



U.S. Small Business  
Administration

# U.S. Small Business Administration Office of Capital Access

**504 Connect Call**  
**December 17, 2019**

# Office of Capital Access

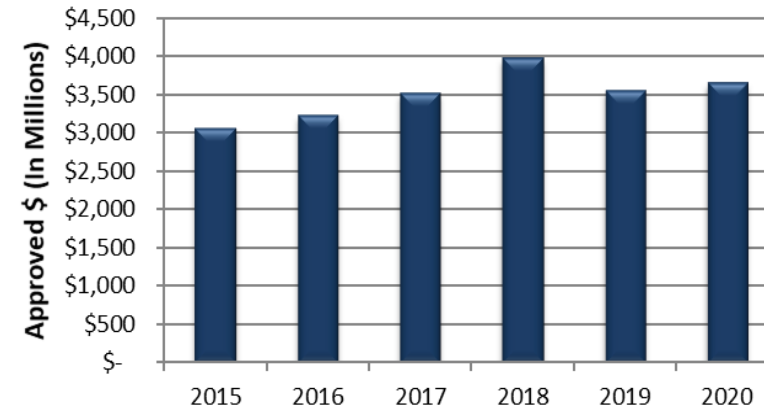


**John Miller**  
**Deputy Associate Administrator**

# YTD Activity – Total 7(a) and 504

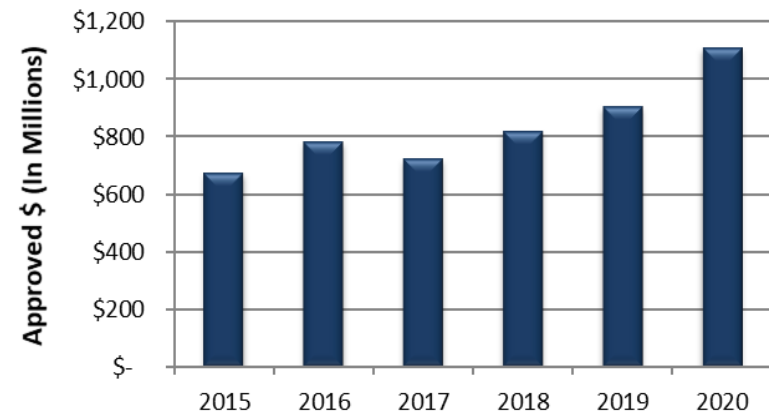
## 7(a) Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2020	8,016	\$ 3,641,718,800
2019	7,940	\$ 3,548,775,100
2018	9,883	\$ 3,962,696,100
2017	8,876	\$ 3,512,755,700
2016	9,419	\$ 3,218,860,400
2015	8,751	\$ 3,046,730,700



## 504 Lending Activity

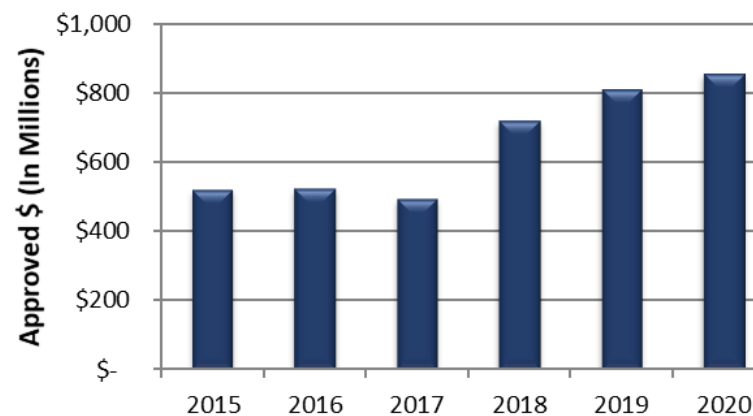
Fiscal Year	Approved Loans	Approved Dollars
2020	1,273	\$ 1,108,877,000
2019	1,046	\$ 908,608,000
2018	981	\$ 821,879,000
2017	949	\$ 726,208,000
2016	924	\$ 782,506,000
2015	939	\$ 676,409,000



# YTD Activity – Franchise

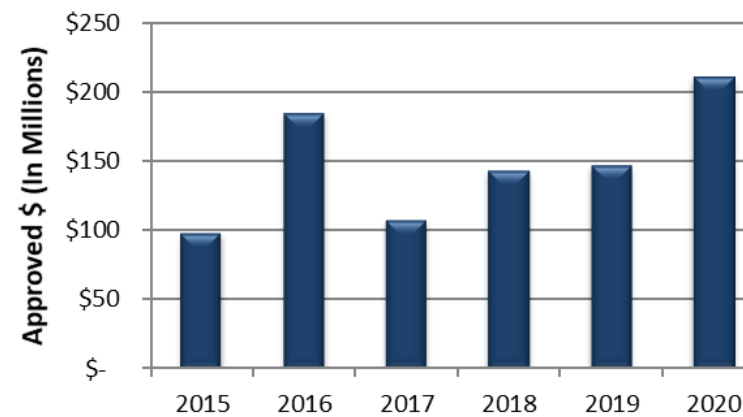
## 7(a) Franchise Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2020	1,115	\$ 858,476,300
2019	1,036	\$ 811,125,500
2018	1,029	\$ 722,476,600
2017	809	\$ 495,001,400
2016	880	\$ 524,218,300
2015	855	\$ 520,094,700



## 504 Franchise Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2020	142	\$ 211,043,000
2019	93	\$ 146,956,000
2018	85	\$ 143,619,000
2017	87	\$ 107,440,000
2016	113	\$ 184,734,000
2015	91	\$ 97,855,000



Time Period Comparison (activity through 11/30 of each FY)

\*The addition of the Franchise Directory has resulted in a 123% increase in eligible franchise brands. Now on the Franchise Directory there are 4543 brands, when the Directory was first published in October 2017 there were 2,034 brands.



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# Office of Performance and Systems Management

**Steve Kucharski**  
**Director**



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# Office of Credit Risk Management

**Susan Streich**  
**Director**

# OCRM Updates

- Form 159
  - CDC is responsible for form accuracy
  - Multiple services
  - Itemization for referral agent/broker fee
  - Must have the accurate FIRS number (with no additional characters)
- Loan files
  - Consistency throughout file



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# Office of Financial Assistance

**Dianna Seaborn**  
**Director**



# OFA Update

- HVCRE ADC Final Rule
  - Released Nov. 20, 2019
  - SBA requesting clarification from regulators
- SOP 50 10 6 update – training will be scheduled for 2020
- New guidance on ROBS 401 (K) equity documentation
- Taxpayer First Act
  - Effective Dec. 28
  - Consult your legal counsel for compliance info
- Form 912 released
  - New expiration date: 07/31/2022
  - Available on [sba.gov](https://www.sba.gov) website



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# 504 Program

**Linda Reilly**  
**Chief, 504 Division**

# 504 Program Update

## 504 Corporate Governance Rule - [Federal Register](#) Dec. 4

- Expanded the ability of a CDC to apply to make a loan outside of a CDC's area of operations
  - Puts into regulation the ability of the CDC to apply to make a loan if the CDC had previously assisted the business **or** one of its affiliates
- PCLP Loan Loss Reserve requirements updated
- Streamlined CDC board and loan committee requirements
- Threshold for audited CDC financial statements increased from \$20 million to \$30 million in loan portfolio balances
- Limited ownership or control of a CDC by any one person or entity to 25% of voting membership

# 504 Program Update

- More detailed 504 training to be provided with release of SOP 50 10 6 – corporate governance and eligibility
- Increased outreach on 504 funding for Manufacturing planned for 2020
- Lenders requested a refresher on 504 refinancing options



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# Office of Financial Program Operations

**Jihoon Kim**

**Director**

**[Jihoon.Kim@sba.gov](mailto:Jihoon.Kim@sba.gov)**



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# Sacramento Loan Processing Center

**Hien Nguyen**  
Director

**David Miller**  
SLPC Supervisor Loan Specialist

# 504 Debt Refinancing

- 504 Loan Program has \$7.5 billion authorization
  - 504 Debt Refinancing with Expansion is an eligible use of proceeds under the 504 Loan Program
- 504 Debt Refinancing without Expansion received separate statutory authority for up to \$7.5 billion annually
- Total 504 lending authorization for FY20: \$15 billion
- 504 Debt Refinancing without Expansion:
  - Only available in a fiscal year with zero subsidy rate for both the 504 Loan Program and the 504 Debt Refinancing Program (without Expansion)
  - Borrower pays a supplemental annual service fee – FY 20: 0.0015%

# 504 Debt Refinancing with Expansion

- May refinance more than one eligible loan
- May not refinance more than 50% of the expansion funding
- Must show “Substantial Benefit,” which means:
  - The portion of the new installment amounts (TPL + debenture) attributable to the debt being refinanced must be at least 10% less than the existing installment amounts
  - Prepayment penalties, fees, financing costs must be added to the amount being refinanced in calculating percentage reduction
  - Loans with balloon payments meet this test



# 504 Debt Refinancing with Expansion

- Current on all payments due (no payment over 30 days late) for the prior 12 months
- Equity in the real estate and equipment that is being refinanced may be used for the Borrower contribution
- Copy of the debt and lien instruments must be submitted with the application
- Limited refinancing of existing 7a loans are possible
  - CDC verifies that the 7(a) Lender is either unwilling or unable to modify the current payment schedule
  - Same institution debt: if the Third Party Lender or a CDC affiliate is the 7(a) Lender, the loan is 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

# 504 Debt Refinancing without Expansion

- Only “Qualified Debt” is eligible for refinancing
- “Qualified Debt” is defined in 13 CFR 120.882(g)(15)
  - 85% or more of the proceeds were used to acquire assets eligible for financing under the 504 program
  - Debt was incurred not less than 2 years prior to application... except:
    - Loans that were refinanced within 2 years prior to the date of the application are eligible if:
      - The effect of the most recent loan was to extend the maturity date without advancing any additional proceeds (except to cover closing costs); and
      - The collateral for the most recent loan includes, at a minimum, the same eligible fixed asset(s) that served as collateral for the prior loan that was refinanced.
      - The original debt was incurred at least 2 years ago
  - Debt is not federally guaranteed
  - Debt was for the benefit of the Applicant
  - Debt is collateralized by eligible fixed assets
  - Current on all payments due (no payment over 30 days late) for the prior 12 months

# 504 Debt Refinancing without Expansion

- Requirement for debt to be current and incurred not less than 2 years before application date:
  - Payments within the last 12 months must be made within 30 days of the due date. If the loan is not extended in writing, the debt is not eligible
  - Modifications, except to extend maturity, must have been more than 12 months prior to application
  - Private notes require Applicant's bank statements showing payments
- Applicant must have been in operation for at least 2 years
- Project cost is the appraised value of the refinanced assets
- Equity in the real estate and equipment that is being refinanced is used for the Borrower contribution

# 504 Debt Refinancing without Expansion

## Eligible Business Expenses (EBE)

- Borrower may receive up to 20% of FMV of the eligible fixed assets serving as collateral for payment of EBE
- EBE is operating expenses that were accrued but not paid prior to the date of the application or that will become due within 18 months
  - Examples: Repairs, maintenance, minor improvements, salaries, rent, utilities, inventory
  - Includes any operating expense that can be deducted as an expense in the taxable year in which it was paid or incurred
  - Business lines of credit & business credit card debt are eligible
  - Ineligible: capital expenditures such as expenditures for expansion and acquisition

# 504 Debt Refinancing without Expansion

## Credit Memorandum

- When refinancing multiple notes - discuss each separately
- Discuss eligible fixed assets acquired
- Discuss collateral securing the debt
- When the Project includes funding for Eligible Business Expenses please identify those in accordance with the guidance in the SOP

# 10 – 20 – 25

## Which Debenture Term to Choose



# Refinance With or Without Expansion Deal

- **Request:** Refinance any amount of business loans, none of which was used to acquire an eligible fixed asset, and none of which is secured by eligible fixed assets.
  - Acceptable Structure: **None**
- There is no debt eligible to be refinanced, so this is not an eligible refinance project

# Debt Refinance with Expansion - Deal Structure

#1

**Manufacturing Firm** with a \$1,000,000 building (FMV)

- Request:
  - Refinance: \$700,000 Mortgage/DOT
  - Expansion: \$3,000,000
- What would the Project look like?
- Remember... The debt refinance may not be more than 50% of the expansion
  - 50% of \$3,000,000 = \$1,500,000 maximum debt refinance
  - The request for \$700,000 debt refinance is less than the maximum of \$1,500,000, so the requested amount of debt refinance is acceptable



# Debt Refinance with Expansion - Deal Structure

- FMV of existing building <sup>#1</sup> \$1,000,000
- Expansion: \$3,000,000
- Value of Project: \$4,000,000
  
- TPL at 50% = \$2,000,000
- SBA loan at 40% = \$1,600,000
- Borrower contribution required at 10%: \$400,000
  - Borrower's equity in building = \$300,000
  - Additional Borrower contribution required = \$100,000

# Refinance Without Expansion Deal Structure 2

**Request:** Refinance \$100,000 existing acquisition mortgage plus \$400,000 2<sup>nd</sup> mortgage borrowed 5 years ago for property renovations. Appraisal \$1,000,000.

## Acceptable Structure:

Appraised value of Property	\$ 1,000,000
Qualified Debt	\$ 100,000
Qualified Debt	\$ 400,000
Total Loan Proceeds	\$ 500,000
TPL	\$ 250,000
SBA 504 Debenture	\$ 250,000
Borrower existing equity	\$ 500,000

**Eligible.** The total amount of Qualified Debt is \$500,000. TPL loan amount must be equal to or greater than the debenture amount, at least \$250,000 in this example.

# Upcoming Calls

**7(a) Connect Call January 14, 2020** at 3:00 Eastern

Register at: <https://ems8.intellor.com?do=register&t=1&p=820109>

**504 Connect Call March 24, 2020** at 3:00 Eastern

Register at: <https://ems8.intellor.com?do=register&t=1&p=820100>

Please whitelist [noreply@event-services.com](mailto:noreply@event-services.com) to ensure that you receive your unique login instructions.

