

SBA 504

REFINANCE FOR EXPANSION PROGRAM

AN INSIDER'S GUIDE

WHAT IS THE 504 REFINANCE PROGRAM?

The Refinance for Expansion Program is a permanent addition to the 504 Loan Program, that allows for the refinance of existing debt with the expansion of a new project.

WHO CAN QUALIFY?

- Businesses expanding on an existing project
- Most for-profit, small businesses in the U.S.
- Businesses with at least two years of operations
- 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

- The purchase of land, including existing building(s)
- The purchase of improvements including grading, street improvements, utilities, parking lots, and landscaping
- Construction of new facilities or modernizing, renovating, or converting existing facilities
- The purchase of long-term machinery & equipment
- The debt to be refinanced may not exceed 50% of the new expansion costs, not to include any equity in the real estate.
- Debt may consist of 1 or more loans belonging to an OC, EPC, or both
- Debt refinancing must provide a substantial benefit to the borrower

INELIGIBLE USE OF FUNDS

- Cannot be used for working capital, inventory, or intangibles
- No start-up businesses can qualify

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)

- \$5.0 Million (Typical Project)
- \$5.5 Million (Manufacturers)
- \$5.5 million (if certain Green Initiative Public Policy Goals are met)

BENEFITS FOR LENDERS

- Increases lender's funds on older projects to augment new lending projects

BENEFITS FOR BORROWERS

- Financing available up to 90% of the amount being refinanced
- Equity contribution can be as little as 10% of the property's value
- Lower payments on refinanced loan, at a low, fixed interest rate



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EXPANSION PROJECT EXAMPLE

*The following example is for an expansion project that appraises for \$1 million, with debt of \$500,000. The equity in the property is \$500,000.

| | |
|--|--------------------|
| Appraisal | \$1,000,000 |
| <u>Debt</u> | <u>- \$500,000</u> |
| *Equity | \$500,000 |
| | |
| Additional Land for Expansion | \$500,000 |
| Construction/Improvements | \$200,000 |
| Equipment | \$ 50,000 |
| <u>Soft Costs</u> | <u>\$ 50,000</u> |
| SUBTOTAL | \$1,500,000 |
| Total Expansion Costs (Less Equity) | \$1,000,000 |
| <u>Maximum Eligible Refinance Amount</u> | <u>\$500,000</u> |
| TOTAL NEW PROJECT COSTS | \$1,500,000 |

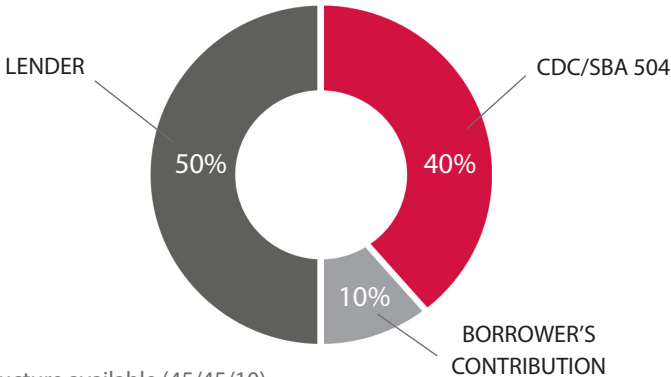
*Equity must be included in the project costs, but cannot be included in the amount to be refinanced.

{ 50% if the new project amount, not including equity

LOAN STRUCTURE (Typical 50/40/10 Structure)

| ENTITY | LOAN AMOUNT | % OF LOAN | SECURITY |
|-------------------------------------|------------------|------------|----------|
| New Bank | \$750,000 | 50% | 1st Lien |
| New CDC/SBA 504 Loan | \$600,000 | 40% | 2nd Lien |
| <u>Borrower Equity Contribution</u> | <u>\$150,000</u> | <u>10%</u> | |
| TOTAL | \$1,500,000 | 100% | |

TYPICAL SBA 504 PROJECT LOAN STRUCTURE



*Alternative structure available (45/45/10)

HEADQUARTERS

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