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SBA 504 Refinancing Program

Frequently Asked Questions

Should I refinance our existing mortgage or loan, secured by our business property, using the SBA 504 Refinance Program?

This loan program has several advantages for a company. You can reduce your interest rate on an outstanding conventional mortgage. You'll also experience reductions in monthly payments and have additional working capital for business expenses for the next 18 months.

What are the current SBA interest rates? (as of June 2020)

- 2.69% fixed for 10 years
- 2.64% fixed for 20 years
- 2.57% fixed for 25 years

What if we already have an existing mortgage on our building?

Your existing mortgage will need to be refinanced or restructured. The SBA structure refinances your existing mortgage through a new "first" mortgage. The participating bank can be your existing lender or a new bank, with the second mortgage provided through the SBA. Both mortgages will provide an equal amount of financing.

Sample Scenario

A company owns a property with an appraised value of \$10M and an existing mortgage of \$6M. Under the SBA refinancing structure, the company can borrow up to \$8.5M. The existing lender (or a new bank) provides a first mortgage at 50% of \$8.5 million, or \$4.25M, plus a \$4.25M SBA loan secured by a second mortgage.

Note: additional loan proceeds must be used for working capital purposes.

Can we use the loan proceeds to reimburse ourselves?

No. The new loan proceeds must be used to pay for business expenses for the next 18 months, plus any current outstanding payables.

What happens if we can't use the funds to pay for business expenses?

For this scenario and to provide necessary funds for the next 18 months, you will need to borrow less than 90% of the appraisal value.

In addition to monetizing our property and taking advantage of low interest rates, what are the other benefits of SBA 504?

- No mortgage recording tax (currently 2.8% in NYC) for the SBA portion of the loan
- Initial 3 monthly payments can be deferred (new COVID-19 initiative)
- Monthly payments 4-9 post-deferment covered by SBA (new COVID-19 initiative)
- First mortgage has significantly lower leverage (LTV) resulting in attractive pricing

What are the refinancing fees?

SBA processing and underwriting fees are approximately 2.0% of the loan amount. Fees are funded through the proceeds of the loan at closing. The bank lender will have additional fees, including the commitment fees, title insurance, appraisal, and legal expenses.

Can we prepay the loans without penalty?

No. SBA 504 loans are long-term mortgages and, therefore, subject to a prepayment penalty. However, the SBA second mortgage loan can be fixed for 10-25 years, which is a significant advantage considering that banks generally fix their rates for 5-10 years.

How long does it take to close the transaction?

Approximately 90 days.

How can we get started?

Let us know if you are interested in this program. We can determine if you qualify for the loan.

Can you manage the entire financing process, including procuring the bank and SBA loans?

Yes. ThinkForward and ITAC maintain high-level relationships with 30+ participating banks. We can help you with the loan request.

Thank you! More to come soon.