



# Small Business Jobs Act

## 504 Loan Program Debt Refinancing (revised)

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# Overview

- On September 27, 2010, the Small Business Jobs Act of 2010, P.L. 111-240 (Jobs Act) was signed into law.
- The Jobs Act temporarily extends the 504 program to allow refinance without business expansion.
- SBA has \$15 billion in program authority for this commercial real estate and equipment refinance program. However, the amount of owner-occupied commercial real estate that has lost significant value is many times this amount.
- All loans must be approved by September 27, 2012.



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# Overview

- In this way, SBA will maximize the impact of this program on saving small businesses, retaining and creating jobs and helping to stabilize commercial real estate values.
- On November 11, 2011 the SBA enacted a cash out provision.



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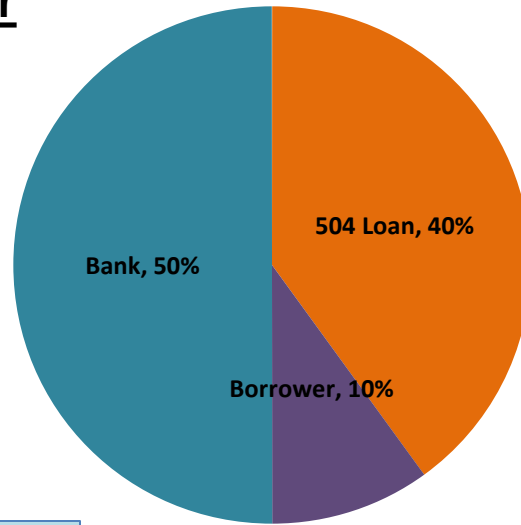
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# Loan Structure and Conditions

## First mortgage lender

provides 50% of financing (no SBA guaranty)



SBA provides balance of financing secured by second mortgage

Borrower provides at least 10% equity

Use of proceeds to purchase land and building for expanding business



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# 504 Program Features

- Most 504 loans - \$5.0 million
- Manufacturers and Energy Conservation/Production projects
  - \$5.5 million (no limit on the number of projects)
- Maturities of 504 loans are:
  - 10 years – Machinery
  - 20 years – Real Estate



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# Eligibility

## Amount of Third Party Loan and 504 Loan

- The initial program limited the total amount of refinancing to no more than the outstanding commercial mortgage

### **NOW**

- The Third Party loan and the 504 loan combined may not be more than 90% of the fair market value of the fixed assets securing the loan.

This provision allows for the financing of other business expenses and debt



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# Eligibility

- Substantially all (85% or more) of the proceeds of the loan being refinanced must have been used for 504 eligible purposes. All of the proceeds must have been used for the benefit of the small business concern.
- More than one loan may be combined and refinanced provided that each of the loans separately satisfies statutory and regulatory requirements. As a clarification, the Qualified Debt that is being refinanced may consist of a combination of two or more commercial loans provided that the primary loan satisfies the statutory and regulatory requirements.



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# Eligibility

- Loans being refinanced must have been current for the past year with no payment being deferred or past due for more than 30 days. Transcript must be provided to demonstrate compliance with this requirement.
- Debt must have been incurred not less than two (2) years prior to the date the application is received by SBA. Short extensions of the primary loan that are less than 2 years old qualify as long as the entire indebtedness for the qualifying asset has been more than two years.
- Small business concerned must have been in business for two years prior to the submission of the application.



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# Eligibility

If the amount of the refinance is not sufficient to repay the entire outstanding debt, the CDC must disclose how the balance of the debt will be handled, as noted below.

The lender of the Qualified Debt may:

- a) forgive all or part of the deficiency (which may have tax consequences for the Borrower)
- b) accept payment from the Borrower for all or part of the deficiency,
- c) accept a new Note for the balance which will be subordinate to the liens of the Third Party Lender and SBA. Such notes will contain at least a three-year stand-by requirement.



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# Borrower's Contribution

In addition to a cash contribution, the Borrower's 10% contribution may be satisfied by its equity in the Eligible Fixed Asset(s) serving as collateral for the Refinancing Project or by the equity in any other fixed assets that are acceptable to SBA as collateral.

An independent appraisal of the fair market value of the project assets and any additional assets offered as additional collateral must be provided.

Any outside collateral is not margined (dollar for dollar).



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# Restrictions

- No refinancing of loans with an existing federal guaranty.
- No refinancing of loans which is already part of an existing 504 project.



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# Comparisons

## Initial Program

Appraised value of Property	\$1,400,000
Outstanding Balance of Debt	\$1,000,000
90% LTV	\$1,260,000
<ul style="list-style-type: none"><li>• Third Party Loan</li><li>• SBA 504 Loan</li><li>• Borrower Contribution</li><li>• Excess Equity</li></ul>	
	\$700,000 \$300,000 \$400,000 \$300,000

## Maximum Working Capital

Appraised value of Property	\$1,400,000
Outstanding Balance of Debt	\$1,000,000
90% LTV	\$1,260,000
<ul style="list-style-type: none"><li>• Third Party Loan</li><li>• SBA 504 Loan</li><li>• Borrower Contribution</li><li>• Available for Working Capital</li></ul>	
	\$700,000 \$560,000 \$140,000 \$260,000

- ✓ Borrower benefits from lower cost working capital and more debt at long-term fixed rates

**New provisions in Final Rule  
give businesses access to  
their excess equity**



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# Example Over-collateralized

Appraised Value of Property	\$600,000
Outstanding Balance of Debt	\$500,000

*The value of the collateral securing the project exceeds the outstanding principal balance of the debt. Lien is less than 90% of the appraised value.*

	<u>Project</u>
Third Party Loan	\$300,000 (50% of appraised value)
SBA 504 Loan	200,000 (balance of existing lien – 33.3% in example)
Borrower's Contribution	<u>100,000</u> (all equity in project – 16.7% in example)
Total Project	\$600,000 (100%)



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# Example

## Slightly over-collateralized

Appraised Value of Property	\$540,000
Outstanding Balance of Debt	\$500,000

*The value of the collateral securing the project is greater than the outstanding principal balance of the debt. Lien is slightly greater than 90% of the appraised value. No additional assets are being injected into the project..*

	<u>Project</u>
Third Party Loan	\$270,000 (50% of appraised value)
SBA 504 Loan	216,000 (40% of appraised value)
Borrower's Contribution	<u>54,000</u> (10% of appraised value: \$40,000 equity and \$14,000 cash from the borrower)
Total Project	\$540,000 (100%)



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# SBA at AB&T



Rick Berkheimer  
Senior Vice President  
Business Banker

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**Rick Berkheimer** –Arizona Bank & Trust welcomed Rick Berkheimer as Senior Vice President and Commercial Banker in March, 2010. Prior to joining AB&T, Berkheimer served as Market President and for Irwin Union Bank in Phoenix.

With a strong desire to help you achieved your financial goals, he'll provide you with our entire portfolio of products and services as well as build customized loan solutions that will benefit your business' growth and success.

With over 30 years of banking experience, Rick has become an expert in all matters of commercial lending, including SBA loans, working capital lines of credit and equipment financing – and he does so with honesty and integrity.

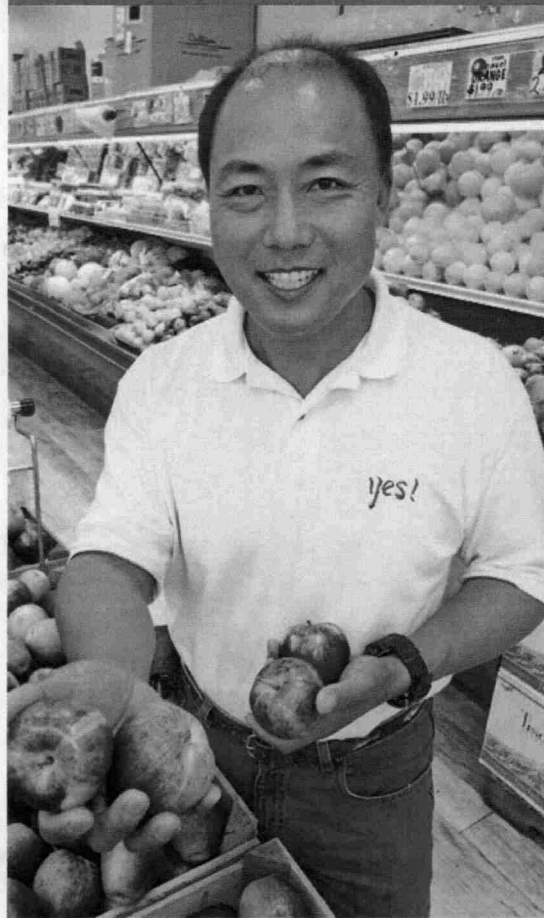
Rick holds a Bachelors Degree in Business Administration from the University of Nebraska and has been helping businesses in the Phoenix area achieve their financial goals since 1983. He is an active member in the community, serving on the Board of Directors of the Ear Foundation of Arizona and is a member of the Loan Committee for Business Development Finance Corporation. Rick is also a member of the Sertoma Club and a USGA Senior Amateur entrant.

With 30 years of experience to draw from, count on Rick for real solutions to all your commercial and industrial needs.

Rick Berkheimer  
Arizona Bank & Trust  
(602) 553-7814



## SBA 504 LOAN - REFINANCE YOUR EXISTING COMMERCIAL DEBT



### *Long Term Refinancing at Affordable Interest Rates for Commercial Real Estate or Machinery/Equipment Debt*

The Small Business Administration's "504 loan program" now offers small businesses affordable refinancing with low interest rates and 10 or 20-year terms.

*This special program will end on September 27, 2012.*

With new financing in place you can focus on running your business and not worry about managing expensive debt.



Owners Jake and Hope Armour in front of their new building for Jake Armour Photography in Minneapolis, MN. SBA 504 loan provided by SPEDCO, New Brighton, MN.

Businesses can now use the equity they have built in their property to pay eligible business expenses.

## SBA 504 REFINANCE LOANS

SBA 504 loans have traditionally been used to assist small business by providing access to affordable capital for growth. Traditional 504 loans have been helping small businesses for over 28 years finance the purchase of owner occupied, commercial real estate and for the acquisition of capital intensive equipment and machinery.

**Recent legislation now allows SBA 504 loans to be used to refinance existing debt on any property that would have originally qualified for a traditional 504 loan.** With SBA 504 financing, small business owners can pay down existing commercial real estate or equipment/machinery debt with a equity injection that can be as little as 10%. SBA 504 refinance loans are long term - either 10 or 20 years - with low, fixed interest rates. Businesses can also use the equity they have built in their property to pay eligible business expenses.

### HOW IT WORKS

An SBA 504 loan is a partnership between a **Certified Development Company** (CDC), the Small Business Administration (SBA) and a lender. CDCs are economic development organizations that have been certified by the SBA to make loans under their **504 Loan Program**.

Working with a lender, the CDC can lend up to 40% of the appraised value of the property to be refinanced with a dollar cap of \$5,000,000 depending on the type of debt. CDCs can go as high as \$5,500,000 of SBA 504 financing for eligible manufacturing loans and for loans made for projects that incorporated energy saving technologies for sustainable design. A lender must partner with the CDC to provide between 40% - 50% of the financing, and the business owner ends up paying as little as 10% as their share of the refinance loan.

### ELIGIBILITY

An eligible small business must have been operating a for-profit business for at least two years. The business must be located in the U.S. that, with affiliates, has a tangible net worth of less than \$15 million and profit after taxes of less than \$5 million.

The borrower cannot have been more than 30 days past due during the past 12 months on the payments on the note being refinanced.

The business must occupy at least 51% of its property at the time of application for refinance. Businesses may not use an SBA 504 refinance loan to repay an existing government guaranteed loan.



(Left) Dr. Joseph Coli & Dr. Stephen Damonte, owners of the Comstock Large Animal Hospital during construction of their new facility in Reno, NV. SBA 504 loan provided by Nevada State Development Corp., Reno, NV.

## CDCs: GROWING SMALL BUSINESS, JOBS, COMMUNITIES

### GREAT BENEFITS

- **LOW DOWN PAYMENT & ENHANCED CASH FLOW:**

With financing available for up to 90% of the appraised value of the property being refinanced, SBA 504 loans offer an affordable down payment, enabling the small business owner to eliminate higher interest debt and also use equity in the existing property to pay eligible business expenses.

- **LONG TERM FINANCING AT COMPETITIVE INTEREST RATES:**

SBA 504 loans are 10 or 20-year, fully amortized financing. This enables a small business owner to avoid risky loan call provisions and enjoy lower monthly payments. For current interest rates, visit [www.nadco.org](http://www.nadco.org), click on **504 Rates** and select the Refinance rate on the latest **Monthly 504 Interest Rate** chart.

### THE NUTS & BOLTS

SBA 504 loans are for terms of either **10** or **20** years. The term is 20 years for financing commercial real estate and 10 years for financing equipment or machinery. The interest rate for the loan is fixed when the SBA sells the debenture bond to fund the loan.

The small business owner's payment includes a loan loss subsidy fee and program fees that are rolled into the monthly payment. **These loan fees are financed as part of the loan and are not an out-of-pocket expense for the small business borrower at closing.**

SBA 504 loans are fully amortized and have no balloon payments. *There is a prepayment premium for the first half of the loan term that decreases each year.*

The CDC works with the small business borrower to process, approve, close and service the SBA 504 loan. Funding is provided by the CDC issuing a debenture bond that is sold to investors on Wall Street giving small business owners access to capital at low, fixed interest rates — usually reserved for large corporations. Debenture bonds are attractive to investors since they are backed by the SBA and fully guaranteed by the U.S. Treasury.

### READY TO BEGIN?

First, contact a CDC and speak with a loan officer to discuss your existing loan and your business. See how the CDC loan officer can structure the financing to meet your unique requirements. If you do not know of a CDC in your area, visit [www.nadco.org](http://www.nadco.org) and click on the **Member Directory** for a listing of CDCs in your state.

Next, contact your bank to see if they would like to participate by providing the permanent first mortgage for your refinance loan.

The next step is to submit an application for your SBA 504 loan. **Once you receive approval, your new loan should be funded within a matter of weeks** to pay off your original debt and replace it with lower and more manageable monthly payments.



Bay Property Management, Inc. in Salinas, CA, SBA 504 refinance loan provided by California Coastal RDC in Salinas, CA.



Cady & Cady Studios, Jacksonville, FL. SBA 504 refinance loan provided by Florida First Capital Finance Corp., Jacksonville, FL.



Concord Health Services, Cranston, RI. SBA 504 loan provided by SEED Corporation, Taunton, MA.

# SBA 504 LOAN – REFINANCING FOR YOUR COMMERCIAL DEBT

## THE LOAN BREAKDOWN

The combined third party loan and the 504 net debenture cannot exceed 90% of the appraised value of the 504-eligible fixed assets. A bank or other lender typically finances 50% of the loan and takes a first mortgage (lien) on the assets financed. The first mortgage lender provides a commercial loan at current market rates and fees for their share of the refinance project. The CDC finances up to 40% of the project and takes a second mortgage position, while the small business owner provides a down payment that can be as low as 10%.

Below are two project examples where a borrower wishes to refinance a \$1,000,000 note that has a balloon and that has a current appraisal of \$1,400,000.

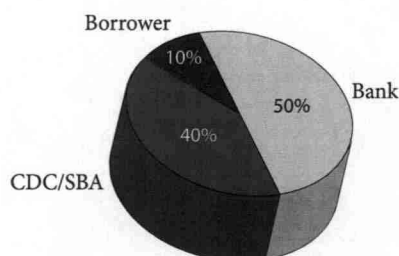
### EXAMPLE OF REFINANCING ON A \$1 MILLION NOTE (REQUESTING MAXIMUM WORKING CAPITAL)

Appraised Value of Property	\$1,400,000
Outstanding Balance of Debt	\$1,000,000
90% Loan to Value (LTV)	\$1,260,000

#### LOAN STRUCTURE:

ENTITY	LOAN AMOUNT	% OF LOAN	SECURITY
□ New Bank First	\$700,000	50%	1st Lien
□ New CDC/SBA 504 loan	\$560,000	40%	2nd Lien
□ Borrower equity contribution	\$140,000	10%	

Payoff of Outstanding Balance	\$1,000,000
Amount Available for Working Capital	\$ 260,000



### EXAMPLE OF REFINANCING ON A \$1 MILLION NOTE (REQUESTING ONLY 80% LTV)

Appraised Value of Property	\$1,400,000
Outstanding Balance of Debt	\$1,000,000
90% Loan to Value (LTV)	\$1,260,000

#### LOAN STRUCTURE:

ENTITY	LOAN AMOUNT	% OF LOAN	SECURITY
□ New Bank First	\$560,000	40%	1st Lien
□ New CDC/SBA 504 loan	\$560,000	40%	2nd Lien
□ Borrower equity contribution	\$280,000	20%	

Payoff of Outstanding Balance	\$1,000,000
Amount Available for Working Capital	\$ 120,000

#### COVER PHOTOS:

Left: Gene Cha, co-owner of Yes, Organics in Washington, DC, 504 loan provided by Business Finance Group, Fairfax, VA

Middle: Victor Foti, co-owner of A Storage on Wheels in Las Vegas, NV. SBA refinance loan provided by Nevada State Development Corp. Reno, NV.

Right: Jenny Behlings, owner of Jenny's Floral, Custer, SD. SBA 504 loan provided by Black Hills Community Economic Development, Rapid City, SD.

*CDCs: Growing Small Businesses, Jobs, Communities*



For more information, call 703-748-2575 or visit [www.nadco.org](http://www.nadco.org)