



*"An SBA-504 Accredited Lender  
Serving Georgia and South Carolina"*

# SBA-504 Loan Program Refinance Program Guide

**For more information on this program:  
Contact Randy Griffin at 706-210-2010 or  
Diane Masters at 706-210-2011**

Effective June 24, 2016, the SBA will accept applications in the SBA-504 Program to refinance both "Qualified Debt" (IE: the primary mortgage a business may have on its facility), "Other Secured Debt" (IE: Other loans secured by items that would have been eligible originally for the 504 Program), and "Business Operating Expenses" (IE: Cash out for business expenses). As outlined below the maximum loan to value will be 90% and will drop to 75% if the business takes any cash out. Previously debt refinance has not been eligible under the SBA-504 program unless it was part of an expansion. That has now changed. Given the record low fixed rates currently available under the SBA-504 program, Congress felt it made sense to allow refinances and give businesses in the country access to this program to refinance their debt. This is a unique opportunity for small business owners to lock in low rates and decrease the exposure with their bank, making it easier to fund other loans to the business as it grows or has additional future needs.

**What is Eligible?** Business debt that would have been eligible for the 504 program originally may now be refinanced at a LTV of 90%. If the borrowers qualified debt has an appraisal shortfall above a 90% LTV, they can use additional collateral to make up the shortfall and still qualify. In addition, SBA will also allow cash out on a limited basis so long as it does not exceed 25% of the project amount and the LTV does not exceed 75%. Business will not be allowed to add additional collateral to make up a collateral shortfall for cash out loans.

**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(s) being refinanced; 4) In addition to normal application requirements, evidence the debt has been in place more than 24 months and has been current the past 12 months will be required (loan transcript, Note, and Deed).

**Fees / Cost:** The fees added to the debt refinance program are almost identical to the regular program and are only 2 basis points higher. There are no additional fees.

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## **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 \$1,500,000. The first example is where the borrower is maximizing the amount of working capital they take out. The second example is where there is no cash out:*

### **Example #1 – Requesting Maximum Working Capital**

<b>Appraised Value of Property</b>	<b>\$1,500,000</b>
<b>Outstanding Balance of Debt</b>	<b>\$1,000,000</b>
<b>Cash Out Business Expenses</b>	<b>\$ 125,000</b>
<b>75% LTV</b>	<b>\$1,125,000</b>

<b>New Bank First</b>	<b>\$ 562,500 (37.5%)</b>
<b>New SBA-504</b>	<b>\$ 562,500 (37.5%)</b>
<b>Borrower Equity Contribution</b>	<b>\$ 375,000 (25%)</b>

### **Example #2 – Requesting NO CASH OUT**

<b>Appraised Value of Property</b>	<b>\$1,500,000</b>
<b>Outstanding Balance of Debt</b>	<b>\$1,000,000</b>
<b>Cash Out Business Expenses</b>	<b>\$ 0</b>
<b>90% LTV</b>	<b>\$1,350,000</b>

<b>New Bank First</b>	<b>\$ 500,000 (33%)</b>
<b>New SBA-504</b>	<b>\$ 500,000 (33%)</b>
<b>Borrower Equity Contribution</b>	<b>\$ 500,000 (33%)</b>

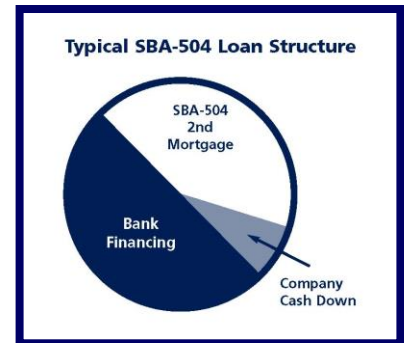
## OTHER REGULAR SBA-504 PROGRAM GUIDELINES THAT MUST ALSO BE MET

### ELIGIBILITY

- Must be a for-profit business. Non-profit groups such as churches are not eligible.
- Must be classified as small (Business net worth under \$15 million & net profits past two years under \$5 million).
- Owner must occupy 51% of the property.
- Investment properties such as apartments and strip shopping centers are not eligible.
- Speculative ventures (such as subdivision development) are not eligible.
- Borrower can borrow up to 90% of the business property value if they have a qualifying mortgage on the property.
- Borrower can borrow up to 75% of the business property value if they include eligible cash out.
- No refinance of existing SBA debt is allowed (existing 7(a)'s or 504's).
- No debt newer than 24 months or paid past due in the past 12 months can be refinanced.

### ALLOWABLE USES OF PROCEEDS

- Refinance of qualifying debt where 85% of proceeds were used for eligible business expenses and are secured by eligible fixed assets.
- Qualified debt is business mortgage and other secured loans on the business property (Machinery, equipment, furniture, fixtures).
- Associated closing costs such as survey, appraisal, etc.
- Other Eligible Business Expenses (**LIMITED CASH OUT IS ALLOWED**). Any eligible business expense the borrower anticipates in the next 18 months may be included in the 504 refinance so long as it does not exceed 25% of the project amount, the primary debt being refinanced is eligible, and they stay below a 75% LTV.



### 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.

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## 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

**Randy Griffin at 706-210-2010 ([rgriffin@csrardc.org](mailto:rgriffin@csrardc.org))  
or Diane Masters at 706-210-2011 ([dmasters@csrardc.org](mailto:dmasters@csrardc.org))**

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