

# SBA 504 LOANS

## HOW TO REFINANCE SBA 7a LOANS



GrowthCorp.com

### KEY POINTS

- **85% of original use of proceeds must be 504 eligible.** (see list below...verified with Settlement Statement and loan disbursement documents).
- **The existing lender must provide a letter** stating they are unwilling, or unable, to modify current terms.
- **If a same institution 7a loan**, the loan will only qualify if it was sold into the secondary market.
- **The original note must have been in place for 6 months** – no past due for past 6 months
- **Business (borrower) in operation for 24 months or more.**

### ELIGIBLE USES OF ORIGINAL LOAN

- Land
- Acquisition of an existing building
- New construction
- Building expansion or renovation
- Long-term equipment
- Refinance of qualifying debt
- Furniture and fixtures
- Leasehold improvements
- Professional fees
- Other costs such as appraisals, fees, permits, etc.

### QUALIFIED DEBT

- Mortgage to be refinanced must be at least 6 months old
- Substantially all of the debt to be refinanced (85%) must originally have been used for the purchase or improvement of fixed assets
- Property to be refinanced must be owner-occupied
- 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.

### ELIGIBLE BUSINESSES

- Must be a for-profit, owner-occupied small business in the U.S.
- In operation for at least 2 years
- Meets all other SBA eligibility requirements
- Property being refinanced at least 51% owner-occupied -OR- is long-term equipment

### CASH OUT: ELIGIBLE USES

- Salaries
- Rent, Repairs, Maintenance
- Inventory, Utilities
- Reduce a line of credit
- 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, or to pay off/down business lines of credit or business credit cards

### CASH-OUT: INELIGIBLE USES

- Owner’s personal expenses
- Acquiring a new business
- A change of ownership with partner buyout
- Capital expenditures

### JOB CREATION AND RETENTION

- All existing jobs measured on a full-time equivalent basis can be counted as jobs retained by the refinancing project.

### LOAN STRUCTURE

- \$5 million limit on 504 portion (typical projects; \$5.5 million manufacturers)
- Bank’s loan must be equal to, or greater than, the SBA 504 debenture amount
- Cash out cannot exceed 20% of appraised value OR 85% LTV, whichever is less
- Existing 7a loan can be refinanced in whole or in part

### INTEREST RATE & TERMS

- Fixed-rate
  - Fully amortized over the life of the loan (no balloons)
  - Real estate – 10-, 20-, or 25-year terms are available
  - Rate locked when debenture is sold
- Effective rate for refi is 0.0154% higher than regular 504 loan due to higher servicing fees*

### APPLICATION CHECKLIST

- Corporate tax returns for business and affiliates
- Interim financial statements for business and affiliates (< 90 days)
- Schedule of debts
- Most recent aging of accounts receivable and payable
- Two-year projection of income and expenses with assumptions
- Owner’s personal financial statement
- Owner’s last 3 years income tax returns
- Copy of Driver’s license
- Personal data sheet
- Detailed breakdown of costs
- Documentation of equity injection
- Articles of Incorporation, Bylaws and/or Operating Agreement
- Environmental Report
- Application deposit - \$1,000 payable to Small Business Growth Corp

### REFI CHECKLIST

*All items listed above, plus:*

- 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 (if applicable)
- Any modifications or extensions
- Pay-off statement
- Original Loan Authorization and any modifications (327 actions)
- Real estate appraisal (<12 months)
- Payment history Security Agreement, if applicable

# PROJECT STRUCTURES

Refinance Existing 7a Equipment Note and Purchase Existing Facility		
<b>PROJECT COSTS:</b>		
Debt Refinance - 7a Loan	\$683,373.00	
Other Cost - Interim Interest	\$627.00	
Other Cost - Soft Costs	\$15,000.00	
Purchase Land & Building	\$1,173,000.00	
<b>TOTAL</b>	<b>\$1,872,000.00</b>	
<b>SOURCE OF FUNDS:</b>		
1st Position - Bank	50%	\$936,000.00
2nd Position - Growth Corp (SBA 504)	40%	\$748,800.00
Borrower Equity	10%	\$187,200.00

**NOTES:** More than 85% of the original use of proceeds was for 504-eligible assets, which was confirmed by equipment and leasehold invoices on file. The payment history confirmed payments had been current. The refinance dollars do not exceed 100% of the expansion dollars. The monthly installment on the 504 loan provided a 10% or greater improvement vs the debt being refinanced.

## MONTHLY PAYMENT

\$12,242.83

\$7,030.32

\$5,212.51

Refinance Existing SBA 504 Loan and SBA 7a Loan		
<b>PROJECT COSTS:</b>		
Debt Refinance - 504 and 7a Loans	\$2,502,123.46	
<b>Existing Land Value</b>	<b>\$1,574,000.00</b>	
Other Cost - Cash Out	\$970,000.00	
Other Cost - Interim Interest	\$3,876.54	
<b>TOTAL</b>	<b>\$5,050,000.00</b>	
<b>SOURCE OF FUNDS:</b>		
1st Position - Bank	34.42%	\$1,738,000.00
2nd Position - Growth Corp (SBA 504)	34.42%	\$1,738,000.00
<b>Borrower Equity</b>	<b>31.16%</b>	<b>\$1,574,000.00</b>

**NOTES:** More than 85% of the original use of proceeds was for 504-eligible assets, i.e. the purchase of real estate and equipment. The payment history confirmed payments had been current. The cash-out balance does not exceed 20% of the FMV and the total finance package does not exceed 85% of the FMV. The cash out will be used for eligible business expenses. The monthly installment on the 504 loan was a 10% or greater improvement vs the debt being refinanced. A letter from the SBA 7a Lender was provided stating the loan was sold on the secondary market and they are unable to modify the terms.

## ESTIMATED PAYMENT

\$25,102.00

\$12,452.00

\$12,650.00

The 504 Loan Program is partnership at its best. There's simply no other product on the market that offers entrepreneurs an affordable way to grow their business, gives banks a low-risk addition to their menu of lending solutions and promotes job growth and economic development in communities across the country.

Growth Corp is a not-for-profit Certified Development Company (CDC) empowered by the U.S. Small Business Administration to marshal the 504 Loan Program to small businesses throughout the state of Illinois, and parts of Missouri, Indiana, Iowa and Kentucky. Growth Corp is focused exclusively on local economic development and job creation.

