

504 REFINANCE ELIGIBILITY

On Feb. 17, 2009, the American Recovery and Reinvestment Act was signed into law. This act changed the 504 Program by allowing limited refinancing under certain circumstances. Previous 504 applications received or loans approved, *but not funded*, may be modified to include debt refinancing.

Limited debt refinancing is allowable when:

- There is business expansion; and
- The refinanced debt does not exceed 50% of projected expansion cost. For example, if the fixed asset project is \$600,000, you may refinance up to \$300,000 and include it in the project.

504 Eligible Assets

All loans refinanced in the project **must** have been used to acquire fixed assets *eligible in the 504 program*.

The 504-eligible, fixed-asset collateral securing any refinanced debt **must** secure the 504 loan.

Substantial Benefit

The financing *must provide a substantial benefit* to the borrower.

Debt Refinancing

- Borrower must be current on debt for at least one year prior to date of refinancing.
 - CDC must submit a transcript of account, or similar documentation, containing detailed payment history from the lender.
- Financing must provide:
 - Better terms and/or interest rate than the existing indebtedness on the date of refinancing. For example:
 - Longer maturity, and/or
 - Lower interest rate for third party lender loan or 504 loan;
 - Less restrictive loan covenants.

504 Project Cannot Refinance Debt Owed:

- To an associate
- To an SBIC
- To any creditor in a position to sustain a loss causing a shift of risk to SBA.