

# The SBA 504 Refinance Loan

## Highlights

- A temporary program that can be used by small businesses to refinance conventional Commercial Real Estate and Capital Equipment loans
- Borrowers can finance up to 90% of the current appraised property value, or 100% of the outstanding principal (whichever is lower), plus 504 eligible refinancing costs
- A long-term, fixed interest rate will be available on the 504 portion of the loan

## Loan Structure

- A Bank/Private sector lender will provide a loan for at least the amount of the 504 loan (the 504 maximum is 40%, combined the loans can cover up to 90% of the appraised value). The lender will take a first deed of trust and charge a market interest rate.
- The SBA 504 Loan will be provided for up to 40% of the appraised value with a maximum of \$5MM and a minimum of \$25K (\$5.5MM is available for manufacturers and businesses meeting the SBA's energy efficiency public policy goal). The 504 loan will take the second deed of trust position and be tied to a fixed interest rate.
- The small business is required to have at least 10% equity in the building or capital equipment being refinanced.

## Use of Funds

Funds can be used to refinance commercial real estate and/or capital equipment for business use, and provide cash-out for eligible business expenses up to 90% of the current appraised value. *Items being financed act as collateral (appraisals, title insurance, engineering, architectural and environmental costs can be included).*



Colorado Lending Source is the state's not-for-profit, small business financing expert. Over our two decade history, we have worked with small businesses to create and retain more than 16,500 jobs across Colorado while helping to pump \$750 million into the state's economy.

*The mission of Colorado Lending Source is to foster the economic growth of diverse small businesses within our communities.*

## Eligibility Requirements

- The business must be a for-profit, in operation for no less than 2 years
- Have a net worth less than \$15MM and net profit of no more than \$5MM (two year average after taxes)
- Individuals owning 20% or more of the business must act as personal guarantors
- At least 85% of the original loan proceeds must have been 504 eligible and the remaining amount incurred for the benefit of the small business
- Borrower must be 12 months current on payments, and the original loan must be at least 2 years old

## Interest Rates

Interest rates tied to the SBA 504 portion of the loan are set once a month with a bond sale. These rates are fully amortized over the life of the loan.

- Rates are fixed for 20-years on commercial real estate
- And 10-years for capital equipment/machinery (*the 10-year bond sells only in odd numbered months*)

## SBA Guaranty Fees

- There is an ongoing guaranty fee of 1.103% on the total unpaid balance of the debenture factored in to the overall effective interest rate
- The borrower pays a onetime fee of 2.65%
- A bank participation fee of 0.5%

In addition to the SBA Guaranty fees, the borrower will pay attorney closing costs of \$2,000 plus applicable recording and title costs. *(These fees are typically financed as part of the loan.)*

## SBA Prepayment Penalty

There is a prepayment penalty if the borrower voluntarily prepays in the first half of the life of the loan.

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