

SBA 504

REFINANCE PROGRAM

AN INSIDER'S GUIDE

WHAT IS THE 504 REFINANCE PROGRAM?

Co-Lender financing designed to refinance existing commercial real estate or machinery/equipment debt with low, fixed interest rates at 10, 20, or 25-year terms.

WHO CAN QUALIFY?

- Most for-profit, small businesses in the U.S.
- Businesses with at least two years of operations and whose debt is at least two years old.
- Net worth less than \$15.0 million
- Net profit after tax (2 year average) of no more than \$5.0 million (including affiliates)
- Borrower cannot be more than 30 days past due during the past 12 months on payments on the note being refinanced
- Business must occupy at least 51% of its property at the time of application

ELIGIBLE USE OF FUNDS

- Businesses may use extra equity for the financing of other eligible business expenses up to 20% of the appraised value.
- Examples of eligible business expenses may include salaries, rent, utilities, inventory, and credit card debt (if the card is in the name of the business and used for business purposes only).

INELIGIBLE USE OF FUNDS

- Businesses may not use an SBA 504 refinance loan to repay an existing government guaranteed loan; must be conventional debt only.

INTEREST RATE AND TERMS

- Fixed-Rate - based on Treasury Rates
- Real Estate - may be 10, 20, or 25-year term
- Machinery & Equipment - may be 10, 20, or 25-year term (based on useful life)

MAXIMUM GROSS DEBENTURE (SBA PORTION)

- The combined third party loan and the 504 net debenture may not exceed (1) 90% of the appraised value of the 504-eligible fixed assets or (2) 85% of the appraised value if equity is withdrawn, unless other business assets are included.

BENEFITS FOR LENDERS

- 1st lien position and low Loan-to-Value strengthens private lender's loan portfolio
- Fixed interest rate helps lenders compete for more business
- Locks in long-term relationship with borrower and frees up available debt.

BENEFITS FOR BORROWERS

- Financing available up to 90% of the appraised value of the property being refinanced at a long-term, fixed-rate
- Equity contribution can be as little as 10% of the property's value.



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EXAMPLE OF REFINANCING ON A \$650,000 NOTE WITH \$200,000 IN ELIGIBLE BUSINESS EXPENSES

| | |
|-----------------------------|-------------|
| Appraised Value of Property | \$1,000,000 |
| Outstanding Balance of Debt | \$650,000 |
| Eligible Business Expenses | \$200,000 |

LOAN STRUCTURE

| <u>ENTITY</u> | <u>LOAN AMOUNT</u> | <u>SECURITY</u> |
|------------------------------|--------------------|-----------------|
| New Bank First | \$500,000 | 1st Lien |
| New CDC/SBA 504 Loan | \$350,000 | 2nd Lien |
| Borrower Equity Contribution | \$150,000 | |



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WITH REGIONAL TEAMS LOCATED THROUGHOUT TEXAS, NEW MEXICO, AND PORTIONS OF ARKANSAS.

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