



# SBA 504 DEBT REFINANCING ENHANCEMENTS

*A Brief Summary of What Has Changed*

Refinance Rules	What Changed in 2021?
<p><b>QUALIFIED DEBT</b></p> <ul style="list-style-type: none"> <li>• Mortgage to be refinanced is at least 6 months old*</li> <li>• Substantially all of the debt to be refinanced (85%) must originally have been used for the purchase or improvement of fixed assets</li> <li>• Property to be refinanced must be at least 51% owner-occupied <b>or</b> is long term equipment</li> <li>• Can be a government-guaranteed loan (7a, 504) under certain conditions*</li> </ul>	<ul style="list-style-type: none"> <li>* Mortgage to be refinanced can now be 6 months old to be eligible for refinance - <b>down from 2 years</b></li> <li>* Allows the refinance of existing government-guaranteed debt under certain conditions - <b>7(a), USDA, 504, etc. were formerly ineligible</b> <ul style="list-style-type: none"> <li>- The refinancing of any federally-guaranteed debt must provide a "substantial benefit" to the borrower – minimum 10% savings on the new installment amount attributable to the debt being refinanced (must include prepayment penalties, financing fees, and other financing costs). <i>NOTE: a balloon payment due within the next 5 yrs would automatically qualify as substantial benefit.</i></li> <li>- Existing SBA 504 Loan - Third Party Loan and the 504 loan must be refinanced, or the Third Party Loan must be paid in full</li> <li>- Existing SBA 7(a) Loan - refi eligibility requires a certified development company to verify that the original 7(a) lender is either unwilling or unable (due to secondary market investor input) to modify the original loan terms</li> </ul> </li> </ul>
<p><b>ELIGIBLE BUSINESSES</b></p> <ul style="list-style-type: none"> <li>• Must be a for-profit small business in the U.S.</li> <li>• In operation for at least 2 years - no new businesses</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>
<p><b>LOAN TO VALUE</b></p> <ul style="list-style-type: none"> <li>• Cash-Out Refinance: 85% LTV <ul style="list-style-type: none"> <li>- <b>Cash out for eligible business expenses cannot exceed 20% of the appraised value</b></li> </ul> </li> <li>• No Cash-Out Refinance 90% LTV</li> <li>• For 504 refinancing <b>with</b> expansion, existing, qualified debt eligible up to 100% of expansion costs*</li> </ul>	<ul style="list-style-type: none"> <li>* Increased cap on amount of existing debt eligible to 100% of expansion costs - <b>up from 50% of expansion costs</b></li> </ul>
<p><b>CASH OUT: ELIGIBLE USES</b></p> <ul style="list-style-type: none"> <li>• Repairs or maintenance</li> <li>• Salaries</li> <li>• Rent</li> <li>• Inventory</li> <li>• Utilities</li> <li>• Payables</li> <li>• Line-of-credit</li> <li>• Business credit cards</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>
<p><b>CASH OUT: INELIGIBLE USES</b></p> <ul style="list-style-type: none"> <li>• Cash out for owner's personal expenses</li> <li>• Acquiring a new business</li> <li>• A change of ownership with partner buyout</li> <li>• Capital expenditures</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>
<p><b>INTEREST RATE &amp; TERMS</b></p> <ul style="list-style-type: none"> <li>• Fixed-rate 10-, 20-, or 25-yr terms are available</li> <li>• Fully amortized</li> <li>• Rate locked at funding</li> <li>• Effective rate for refi is 0.0348% higher than regular 504 due to higher servicing fees</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>
<p><b>JOB CREATION</b></p> <ul style="list-style-type: none"> <li>• Allows existing jobs (full-time equivalent basis) to be counted as jobs retained by the refinancing project*</li> <li>• Projects not meeting job creation/retention goals can continue to use all available Public Policy Goals</li> </ul>	<ul style="list-style-type: none"> <li>* Alternate job retention standard reinstated - <b>previously had to create one job for every \$75,000 of SBA funds received</b></li> </ul>
<p><b>LOAN STRUCTURE</b></p> <ul style="list-style-type: none"> <li>• Bank's portion must be equal to, or greater than, the SBA 504 debenture amount</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>
<p><b>DISBURSEMENT</b></p> <ul style="list-style-type: none"> <li>• Disbursement period is 9 months after approval</li> </ul>	<ul style="list-style-type: none"> <li>• No change</li> </ul>