504 Refinancing Program 2016
Briefing Card/Talking Points

504 Debt Refinancing Program

- The Consolidated Appropriations Act, 2016 (the Act) made a permanent change to the 504 Loan Program, authorizing $7.5 billion of the Program to be used for debt refinancing in any year that the 504 Loan Program is at zero subsidy. This is in addition to the $7.5 billion authorization for the regular 504 Program for a total 504 lending authorization of $15 billion.
- This change will help eligible small business owners ease their financial burdens and further job creation. The 504 loan program with its long term fixed-rate can help refinance debt from adjustable rate loans with significant savings to borrowers. Paying off existing loans with a new loan at a lower cost can help increase cash flow, which can be especially helpful in a resurgent economy.
- SBA will begin accepting applications from small business owners effective June 24, 2016.

Loan Structure and use of Proceeds

- The refinancing loan is structured like SBA's traditional 504 loan. Typically, a 504 project includes three elements:
    1. A loan (or first mortgage) secured with a first lien from a private-sector lender covering 50 percent of the project cost;
    2. A second mortgage secured with a second lien from an SBA Certified Development Company (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost; and
    3. A contribution of at least 10 percent equity from the small business borrower.
- Eligible borrowers are able to refinance up to 90 percent of the current appraised property value. The refinancing may also include Eligible Business Expenses.

Eligibility

- To be eligible for the 504 Refinancing Program, a business must have been in operation for at least two years.
- The debt to be refinanced must be a commercial loan:
    - That was incurred for the benefit of the small business concern not less than 2 years before the date of the 504 Debt Refinancing application.
    - The proceeds of which were used to acquire a 504 eligible fixed asset (i.e., owner-occupied real estate, land, equipment, etc.).
    - That is secured by 504 eligible fixed assets.
    - For which the borrower has been current on all payments for at least the last 12 months prior to application.
- Existing 504 projects and government-guaranteed loans are not eligible to be refinanced.
- Traditional 504 Loan Program regulations apply to the 504 Debt Refinance Program.

Certified Development Company Program – 504 Loan Program

- The Certified Development Company Program, referred to as the "504 Loan Program," promotes economic development in the form of long-term fixed rate financing for fixed assets for small businesses on reasonable terms to stimulate employment through a job retention/creation goal.
- The 504 Loan Program can fund projects in every geographic zip code in the US (including also Puerto Rico and the Virgin Islands) and lenders are eligible for Community Reinvestment Act (CRA) credits for 504 loan projects.
- Proceeds of 504 loans may be used to fund long-term, fixed assets such as land, buildings for 20 years, and equipment with an existing useful life of 10 years.
- The 504 Loan Program is a public/private partnership program which is complementary and not competitive which banks.
- Project financing typically consists of a first mortgage loan in an amount equivalent to 50% of the project and made with private funds (from banks or other private sector lenders), a fixed-rate, subordinate 504 loan for up to 40% of the project cost, and a 10% equity injection from the small business receiving the financing. This structure ensures all parties involved are incentivized to contribute to and promote the success of the project and performance of the loan.

Role of Certified Development Companies (CDCs)

- Certified Development Companies (CDCs) are pivotal participants in the delivery of the 504 program. CDCs are licensed, regulated and supervised by SBA. These entities are not-for-profit corporations servicing a defined area of operations for the primary purpose of fostering economic development.
- 240 CDCs originate and service the 504 loans and provide technical assistance to the 504 eligible small businesses.

Size Eligibility Criteria

- The small business applicant must be small under the SBA size requirements applicable to 504 Financial Assistance. The applicant business (considering its affiliates, if any) must have:
  a) A Tangible net worth of $15 million or less; and
  b) Average net income after Federal income taxes (excluding any carry-over losses) for the preceding two completed fiscal years of $5 million or less.