

# The SBA 504 Refinance + Expansion

## Highlights

- A permanent program used by small business owners to refinance conventional Commercial Real Estate and Capital Equipment loans where expansion of the business is involved (*for every \$2 spent to buy, build or renovate commercial real estate/equipment, \$1 in eligible debt may be refinanced*).
- Up to 100% refinance is available
- Long-term, fixed interest rate

## Loan Structure

- The Debt being refinanced is added to expansion costs to determine the Total Project Cost.
- A Bank/Private sector lender typically provides 50% of the Total Project Cost and takes a First Mortgage position charging a market interest rate.
- The SBA 504 Loan is available for up to 40% of the Total Project Cost 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 a Second Mortgage position with a fixed interest rate.
- The small business is required to put 10% down on the project (*this may come from equity in the real estate or equipment being refinanced*).

## Use of Funds

- Refinance and expand commercial real estate and/or capital equipment/machinery for business use.

*Items being financed act as collateral for the project (appraisals, title insurance, engineering, architectural and environmental costs can be included)*

## Eligibility Requirements

- The business must be a for-profit with 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.
- 100% of the original loan proceeds must have been 504 eligible.
- The business must be current for at least 12 months on payments for the debt being refinanced.
- The new financing must provide a better term or interest rate than the existing debt and therefore a substantial benefit of 10% or more in cash flow to the business.
- Existing SBA 504 and 7(a) loans may be eligible.

## Interest Rates

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

- Fixed for 20-years on commercial real estate
- And 10-years for capital equipment/machinery

## SBA Guaranty Fees

- There is an ongoing guaranty fee of 0.749% on the balance of the debenture included in the interest rate.
- The borrower pays a onetime origination fee of 2.65%
- And 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 borrower voluntarily prepays in the first half of the life of the loan.



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.*

## Contact Us:

Headquarters  
518 17th Street, Unit 1800  
Denver, CO 80202  
(303) 657-0010

Western Slope  
2520 South Grand Avenue, Suite 207  
Glenwood Springs, CO 81601  
(970) 947-1400

Toll Free: (877) 852-6799  
info@coloradolendingsource.org  
www.coloradolendingsource.org