of 85%. The amount of cash-out would be limited to 5% of the FMV.
	Loan #123 is eligible. The business would like to take cash-out equal to 20% of the FMV to cover business expenses outstanding and due within the next 18 months. However, the expenses total <20% of the FMV. Also, the business received EIDL and PPP loans to help cover expenses.	If the 20% max cash-out exceeds the total of Eligible Business Expenses, the maximum amount of the cash-out will be limited to the expense total. Additionally, the dollars received from EIDL and PPP loans to cover expenses will be subtracted from the amount of Eligible Business Expenses.
SBA financing is for owner-occupied property only.	Loan #123 is for a commercial property, but 65% is leased to unrelated parties.	The SBA's ≥51% occupancy requirements apply to 504 Refinancing as well. The current appraisal must reflect the applicant OC meets the SBA occupancy requirements.