New 504 Refinance Rules

July 30, 2021

At MCDC we believe in providing timely and accurate information to our lending partners.

After much anticipation, the Small Business Administration (SBA) published the new interim final rules for 504-debt refinancing programs as authorized under Section 328 of the Economic Aid Act on July 29, 2021. The new rule is effective immediately. The updated regulations significantly expand the usefulness of 504-debt refinancing programs to assist small business recovery and growth.

We have provided a list below of the changes; however, this list is not all-inclusive. MCDC Loan Officers are available to answer questions and will be available to provide training sessions regarding these exciting changes.

Section 328(a) of the Economic Aid Act revises the conditions and requirements for refinancing debt under the 504 Loan Program as follows:

For 504 debt refinancing WITH expansion:

The amount of the existing indebtedness that may be refinanced as part of a 504 project is increased from not more than 50% to not more than 100% of the project costs of the expansion. Contact your MCDC Loan Officer for more details.

For 504 dept refinancing WITHOUT expansion:

Reinstates an alternate job retention standard – all existing jobs measured on a full-time equivalent (FTE) basis can be counted as jobs retained by the refinancing project.

Qualified debt – must be at least 6 months old before the SBA application date to be eligible for refinance, reduced from 2 years old.

Qualified debt is defined as at least 85% of the original debt was for financing eligible fixed assets for the small business.

New business are not eligible for refinance without expansion. The applicant must have been in business for at least 2 years.

Allows the refinance of existing government guaranteed debt – existing SBA policies related to refinancing existing 504 or 7(a) loans will apply (these are the same requirements that currently exist for the 504-debt refinance with expansion program), including the following:

- For an existing 504 loan, either **both** the third-party loan (1st mortgage) and the SBA 504 loan (2nd mortgage) must be refinanced, or the third-party loan must be paid in full.

- 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 payment schedule. In the case of same institution debt, if the third-party lender or the CDC affiliate 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.
- The refinancing of any federally-guaranteed debt will provide a "substantial benefit" to the borrower – minimum 10% savings on the new installment amount attributable to the debt being refinanced (same definition as currently used in the 504-debt refinance with expansion program); this is now required for all 504-debt refinance with expansion projects. Prepayment penalties, financing fees, and other financing costs must be added to the amount being refinanced in calculating the percentage reduction in the new installment payment. The portion of the new installment amount attributable to Eligible Business Expenses will not need to be included in this calculation.

Current on all payments – Eliminates the requirement that the borrower must be current on all payments due for not less than 1 year before the SBA application date. Because the qualified debt now must be incurred not less than 6 months before the date of the 504 Loan application, the SBA no longer requires that the applicant be current on all payments due on the Qualified Debt for not less than 1 year before the date of application. In accordance with prudent lending standards, the SBA expects the CDC to consider whether the applicant is current on all payments due and the applicant's history of delinquency in its credit analysis.

All other existing policies and procedures for 504-debt refinancing with and without expansion continue to apply unless specifically modified by the interim final rule. Specifically, in the 504-debt refinancing without expansion program, the 20% cap on eligible business expenses and the maximum loan to value for projects involving eligible business expenses continue to apply.

Please refer to Technical Issues Memo 34-21 for complete details.

For more information about SBA 504 refinance loans in Michigan contact your MCDC Lender or call (517) 886-6612.

Mark Williams, President

With seven offices throughout Michigan, MCDC's experienced team will work with you through every step of your SBA Loan. MCDC is a non-profit corporation certified by the U.S. Small Business Administration to provide SBA 504 Loan Financing and 7(a) Lender Services. For more than 38 years MCDC has been a leader in SBA financing in Michigan, participating in projects impacting more than 64,000+ jobs and more than $3Billion of economic investment. For more information, please feel free to call us at 833-4SBA-LOAN or 833-GET-7ALOANS or visit us at www.michigancdc.org.

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