MASTERS OF 504 LENDING SERIES

SBA 504 LOAN DEBT REFINANCE





TODAY'S PRESENTER

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Judd has been with Mountain West Small Business Finance since 2005 and brings over 15 years of commercial lending experience.

^{*}Sponsored by Pit Viper Sunglasses

^{*}Built by pizza and ice cream

^{*}Follow the asterisks





TODAY'S DISCUSSION

- Debt Refinance WITHOUT Expansion
- Debt Refinance WITH Expansion
- Q&A

504 DEBT REFINANCE WITHOUT EXPANSION

REFINANCE WITH CASH OUT(EBE) GUIDELINES

- Maximum 85% LTV
- Cash Out portion of the project may NOT exceed 20% of the "as is" CRE value
- Cash Out AKA "Eligible Business Expenses" might include, but not limited to, payroll, rent, utilities, inventory, other obligations of the business that will become due for payment within 18 months following the Date of Application – can be estimated from historical expenses
- Does not include capital expenditures or improvements



504 DEBT REFINANCE WITHOUT EXPANSION



BASICS

- Borrowers can refinance existing debt and cash-out equity for eligible business expenses
- ■Debt must have been used to acquire Eligible Fixed Assets —owner-occupied real estate and/or capital equipment
- Maximum Loan to Value (LTV)
 - ■90% LTV with no cash-out
 - ■85% LTV with cash-out for eligible business expenses
 - Cash-out amount cannot exceed 20% of value of Eligible Fixed Assets

*If I could come back as an actor, I'd pick Paul Rudd

Must meet the 85%/15% test

Substantially all (85% or more) of the proceeds of the existing debt was used to acquire an Eligible Fixed Asset(s) and the remaining amount (15% or less) was incurred for the benefit of the small business seeking financing as measured by the "original loan"

- Was incurred not less than 6 months prior to SBA application date
- Was incurred for the benefit of the small business seeking financing
- Has been secured by Eligible Fixed Asset(s) for at least 6 months
- May include debt subject to a federal guarantee, under conditions
- Is not a Third Party Loan which is part of an existing 504 Project, except under limited conditions
- May consist of one or more loans, provided each meets all the requirements of Qualified Debt

QUALIFIED DEBT

"As Is" Appraised Value = \$3,000,000

Project Costs

Land/Bldg Equity \$ 450,000 Participating Cash Out \$ 450,000 MWSBF/SB/ Refinance \$ 2,100,000 Borrower In Total \$ \$3,000,000 Total

Project Breakdown

Total	\$3,000,000	I nno/
Borrower Injection	\$ 450,000	15%
MWSBF/SBA	\$1,200,000	40%
Participating Lender	\$1,350,000	45%

Total \$3,000,000 100%



MWSBF/SBA Portion can be < or = Participating Lender amount up to 40% of Project

REFINANCE WITH CASH OUT

For an existing 504 loan

BOTH the Third Party Loan and the 504 loan must be refinanced, **OR** The Third Party Loan has been paid in full

■For an existing 7(a) loan

CDC must verify in writing that the present lender is either unwilling or unable to modify the current payment schedule

In the case of same institution debt, if the Third Party Lender or the CDC affiliate is the 7(a) lender, the loan will be eligible for 504 refinancing only if the lender is unable to modify the terms of the existing loan because a secondary market investor will not agree to modified terms

■Note—these requirements also exist in the SBA 7(a) loan program —see SOP 50-10-6, page 227, paragraph 1.i., 1.j., and 1.k. for more information

REFINANCE OF EXISTING GOVERNMENT GUARANTEED DEBT

OTHER CONDITIONS/REQUIREMENTS

- Applicant must have been in operation for the 2-year period prior to SBA application date
 - Change of ownership rules for "New Business" apply and can result in refinance being declined
- Eligible Fixed Assets
 - One or more long term fixed assets, such as land, buildings, machinery, and equipment acquired, constructed, or improved by a small business for use in its business operation
- Refinancing Project
 - MUST include a Qualified Debt
 - Refinancing Project is fair market value of the Eligible Fixed Asset(s) securing the Qualified Debt and any other fixed assets acceptable to SBA
 - Additional fixed assets may be added only when needed to comply with the 90% LTV requirement

*I hope you've been reading the asterisks, they are super cool fun facts about me, Judd. They are also clues to win a pretty sweet free pair of pit viper sunglasses.

OTHER CONDITIONS/REQUIREMENTS

- Loan to Values (LTV) –NO CHANGE
 - 90% if straight debt refinance with no cash-out for EBE
 - Additional collateral can be pledged as needed
- 85% if debt refi with cash out for Eligible Business Expenses (EBE) and EBE cannot exceed 20% of appraised value
 - Additional collateral cannot be pledged to increase amount of cash out for EBE
- Additional 5% borrower contribution for special use property NOT required
 - **EXCEPT**—during times of recession, SBA can waive this requirement, and it has been waived since 8/3/2020
 - See NADCO Technical Issues Memo 34-20 for more information
 - BUT...if Borrower Equity exceeds requirement, TPL is NOT required to be at minimum 50% (i.e., a 30%/30%/40% structure is OK)

^{*}Bears, beets, battlestar gallactica. The Office is my all time favorite TV show.

NO SPECIAL USE – FOR REFINANCE



"Based on the National Bureau of Economic Research's determination, SBA is announcing in accordance with 13 CFR 120.882(g)(5) that, beginning with applications submitted on or after publication of this Notice, Borrowers may contribute not less than 10% of the costs for Refinancing Without Expansion Projects involving limited or special purpose buildings or structures. This lower percentage for the Borrower's contribution will remain in effect until the first day of the calendar quarter following the end of the economic recession as determined by the National Bureau of Economic Research or its equivalent. SBA will publish a notice in the Federal Register announcing the date on which the requirement of the lower Borrower contribution ended."

OTHER CONDITIONS/REQUIREMENTS

- Applicant must meet all occupancy requirements at SBA application (51% or more occupancy)
 - If the QD was for the construction of a new building or the acquisition, renovation, or reconstruction of an existing building, and such loan would not have originally satisfied SBA's leasing/occupancy requirements, the Borrower must meet leasing/occupancy requirements at SBA application date
 - For more information, see SBA Policy Notice 5000-808830, page 4, paragraph 10.f. and page 5, paragraph 10.k.(1)
- PCLP CDCs may use delegated authority to approve 504 debt refi without expansion projects, EXCEPT when existing debt being refinanced is debt of the PCLP CDC or its affiliates
- Disbursement period
 - 9 months after loan approval with an additional 6 months for good cause

^{*}I play pickleball, bocce ball, and shuffleboard so that I'll be really really good by the time I retire.

"As Is" Appraised Value = \$5,000,000

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Pro	iect	Costs

Total	\$5,000,000
Closing Costs	\$ 100,000
Building Refi	\$ 4,400,000
Existing Equity	\$ 500,000

Project Breakdown

Total	\$5,000,000	100%
Borrower Injection	\$ 500,000	10%
MWSBF/SBA	\$2,000,000	40%
Participating Lender	\$2,500,000	50%



MWSBF/SBA Portion can be < or = Participating Lender amount up to 40% of Project

504 DEBT REFINANCE WITHOUT EXPANSION

"As Is" Appraised Value = \$1,500,000

Project Breakdown

Proj	ect	Cos	its
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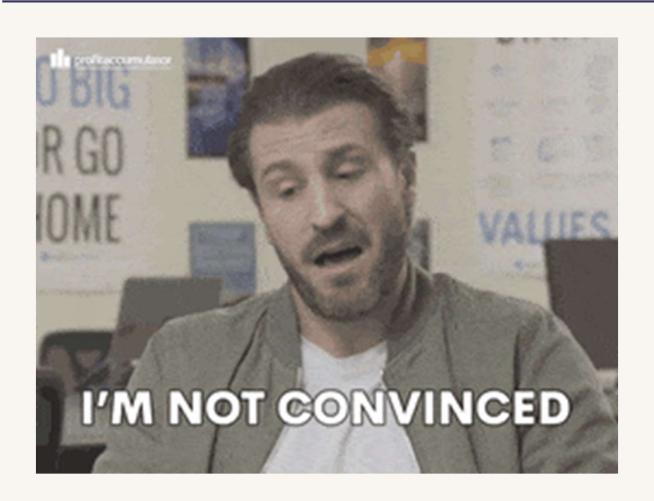
Total	\$1,500,000
Cash Out	\$ 275,000
Building Refi	\$ 1,000,000
Existing Equity	\$ 225,000

Participating Lender	\$ 675,000	45%
MWSBF/SBA	\$ 600,000	40%
Borrower Injection	\$ 225,000	15%

\$1,500,000 100% **Total**

MWSBF/SBA Portion can be < or = Participating Lender amount up to 40% of Project MAX LTV is 85% when there is cash out MAX Cash Back is 20% of appraised value

504 DEBT REFINANCE WITHOUT EXPANSION – CASH OUT



SBA 504 REFINANCE

THE BEST PARTS

- Fix a variable rate for 25 years
- Cash Back up to 20% of appraised value
- Refinance Government Debt
- No special use (up to 90% LTV)
- In a rising rate environment, the 504 will help you feel safe



25 YEAR FIXED RATE 5.43%







HOW IT WORKS



- You can refinance up to the amount of the expansion costs.
 - Any Project involving acquisition, construction or improvement of land, building or equipment for use by the small business concern
 - Allows a limited amount of debt refi as Eligible Project Cost when a 504
 Project involves Expansion
 - Eligible debt refi amount is limited to 100% of new expansion costs.

Applicant must still be current on all payments due for 12 months preceding SBA application date.

*My favorite soda is Dr. Pepper



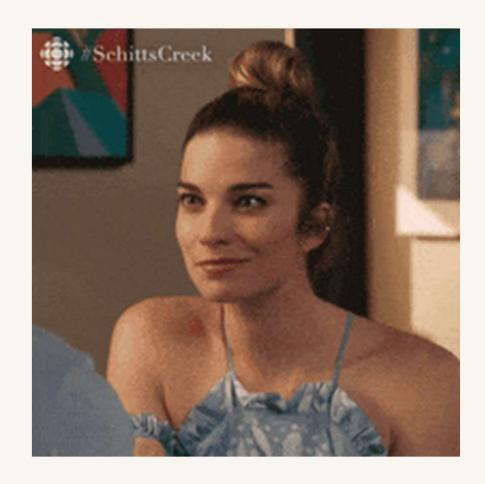
ELIGIBLE PROJECT COSTS

- Expansion Costs
 - Just the "new Project Costs"
 - All regularly allowed 504 costs, including land, building, construction, renovation, machinery, equipment, furniture & fixtures, professional fees & other expenses
 - In calculating expansion costs, do not include debt being refinanced or any equity in existing project property
- Eligible Debt Refinance
 - Existing debt that does not exceed 100% of expansion costs no requirement regarding the age of the debt
- Excess (Ineligible) Debt Refinance
 - Existing debt exceeding 100% of expansion costs
 - If debt refi property and expansion property are SAME then ineligible amount can be consolidated with TPL loan as pre-existing non-project debt.
 - If debt refi property and expansion property are DIFFERENT then excess can be refinanced by TPL or another lender in junior lien position behind TPL Loan and 504 loan.

^{*}Cinnamon rolls are delicious and my favorite, when they're good.

THE BEST PART

- Existing equity in building counts as down payment
- Equity in land, building, and equipment being refinanced may be included in eligible 504 project costs per existing SBA guidelines
- This includes equity in Project Property and in other fixed assets collateralizing existing debt being refinanced
- Appraisal required at Application if existing equity being used as Borrower Contribution
 - As-complete appraised value must be 90% of Estimated Value



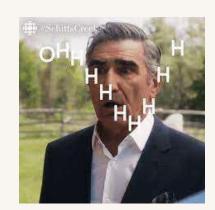
Expansion Costs (less land/building equity) = > Refinance Amount

"As Is" Appraised Value = \$1,375,000

Project Costs

Project Breakdown

Total	\$2,500,000	Total	\$2,500,000	100%
Refinance	\$ 1,125,000	Borrower Injection	\$ 250,000	10%
Expansion	\$ 1,125,000	MWSBF/SBA	\$1,000,000	40%
Land/Bldg Equity	\$ 250,000	Participating Lender	\$1,250,000	50%



Borrower Injection = Plug Number (assuming "as is" appraised value less outstanding debt being refinanced is greater than or equal to required injection)

*Expansion to a second location with the refinance of the existing location is eligible

REFINANCE WITH EXPANSION

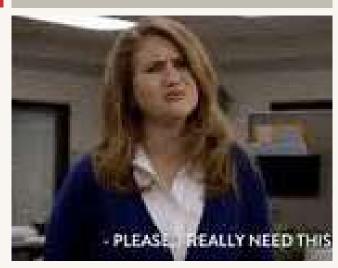
ELIGIBILITY CONDITIONS

- Substantially all (85% or more) of the proceeds were used for 504 eligible purposes To acquire land, land and building, construct a building, or purchase equipment
- If debt is refinanced one or more times -current commercial loan is eligible provided "original loan" met the "substantially all" requirement
- Existing debt is collateralized by fixed assets
- All existing fixed asset collateral must continue serving as collateral for 504 Loan unless waived by SBA

^{*}I drive an ice blue 2007 Honda Accord aka a race car

ELIGIBILITY CONDITIONS

- Existing debt was incurred for benefit of small business concern
 - Small business must be the same for debt refi and new expansion costs –debt refinanced may be owed by the OC, EPC, or both
 - Existing 504 loan may be refinanced
 - If TPL and 504 loans are being refinanced
 - If TPL loan is paid off and 504 loan needs to be refinanced to fund expansion or renovations to Project Property
 - Existing 7(a) loan may be refinanced
 - An existing 7(a) loan may be refinanced if present lender unwilling or unable to modify current payment schedule
 - Same Institution Debt eligible only if lender unable to modify loan because secondary
 market investor will not agree to modified terms or lender is unable to modify existing loan
 due to items such as program restrictions or legal lending limit concerns
 - Existing seller loan / private financing may be refinanced
 - Seller must provide all required info, including payment history transcript supported by cancelled checks and/or bank statements





ELIGIBILITY CONDITIONS, CONTINUED

- Financing will be used only for refinancing existing debt or costs relating to Project financed
 - Debt being refinanced does not need to be for assets at same location or for same type of property as "new" project, provided operation at other location has same NAICS code as operation at "new location"
 - CAN include prepay penalties, financing fees, etc. in debt refi –wrap them in debt refi balance for Ventures data input
 - Debt refi may consist of one or more loans
- Refinancing must provide "substantial benefit" to borrower
 - Minimum 10% improvement on debt refi portion of payment
 - Prepayment penalties, financing fees, and other financing costs must be added to the amount being refinanced in calculating the % reduction
 - Loans with seasonal payments can be averaged over 12 months
 - Loans with balloons payments automatically meet test
 - Exceptions may be approved by SBA HQ for good cause

*Currently binge watching Saving Hope, it's like a Canadian Greys Anatomy but not as good, assuming Greys Anatomy is good.

ELIGIBILITY CONDITIONS, CONTINUED

- Borrower has been "current on all payments due" on existing debt for not less than I-year preceding date of refinancing (SBA approval date)
 - Payment transcript required
 - No payments exceeding 30 days late for last 12 months or for the time debt has been open if less than 1 year
 - "Current on all payments due" is not defined in regulation or in SOP
- Refinancing will provide better terms or rate of interest than existing indebtedness on date of refinancing
 - Longer maturity –commensurate with assets' useful life
 - Lower interest rate –on TPL Loan or 504 loan
 - Improved collateral conditions
 - Less restrictive loan covenants

^{*}Snow peas are underrated

Third Party Lender (TPL) certifications

Must be included in TPL commitment letter / terms sheet –exhibit 15 of SBA Form 1244 This requirement is the same as the former Part D to prior SBA Form 1244 See SOP 50-10-6, page 472, paragraph 11.i. for details

■504 project cannot be approved to refinance debt owed to:

An Associate –see 13 CFR 120.130(a)

An SBIC -see 13 CFR 120.130(b)

Any creditor in a position to sustain a loss -shifting loss to SBA

OTHER CONDITIONS, CONTINUED

BEST REFINANCE WEBINAR OF THE QUARTER







*First five people to say their favorite thing they learned about me get a free pair of Pit Vipers.

Enter in comments.

QUESTIONS?