



SBA 504 Refinance

An Insider's Guide



Business owners can access equity trapped in commercial real estate holdings with the 504 Refinance Program and:

- » consolidate multiple loans
- » get cash out
- » gain a long term, below market **FIXED** interest rate

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WHAT IS THE SBA 504 REFINANCE PROGRAM?

The SBA 504 Refinance Program eases financial burdens of small business owners by allowing them to free up equity in their properties. Refinancing with the below market, long-term 504 rate can provide increased cash flow and significant savings to borrowers.

Initially introduced as a pilot program, the 504 Refinance Program was made permanent in 2016 after the SBA, business owners and lenders fought for its existence. In 2021, the SBA loosened eligibility requirements, making the program more accessible.

There are two ways to refinance with an SBA 504 Loan. There is an option to Refinance with Expansion, which allows for refinancing of existing debt in combination with a new expansion project; and there is an option to simply refinance existing debt without the addition of an expansion project.

LOAN STRUCTURE

The refinancing loan is structured like the traditional 504 loan. A 504 loan includes three elements:

1. A 1st mortgage secured with a first lien from a private-sector lender covering 50% of the project cost;
2. A 2nd mortgage secured with a second



lien from a CDC (Certified Development Company) covering up to 40% of the total cost; and

3. A contribution of at least 10% equity from the small business borrower.

Eligible borrowers can refinance up to 90% of the current appraised property value. The refinancing may also include eligible business expenses.

ELIGIBILITY REQUIREMENTS

- Business must be at least 2 years old and existing loan 6 months old. (exceptions may apply)
- At least 85% of existing loan(s) must have been for 504-eligible purposes (real estate acquisition, construction, equipment, etc.)
- If original loan is a government loan, the original lender must be unwilling to adjust the terms
- Funding requires property appraisal

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- Other assets can be used as collateral to get to 90% LTV
- Up to 20% of the appraised value can be used for cash out for business expenses such as: salaries, rent, utilities, inventory or other obligations of the business. With cash out, the LTV cannot exceed 85%.

WHO CAN QUALIFY?

- Most for-profit businesses qualify
- Business owners who occupy a minimum 51% of its property at the time of application
- Businesses with net worth less than \$15 million and net profit after tax (2 yr avg) of no more than \$5 million*

*Businesses can also qualify under alternative size standards

BENEFITS FOR BUSINESS OWNERS

- Equity contribution can be as low as 10% of property's value with no additional injection required
- Financing can cover up to 90% of the total project cost
- Borrowers gain lower payments on the refinanced loan with a below-market, fully amortized, fixed interest rate
- Terms ranging from 10 to 25 years

HISTORICAL 25-YEAR 504 REFINANCE RATE



CASE STUDY 1: CONSOLIDATING LOANS



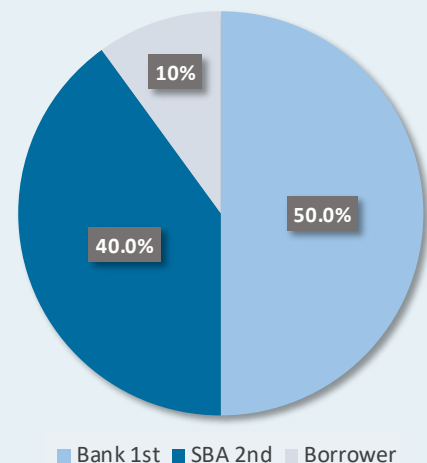
A brewery owner has \$880,000 in existing debt from purchasing a facility for his brewery five years ago. He also has a second mortgage that he took out for new equipment he needed amounting to \$110,000. His property was appraised for \$1,100,000.

Both the original first mortgage and the existing second mortgage can be combined under the favorable terms of the SBA 504 Refinance Loan. The new third-party loan must be equal to or greater than the SBA 504 debenture amount, which is \$440,000 in this example.

Appraised value	\$1,100,000
Outstanding debt	\$880,000
Other secured debt	\$110,000

Without any additional injections, the new financing looks like this:

» Bank 1 st mortgage	50%	\$550,000
» SBA 2 nd mortgage	40%	\$440,000
» Equity contribution	10%	\$100,000



The bank is in a comfortable 50% LTV and the business owner gets a below market, 25-year FIXED rate from the SBA

CASE STUDY 2: CASH OUT

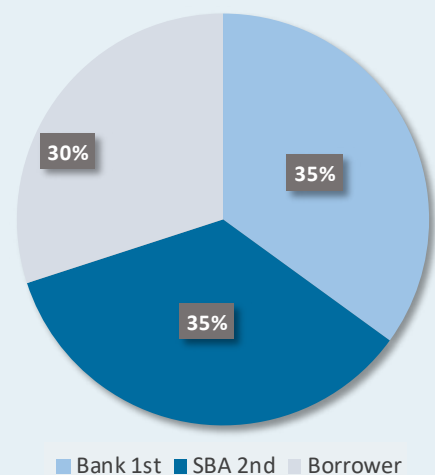


A hotel owner wants to refinance and is also in need of cash. They owe \$3 million on a conventional loan taken out a few years ago to finance the building purchase and would like \$1.2 million in cash to cover some business expenses. Therefore, the owners request is for \$4.2 million. The hotel's appraised value is \$6 million, which will be the new total project cost.

The owner has \$1.8 million in existing equity, so to refinance with cash out, the bank and the CDC split the \$4.2 million evenly. The LTV is less than the max of 85% in cash out refinance requests and the cash out allowance is 20% of the hotel's appraised value. The new financing structure looks like this:

- » Bank 1st mortgage 35% \$2,100,000
- » SBA 2nd mortgage 35% \$2,100,000
- » Equity contribution 30% \$1,800,000

The bank is in a comfortable 35% LTV and the hotel owner gets \$1.2M in cash plus a below market, 25-year fixed rate



How can we help you?

To learn more about SBA 504 Refinance Loans, contact our Loan Experts. If you are located in Arizona, California or Nevada, we can help determine if you are SBA eligible and create a loan structure that best suits your needs.

No matter what stage you are in with your project, we can help.

