

SBA 504 Temporary Refinance Checklist

Revised (10/12/2011)

Eligibility

- 504 Refinance is for debt refinancing of commercial loans only, not for expansion or the purchase of new fixed assets (that can be financed under the regular SBA 504 program in a separate application).
- Substantially all (85% or more) of the proceeds of the original loan being refinanced must have been used for 504 eligible purposes for the benefit of the small business. (Multiple refinances that may have occurred no longer impact eligibility.)
- Debt must have been incurred not less than 2 years prior to the date the application is received by SBA.
- Loans being refinanced must have been current for the past year with no payment being past due for more than 30 days. (Any modification of payment terms must have been entered into in writing prior to 10/12/2011.)
- Extra equity in project property can be used to finance eligible business expenses. (These can be expenses incurred prior to the date of 504 loan application or that will become due within 18 months of the date of application. (Examples: utility bills, salaries, inventory, pay down business line of credit, etc.)
- Small business must currently occupy at least 51% of the project property if project involves real estate.
- The bank's (Third Party Lender) loan must be at least as much as the SBA 504 loan (net proceeds). (The bank's loan is no longer required to be at least 50% of appraised value.)
- Lien positions on the eligible fixed assets securing the project must be first and second liens for the third party lender and SBA, respectively. (Any other lien must be junior in priority to these liens.)
- All 504 Refinance loans must be funded within 6 months of approval. (A three month extension for good cause is possible.)
- The ongoing guarantee fee for 504 Refinance loans will be 1.103% which is 0.1655 higher than the fee under the regular 504 program. This should be added on to the full term effective rate quoted.
- 504 Refinance cannot refinance loans with an existing federal guaranty. (i.e. SBA 7a, SBA 504, USDA, etc.)
- Community Development goals can be met by meeting a public policy (rural development, minority-owned, woman-owned, etc.) or by current or created jobs (\$65,000 for every 1 FTE).
- All SBA 504 Temporary Refinance loans must be approved prior to September 27, 2012.

Additional Documentation Required

- An appraisal to establish the fair market value of the eligible fixed assets is required, but does not have to be presented at the time of application. (Appraisal requirements are the same as under the regular 504 program and must be dated within 6 months of application.) However, the structure of the 504 financing is still dependent upon an appraisal of all fixed assets.

Example of Possible Structure:

Appraised Value of Project Fixed Assets	\$1,400,000
Outstanding Debt to be Refinanced	\$1,000,000
90% Loan to Value (maximum total financing)	\$1,260,000

Third Party (Bank) Loan	\$ 700,000
SBA 504 Loan (net debenture)	\$ 560,000
Equity (must be at least 10%)	\$ 140,000

**Because the outstanding debt is \$1,000,000 and \$1,260,000 is the maximum that can be financed, this leaves \$260,000 of additional equity that can be used to fund business expenses.*

- Copies of current versions of debt & lien instruments for the refinanced debt must be provided—the note, mortgages, security agreement, UCC filings, etc. must be submitted with the application.
- Proof that the loan was for an eligible 504 purpose (at least 85%) plus professional/closing fees and any eligible business expenses—copies of recorded deed, purchase agreement, settlement statement, construction agreement, disbursement statement, copies of bills/receipts/cancelled checks and/or commitment letter must be submitted with the application.
- A list of items to be paid off with loan proceeds will be prepared to include: loan(s) to be refinanced, professional fees, and eligible business expenses.
- Transcript of account for the past year must be submitted with the application showing that the loan was never more than 30 days past due – transcript should include: identity of lender, date due, date paid, amount paid, original balance, current balance, and any late fees. (If the debt being refinanced is from the same institution, the transcript must cover the entire loan history.)
- The third party lender must include with the application a commitment letter with certifications (contact FDDC for a sample format).
- The Third Party Lender (bank) will be required to sign a Lender Certification form (contact FDDC for a copy).
- Borrower and lender may be requested, prior to closing, to provide documentation to support their certifications regarding the qualified debt.
- Unless SBA has announced a specific change applicable to debt refinancing, all other requirements for processing and closing an SBA 504 still apply.