

# REFINANCING SOLUTIONS

CONSOLIDATE AND REFINANCE DEBT

SBA 504 Loan Program

## WHAT IS THE 504 REFINANCE PROGRAM?

Business owners with a conventional commercial mortgage can take advantage of the low fixed rates offered through the SBA 504 Refinancing Program.

## BENEFITS FOR BORROWERS

- The borrower's equity in the collateral often fulfills the down payment requirement
- Low, fixed interest rate on 504
- Long loan term
- Access cash in the building
- Consolidate multiple loans
- Payment stability
- Improves cash flow
- Protection from balloon payments
- Keep your lender

## ELIGIBLE BUSINESSES

- Must be a for-profit, owner-occupied small business in the U.S.
- In operation for at least 2 years
- No change in ownership in the prior 2 years
- Fulfills the normal job requirements of the 504
- Property being refinanced at least 51% owner-occupied -OR- is long-term equipment

## QUALIFIED DEBT

- Mortgage to be refinanced must be at least 2 years old
- Substantially all of the debt to be refinanced must originally have been used for the purchase or improvement of fixed assets
- Payment history on loan(s) to be refinanced current for at least 12 months
- Cannot be a government-guaranteed loan (7a, USDA, 504,)

## LOAN TO VALUE RATIOS: 504 REFI

- Cash out: 85% (*up to 20% of the appraised value*)
- No cash out: 90%

## 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

### 3 KEY POINTS

#### 1. NO CASH OUT

ADVANCE RATE - 90% LOAN TO VALUE MAX

#### 2. CASH OUT

ADVANCE RATE - 85% LOAN TO VALUE MAX

#### 3. CREDIT QUALITY

MINIMUM 12 MO HISTORY OF NO LATE (30+) PAYMENTS

## INTEREST RATE & TERMS

- Fixed-rate
- Fully amortized over the life of the loan (no balloons)
- Real estate – a 10 or 20-year term
- Rate locked when debenture is sold
- Effective rate for refi about 4 basis points higher than regular 504 loan due to higher servicing fees

## 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

## JOB CREATION/RETENTION

- One job for every 65,000 of the debenture (for most projects)
- One job for every 100,000 of the debenture (for manufacturers)
- Projects are excluded from the job requirement goals if a Public Policy Goal is fulfilled

## PUBLIC POLICY GOALS

- Rural development
- Women, Minority, or Veteran ownership
- Enhancing economic competition
- Expanding exports
- LEED certified projects
- Revitalizing economic development areas
- Generating renewable energy
- Reducing energy consumption by at least 10%



## APPLICATION CHECKLIST

- Corporate tax returns for business and affiliates
- Interim financial statements for business and affiliates
- 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
- Real estate appraisal
- Environmental Report
- Application deposit

## REFI CHECKLIST

All items listed above (for application checklist), plus:

- Copies of current promissory note and recorded mortgage for debt being refinanced
- 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
- Detailed breakdown of original project costs
- Documentation of equity injection if the appraised value of the project assets is not sufficient to meet equity requirements
- Real estate appraisal dated within 12 months of the application



# REFI STRUCTURING

## REFINANCE EX. 1: CONVENTIONAL STRUCTURE

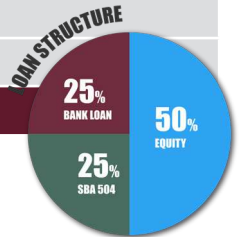
- Refinancing: existing \$1M commercial real estate loan
- Property appraises at \$2M

Appraised Value	\$2,000,000
Outstanding Debt	\$1,000,000

### LOAN STRUCTURE

Bank	25%	\$500,000
SBA 504 (Growth Corp)	25%	\$500,000
Borrower Equity	50%	\$1,000,000
<b>Total Refinance</b>	<b>100%</b>	<b>\$2,000,000</b>

COMMENTS: The third-party lender loan must be equal to, or greater than, the SBA 504 debenture amount.



## REFINANCE EX 2: CASH OUT LOAN STRUCTURE

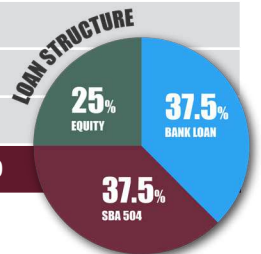
- Refinancing: \$1M CRE loan, \$400K equipment loan; \$100k as next year's salary for a new employee
- Property appraises at \$2M

Appraised Value	\$2,000,000
Qualified CRE Debt	\$1,000,000
Business Operating Expenses	\$400,000
Other Secured Debt	\$100,000

### LOAN STRUCTURE

Bank	37.5%	\$750,000
SBA 504 (Growth Corp)	37.5%	\$750,000
Borrower Equity	25%	\$500,000
<b>Total Refinance</b>	<b>100%</b>	<b>\$2,000,000</b>

COMMENTS: The LTV does not exceed 85% and business operating expenses do not exceed 20% of the appraised value.



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, First Bank's CDC of choice, 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.

[WWW.GROWTHCORP.COM](http://WWW.GROWTHCORP.COM)

