

## SBA 7(a) LOANS – REFINANCE ELIGIBILITY

Refinance of existing indebtedness is a permissible use of SBA 7(a) loan proceeds.<sup>1</sup>

In order to be eligible for refinance, the proceeds of the indebtedness to be refinanced must have been used in a manner that would be eligible for SBA financing at the time. In addition, depending on the type of indebtedness to be refinanced (short term vs. long term debt), the proceeds to be refinanced must meet other requirements as follows:

### Long Term Debt

- In the form of a demand note or with a balloon payment is automatically eligible to be refinanced.
- The term debt is presently on unreasonable terms with either a maturity that is too short for the asset originally financed or with an interest rate that is too high. In most cases, if the new loan can provide at least a 10% cash flow savings compared to the loan to be refinanced, then the SBA determines that the loan to be refinanced had an interest rate that was too high (the cash flow savings rule was recently changed from 20% to 10%).

### Short Term Debt

- Credit card debt which was incurred for business purposes. If a credit card is in the name of the individual business owner, SBA requires significant documentation to demonstrate that the card was used for business purposes.
- The lender is unwilling to renew a revolving line.
- The borrower is restructuring a revolving line for a lower interest rate and/or longer term.

If the indebtedness is both eligible and the requisite cash flow savings is realized (where required) a lender may refinance its own currently outstanding debt with an SBA guaranteed loan provided that the debt has been current for the last 36 months<sup>2</sup>.

**NYBDC HAS BEEN PROCESSING MANY SBA APPLICATIONS FOR REFINANCE FOR ITS LENDING PARTNERS AND WILL CONSIDER LOAN PARTICIPATIONS IN THE NEW LOAN. IF THE TRANSACTION IS TO REFINANCE SAME BANK DEBT FOR A SMALL BUSINESS, NYBDC WILL CONSIDER THE PURCHASE OF A PARTICIPATION EQUAL TO THE AMOUNT OF ANY INCREASE IN CREDIT MADE AVAILABLE TO THE BORROWER.<sup>3</sup> IF THE LENDER DOES NOT INTEND TO INCREASE THE CREDIT AVAILABLE TO THE BORROWER IN THE CONTEXT OF THE REFINANCE, NYBDC WILL CONSIDER A PARTICIPATION OF 10% IN THE NEW LOAN AND PROCESS THE SBA LOAN APPLICATION FOR THE LENDER.**

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<sup>1</sup> SBA SOP 50-10(5) *Lender and Development Company Loan Programs*, page 134 *et seq.*

<sup>2</sup> Current means that a required payment has not remained unpaid for more than 29 days. A loan which includes a payment unpaid for 30 days, subsequently deferred, was not current on that 30th day and is not eligible for refinancing. A loan that has matured and not been paid within 29 days of the maturity date is not current and is not eligible for refinancing.

<sup>3</sup> For example, if an existing line is refinanced for \$300,000 is refinanced with an SBA guaranteed loan and the lender has agreed to provide the small business with a new line of credit with \$100,000 in availability, NYBDC will consider the purchase of a participation of not more than \$100,000 in the refinanced loan.