



IMPACT OF SBA 504 REFINANCE RULE CHANGES

- ✓ Founded in 1992, SomerCor is a non-profit lender certified by the Small Business Administration to originate and service SBA 504 and Community Advantage loans throughout Illinois
- ✓ Awarded Accredited Lender Program Status by the SBA – a prestigious designation reserved for high performing certified development companies
- ✓ Mission is to grow businesses, create jobs, and increase impactful investment in every community through access to capital
- ✓ Ranked in the top 25 among CDC's nationally for 504 origination volume - since our founding, SomerCor has funded 2,387 loans, valuing \$1.4 billion
- ✓ SomerCor has helped create 22,121 jobs by serving 2,146 businesses in 385 communities



The Why of SBA 504 REFI

REFI with Expansion Rule Changes

REFI without Expansion Rule Changes

Deal Structure Examples

What's Next for SBA 504?



SBA 504 REFI RULE CHANGES

Changes are permanent and went into effect on July 29th with issuance of the Interim Final Rule. The 60 day comment period ends September 27, 2021, so some alterations may be made by the SBA.



Rule

Debt Refinancing in the 504 Loan Program

A Rule by the Small Business Administration on 07/29/2021

PUBLISHED DOCUMENT	DOCUMENT DETAILS
AGENCY: U.S. Small Business Administration (SBA).	Printed version: PDF
ACTION: Interim final rule with request for comments.	Publication Date: 07/29/2021
SUMMARY: This interim final rule implements section 328 of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, which revises the requirements for refinancing debt in the 504 Loan Program, including: For 504 debt refinancing involving expansions, increasing the amount of existing indebtedness that may be refinanced; and for 504 debt refinancing not involving expansions, removing two limitations on the program, reinstating an alternate job retention goal for the refinancing project, revising the definition of qualified debt, and removing the prohibition against Certified Development Companies ("CDCs") participating in the Premier Certified Lenders Program using their delegated authority to make these loans.	Agency: Small Business Administration
	Dates: Effective Date: This rule is effective July 29, 2021.
	Effective Date: 07/29/2021
	Document Type: Rule
	Document Citation: 86 FR 40775
	Page: 40775-40779 (5 pages)
	CFR: 13 CFR 120
	RIN:

[Interim Final Rule 021-15975](#)

(click image to view)

- ✓ Implements section 328 of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act
- ✓ For 504 debt refinancing not involving expansions, removing two limitations on the program and revising the definition of qualified debt
- ✓ For 504 debt refinancing involving expansion, increasing the amount of existing indebtedness that may be refinanced

CHANGE: Amount of existing indebtedness that may be refinanced as part of a 504 Project increased from **not more than 50% to not more than 100% of the project costs** of the expansion

No other changes to 504 Debt Refinance with expansion – the following parameters remain in place:

- ✓ Loan proceeds used at least 85% toward 504 eligible assets
- ✓ Secured by fixed assets since debt has been open
- ✓ Borrower current on all payments for 12 months (or since debt opened if less than 12 months)
- ✓ Not subject to a debt age threshold
- ✓ Needs to meet substantial benefit parameters
- ✓ As a reminder, this program could always include prior SBA debt

REFI WITH EXPANSION

REQUEST:

- ✓ Borrower owned facility appraises for \$2,000,000
- ✓ Current debt of \$1,600,000
- ✓ Business owner is looking to build an addition to existing building with new costs of \$2,000,000

ACCEPTABLE STRUCTURE:

Use of Funds	Amount
Existing Equity	\$400,000
Existing Debt	\$1,600,000
New Construction	\$1,200,000
Equipment	\$500,000
Soft Costs	\$300,000
TOTAL	\$4,000,000

Source of Funds	Amount	Percentage
Third Party Loan	\$2,000,000	50%
SBA 504 Loan	\$1,600,000	40%
Equity	\$400,000	10%
TOTAL	\$4,000,000	100%

****NEW RULE: Under Refi with Expansion, the SBA can refinance existing debt, up to 100% of the new project costs.****

The 504 REFI is a trusted, strategic debt restructuring solution. First launched as a pilot program in response to the Great Recession from 2010 to 2012, the program was so effective it became a permanent SBA lending option in 2016.

Small businesses can use the REFI without expansion to **leverage built-up equity and take money out for eligible operating expenses** - the cash out piece ranges up to 20% of the appraised value of the commercial property.

- ✓ Maximum 90% LTV with no cash-out, or
- ✓ Maximum 85% LTV with cash-out for eligible operating expenses
- ✓ Bank has first mortgage on the project property
- ✓ The cash out piece ranges up to 20% of the appraised value of the property

ELIGIBLE OPERATING EXPENSES FOR CASH-OUT:

- ✓ Salaries (non-owners)
- ✓ Rent
- ✓ Utilities
- ✓ Inventory
- ✓ Business line of credit and business credit card debt

INELIGIBLE USES OF CASH-OUT:

- ✗ Capital expenditures
- ✗ Personal expenses
- ✗ Other business debt
- ✗ Acquiring a new business or business partnership buyout



WHAT'S NEW?

Incurred for the benefit of the small business seeking financing	NO CHANGE
At least 85% of loan proceeds were used towards 504 eligible asset acquisition, construction or improvement – i.e. land, buildings, machinery, and equipment	NO CHANGE
Loan secured by eligible fixed assets for at least 6 months	CHANGE – Decreased from 2 years
Loan was incurred at least 6 months prior to SBA application date	CHANGE – Decreased from 2 years
Payment history on loans needs to be analyzed within CDC credit analysis (although payment transcripts for the prior 12 months required to be submitted with application)	CHANGE – Removed requirement that borrower be current on debt payments for at least 12 months
May include debt subject to a federal guarantee such as SBA 7(a) and 504	CHANGE – Previously prohibited

CRITICAL FACTORS TO CONSIDER:

- ✓ **The refinancing of any federally-guaranteed debt must provide a “substantial benefit” to the borrower.**
 - A minimum 10% savings on the new installment amount attributable to the debt being refinanced. Must include prepayment penalties, financing fees, and other financing costs in the amount to be refinanced when calculating 10% savings.

- ✓ **Substantially all (85% or more) of the proceeds of the original loan must have been used for eligible business purposes.**
 - Land, buildings machinery and equipment acquired, constructed or improved by the small business for business purposes.
 - Borrower, Third Party Lender, and CDC must certify that the original use of proceeds was eligible

CRITICAL FACTORS TO CONSIDER:

- ✓ **For an existing 7(a) loan** the CDC must verify in writing that the present lender is either unwilling or unable to modify the current terms/payment schedule (lender promissory note).
 - **In the case of same institution debt**, if the Third Party Lender 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
- ✓ **For an existing 504 loan** either **both** the Third Party Loan and the 504 loan must be refinanced or the Third Party Loan must be paid in full

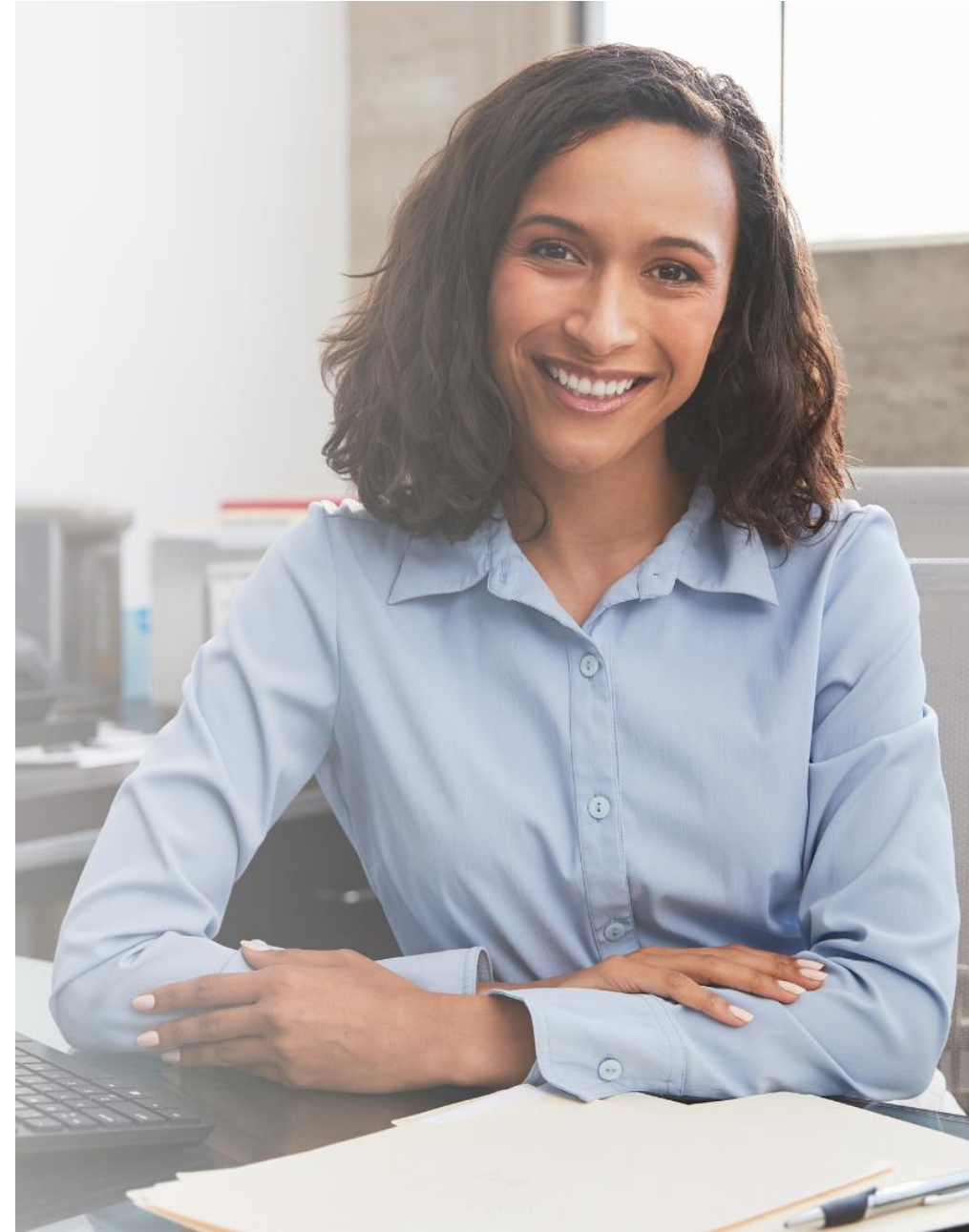
REQUIRED DOCUMENTATION

REFI of Existing 504 Loan

- ✓ Bank promissory note, if a balance is outstanding
- ✓ 504 authorization (note) copy
- ✓ Recorded mortgage for bank (1st lien), if balance outstanding
- ✓ Recorded mortgage for SBA (2nd lien)
- ✓ Other Lien documentation, if applicable (UCC, GBA)
- ✓ Payment transcript evidencing payments for at least 12 months on both notes

REFI of Existing of 7(a) Loan

- ✓ 7a authorization copy
- ✓ Recorded mortgage, if applicable
- ✓ Other Lien documentation, if applicable (UCC, GBA)
- ✓ Disbursement schedule
- ✓ Loan transcript evidencing payments for at least 12 months



August 2021 SBA 504 Debenture Pricing Completed on August 5, 2021:

Below-Market
Interest
Rates

25 Year Term **2.90%**

20 Year Term **2.79%**

10 Year Term **2.64%**

Rates include monthly servicing fees to CDC, SBA, and central servicing agent; based on SBA FY21 fees. Non-refi rates are approximately 4 basis points lower.



REQUEST:

- ✓ Own existing property with \$1,500,000 value
- ✓ \$1,000,000 current debt in the form of a 7(a) loan
- ✓ Business owner needs \$275,000 cash out for eligible business operating expenses

DEAL REQUIREMENTS TO WATCH:

- ✓ 7 (a) Loan proceeds used at least 85% toward 504 eligible assets
- ✓ Refinance of 7(a) provides “substantial benefit” to borrower
- ✓ Need letter from original 7(a) lender on being unwilling or unable to modify loan terms/payment scheduled
- ✓ Total Financing = max 85% LTV (1,275,000 example is at 85% LTV)
- ✓ Cash Out for EBE = max 20% LTV (275,000 example is at 18% LTV)

ACCEPTABLE STRUCTURE:

Use of Funds	Amount	Source of Funds	Amount	Percentage
Existing Equity	\$225,000	Third Party Loan	\$675,000	45%
Refinance Existing Debt	\$1,000,000	SBA 504 Loan	\$600,000	40%
Cash Out	\$275,000	Borrower Contribution	\$225,000	15%
TOTAL PROJECT COSTS	\$1,500,000	TOTAL SOURCES	\$1,500,000	100%

DEAL STRUCTURE EXAMPLES

REQUEST:

- ✓ Own existing property with \$5,000,000 value
- ✓ TPL Loan existing debt is \$2,000,000
- ✓ 504 Loan existing debt is \$1,500,000
- ✓ Business owner needs \$750,000 cash out for eligible business operating expenses

DEAL REQUIREMENTS TO WATCH:

- ✓ Refinance of debt provides “substantial benefit” to borrower
- ✓ For existing 504 loan debt refinance - both the Third Party Loan and the 504 loan must be refinanced
- ✓ Total Financing = max 85% LTV (4,250,000 example is at 85% LTV)
- ✓ Cash Out for EBE = max 20% LTV (750,000 example is at 20% LTV)

ACCEPTABLE STRUCTURE:

Use of Funds	Amount	Source of Funds	Amount	Percentage
Existing Equity	\$750,000	Third Party Loan	\$2,250,000	45%
Refinance Existing Debt	\$3,500,000	SBA 504 Loan	\$2,000,000	40%
Cash Out	\$750,000	Borrower Contribution	\$750,000	15%
TOTAL PROJECT COSTS	\$5,000,000	TOTAL SOURCES	\$5,000,000	100%

NOT ELIGIBLE FOR SBA 504 REFI WITHOUT EXPANSION

EXAMPLE 1

- X Appraised Value = \$1,000,000
- X Small business owner owns building free and clear
- X Borrower wants to tap into equity to get \$500,000 out for renovations
- X **NOT ELIGIBLE** because **there must be QUALIFIED DEBT on every 504 Debt Refinancing project**

EXAMPLE 2

- X Appraised Value = \$1,000,000
- X Existing 1st mortgage debt is a \$500,000 line of credit used for various business operating expenses
- X **NOT ELIGIBLE** because the **line of credit does not meet the definition of QUALIFIED DEBT, as it was not used to acquire ELIGIBLE FIXED ASSETS**

ADDITIONAL CONSIDERATIONS

- X Start up businesses – less than 2 years old
- X Green projects

THIRD PARTY LENDER REFI CHECKLIST REFI of Existing 7(a) or 504 Loan

REQUIRED

- ✓ Collect original financing documents up front
- ✓ Original debt eligible (85% used for eligible business purposes)
- ✓ Provides a substantial benefit (10% reduction in monthly payments)
- ✓ If new TPL, current lender unwilling to refinance the 7(a) or 504 loan

WHAT'S NEXT FOR SBA 504

✓ Rollout of SBA's Interim Final Rule to establish new 504 Express Loan Program

- Legislative stated intent is that SBA would establish a 504 Express Loan Program delegating authority for CDC's with ALP Status (including SomerCor) to **expedite 504 loans of less than \$500,000 (approx. total project size \$1.2 million)**
- Written as a temporary program through September 30, 2023
- Stay tuned to SomerCor's [e-newsletters](#) and [social media](#) for the latest information.

✓ Additional updates to the SBA 504 REFI Program Rule Changes

- Currently in 60 day comment period for the Interim Final Rule (ending on September 27, 2021)



WHAT'S NEXT FOR SBA 504

- ✓ **Expected strong finish to FY21 for SBA 504 lending activity – record-breaking numbers for the program**

FY19, FY20, and FY21 through June 30th loan approvals statistics compared below:

Loan Activity	FY19	FY20	FY21
Number of Approvals	4430	5021	6929
Volume Approved	\$3.58 Billion	\$4.17 Billion	\$5.73 Billion



MARGARET GRIFFIN

Executive Vice President
Chief Lending Officer

mgriffin@somercor.com



ELISABETH WILLIAMS

Vice President
Loan Officer

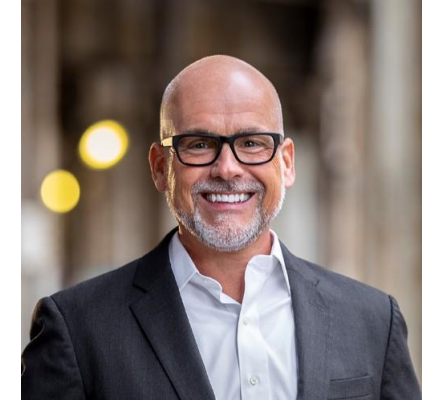
ewilliams@somercor.com



ERIC BACON

Vice President
Loan Officer

ebacon@somercor.com



BRIAN COMISKEY

Executive Vice President
Chief Credit Officer

bcomiskey@somercor.com

