



"An SBA-504 Certified Development Company"

SBA-504 Loan Program Refinance Program Guide

EFFECTIVE October 12, 2011

**For more information on these changes:
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Effective October 12, 2011, the SBA has announced changes to the eligibility of the temporary SBA-504 refinance program that will be in place until September 27, 2012. Previously debt refinance has not been eligible under the SBA-504 program unless it was part of an expansion. Last year SBA changed 504 program regulations to allow refinances, but eligibility was restrictive. That has now changed. Given the record low fixed rates currently available under the 504 program, this is a unique opportunity for small business owners.

What is Eligible? Business debt that would have been eligible for the 504 program originally may now be refinanced. In addition, SBA will now also allow businesses who have equity in their properties to include working capital to pay for other eligible business expenses that will become due over the next 18 months so long as the amount needed to refinance and the amount needed for eligible business expenses do not exceed a 90% LTV based on a new appraisal. Other business expenses include salaries, lease obligations, debt obligations, vendor expenses, utilities, and other general business expenses the business can document by past receipts or documentation that will become due in 18 months.

What Conditions Must the Borrower Meet? 1) All normal 504 eligibility such as the business must occupy 51%, no investment properties, must be for profit, must be met; 2) The business must have been in business for 24 months; 3) The borrower cannot have been more than 30 days past due during the past 12 months on the Note being refinanced; 4) If the business wishes to include other business expenses in addition to the primary eligible debt being refinanced, they cannot exceed a 90% loan to value.

Fees / Cost: An additional risk fee of .1655 of 1% will be added to each monthly payment of a 504 borrower who is refinancing in addition to the normal SBA-504 fees to keep the program operating at zero subsidy cost. This will cause effective interest rates to be approximately 20 basis points higher on refinance projects than on normal SBA-504 projects.

Two SBA-504 Refinance Project Examples

Borrower wishes to refinance a \$1,000,000 Note that has a balloon and that has a current appraisal of \$1,400,000. The first example is where the borrower is maximizing the amount of working capital they take out. The second example is where the borrower wants to maximize the 504 loan:

Example #1 – Requesting Maximum Working Capital

Appraised Value of Property	\$1,400,000
Outstanding Balance of Debt	\$1,000,000
90% LTV	\$1,260,000
New Bank First	\$ 700,000 (50%)
New SBA-504	\$ 560,000 (40%)
Borrower Equity Contribution	\$ 140,000 (10%)
Payoff of Outstanding Balance	\$1,000,000
Amount Available for Working Capital	\$ 260,000

Example #2 – Requesting ONLY 80% LTV

Appraised Value of Property	\$1,400,000
Outstanding Balance of Debt	\$1,000,000
80% LTV	\$1,120,000
New Bank First	\$ 560,000 (40%)
New SBA-504	\$ 560,000 (40%)
Borrower Equity Contribution	\$ 280,000 (20%)
Payoff of Outstanding Balance	\$1,000,000
Amount Available for Working Capital	\$ 120,000

OTHER REGULAR SBA-504 PROGRAM GUIDELINES THAT MUST ALSO BE MET

ELIGIBILITY

- Must be a for-profit business. Non-profit groups such as churches are not eligible.
- Must achieve an eligibility goal of SBA (usually easy to do).
- Must be classified as small (Business net worth under \$15 million & net profits past two years under \$5 million). **NEW**
- Owner must occupy 51% of an existing building or 80% of the newly constructed space.
- Investment properties such as apartments and strip shopping centers are not eligible.
- Speculative ventures (such as subdivision development) are not eligible.
- Refinances are eligible under certain conditions. **NEW**

ALLOWABLE USES OF PROCEEDS

- Acquisition of vacant land for construction.
- Acquisition of existing land and building.
- Building construction and/or renovation.
- Machinery, equipment, furniture, fixtures located in building being financed.
- Associated Soft costs such as architectural fees, engineering, survey's, appraisals, etc.
- Refinance of Debt Where 85% of Proceeds Were Used for Eligible Fixed Assets **NEW**
- Other Eligible Business Expenses **NEW**



TYPICAL PROJECT

Project Costs

Land Purchase...	\$ 200,000
Building Construction...	\$ 700,000
Machinery...	\$ 75,000
Soft Costs...	\$ 25,000
TOTAL PROJECT	\$1,000,000

Project Sources

Bank – 1 st Mortgage...	\$ 500,000
SBA/CSRA 504 – 2 nd Mortgage...	\$ 400,000 *
<u>Borrower Equity (Down Payment)...</u>	<u>\$ 100,000</u>
TOTAL SOURCES	\$1,000,000
*MAXIMUM AMOUNT OF 504 2 nd MORTGAGE LOAN \$5,000,000 NEW (Manufacturers can apply for up to \$5,500,000 in the second mortgage)	

RATES, TERMS, AND FEES

- Bank sets rate on their first mortgage loan. If SBA term is 20 years, bank term must be at least 10.
- Bank must pay a one-time fee of ½ of 1% fee to SBA for participating in the program.
- All SBA 504 bond costs are financed into the loan.
- SBA 504 loans are assumable.

COLLATERAL

- Typically project collateral stands for the loan on SBA-504 loans.

HOW DO WE APPLY FOR THE NEW SBA-504 REFINANCE PROGRAM?

Pick up the phone and call us. We can talk about specifics of your project. We will meet with the borrower and go over a one page checklist of what we will need to process the loan or we can email that punch list to you. We can also send an estimate of the 504 refinance structure and proposed payments to see if the program is a fit for your customer.

CONTACT

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