



504 LOAN PROGRAM DEBT REFINANCING IN 5 SLIDES

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504 Temporary Refinance Loan –Effective 10/19/11 Additional Changes to Temporary Debt Refinance Program

- ❑ LTV 90% of the current value of the fixed assets
- ❑ “Substantially all” proceeds (85%) were used for 504 eligible purposes (purchase of fixed assets; construction of improvements). Other proceeds (up to 15%) must have been used for the benefit of the small business.
- ❑ Loan (and business) must be at least 2 years old at date of application to SBA.
- ❑ Loan must have been current for the past year with no payment being deferred or past due for more than 30 days.
- ❑ Proof – Copy of Note; Copy of Recorded Lien Instrument(s); Loan Transcript; Affidavits; Use of Proceeds documentation when appropriate.

504 Refinance Loan –Eligibility

Backing into the Numbers – Appraisals Drive the Deal

- ❑ In the event a CDC exhausts its job bank – the applicant can still be eligible for a 504 Refinance; however the loan size may not exceed the number of current Full Time Equivalent Jobs* multiplied by \$65,000 (*no worries – it’s a simple math function)
- ❑ Proof – Borrower employment disclosure on application compared to financials (at least for now)
- ❑ The Third Party loan and the 504 Refinance loan combined may not be more than 90% of the fair market value of the fixed assets securing the loan.
- ❑ Proof – Appraisal* – (*Same rules apply – Summary or Self Contained for prime Project collateral – No specific requirement for outside collateral – dated within 6 months of Application)

Old Habits Die Hard – 50–40–10 Structure “Project” Definitions

- ❑ The SBA’s single overriding concern – Lenders shifting risk of loss to the 504 Refinance Loan.
 - ❑ The total 504 Refinance package must be collateralized 90% LTV meaning MINIMUM Borrower equity is 10% of the refinance deal; and
 - ❑ The Third Party Lender loan must account for a MINIMUM 50% of the refinance deal.

- ❑ What happens when the appraisal comes up short?
 - ❑ Additional 504 eligible collateral (most likely M&E) can be included in the “Project”
 - ❑ Other fixed assets (i.e. personal residences) can be included in the “Project”
 - ❑ Borrower cash; new note for deficiency subordinated to 504 (potential “stand-by requirement); debt forgiveness* (*like that’s going to happen)

- ❑ **Proof – Appraisal*** (*Same rules apply – Summary or Self Contained for prime Project collateral – No specific requirement for outside collateral)

504 Refinance Loan – Odds & Ends

- ❑ Same institution refinance– additional conditions
 - ❑ Full loan history must be included in transcript
 - ❑ New Third Party Lender loan cannot be pooled/sold on the secondary market

- ❑ Certain loans not eligible
 - ❑ Loans with existing government guaranty – SBA; USDA
 - ❑ SBIC; New Markets VC; Loans from Associates of Borrower

504 Refinance Loan – Odds & Ends (continued)

- ❑ Environmental due diligence required (current within 180 days)
 - ❑ Check your file! – In general, SBA will require compliance with all report recommendations (including —housekeeping measures, such as secondary containment, decommissioning monitoring wells, sealing floor drains, etc.)

- ❑ Size; Refi Rate; Timing; Sunset
 - ❑ “Standard” 504 Refi Project limit is \$12.5Million (\$5Million 504).
Manufacturers qualify for slightly more
 - ❑ Effective Rate will be .294 higher than standard 504 loans
 - ❑ The 504 must FUND within 6 months of approval (BEWARE of Cut Off Dates, especially on 10 year deals)
 - intervening missed payment will constitute material adverse change

 - ❑ Loans must be approved by SBA by September 27, 2012

- ❑ 504 inconsistencies
 - ❑ Manufacturers do NOT have beneficial jobs provision
 - ❑ Special use facilities do not require additional 5% equity

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