

# Newsletter

## Debt Refinance Without Expansion Program

### SBA 504 Effective Rates for August 2020

25-year - 2.27% / 2.27% Refi ~ 20-year - 2.21% / 2.22% Refi ~ 10-year - 2.40% / 2.40% Refi

### A Major Change to the Debt Refinance Without Expansion Program:

SBA issued a Notice in the Federal Register for the 504 Debt Refinancing **Without** Expansion Program announcing a reduction in the required Borrower's Contribution for Projects involving limited or single purpose buildings during a recession. The National Bureau of Economic Research published a report on June 8, 2020 determining that the U.S. economy entered recession in February 2020.

Effective immediately, SBA is reducing the requirement from "not less than 15%" to "not less than 10%" for all new loan submissions, including special or limited use properties. The lower required contribution will be 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.

This change only applies to the 504 Debt Refinancing **Without** Expansion Program; it does not impact regular 504 (purchase loans) or 504 Debt Refinancing with Expansion.

### Debt Refinance Without Expansion Program Eligibility:

The project cannot involve the expansion of a small business;

The applicant must be in operation for the full 2-year period prior to the date of the application;

Borrower must occupy at least 51% of the total rentable square footage of the subject CRE;

85% or more of the proceeds of the existing debt were used to acquire an Eligible Fixed Asset and the remaining amount was incurred for the benefit of the small business seeking refinancing;

The net SBA debenture would be equal to or less than the proposed TPL loan and meets equity requirements. Multi-use properties have a 10% equity requirement; special-purpose properties also have a 10% equity requirement based on a recent regulation;

Project cost is equal to the fair market value of the eligible fixed asset, and the LTV does not exceed 90%.

*Continued on page 2...*

**SBA Tip on EPC Business Activity:** An EPC (excluding a trust) may not engage in any business activity other than leasing the property to the OC. This includes holding other property for investment, development, as well as, leasing to other parties. Any property not leased to the operating company would make the EPC ineligible unless they completely divest/transfer the other property or lease all the property to the OC. An entity that serves as an EPC for a new 504 debenture loan cannot have any business activity other than leasing property to the applicant OC for the OC's own business use. This EPC entity can lease multiple properties to the same OC, but if it leases property to any other business (even an affiliate) or does any other business, it cannot be an EPC on the new 504 project.

*Eligibility continued from page 1...*

The business must be current on all payments due, including no deferments, for not less than one year prior to the date of application. Modification or refinance within the year prior to application is eligible, provided that all of the following apply:

- Purpose was to extend the maturity date of the loan
- No additional proceeds were advanced (except for closing costs); and provided that the applicant has been current on all payments due with no deferments for the 1-year period prior to the date application.

*Deferment Exception: If the deferment was COVID-19 related and granted on or after March 1, 2020, the loan may be eligible if the applicant brings itself current on all deferred payments prior to the loan being approved for refinance, and is otherwise current on all other payments for the last year.*

Learn more about the SBA 504 Debt Refinance Programs at: <https://www.nwbusiness.org/wp-content/uploads/2020/08/SBA-504-Refinancing-Rules.pdf>

### **July's Loan Fundings**

NWBDA funded **5** new projects for the total amount of **\$5,201,577.88**

### **July's Loan Approvals**

NWBDA approved **11** new projects for the total amount of **\$55,576,997.00**

In the month of July, NWBDA helped **create 11 new jobs** in the local communities

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