



# Your Partner In Lending STRATEGIES

## Refinancing Debt under the SBA 7a Program

We are still seeing a lot of debt refinance happening under the SBA 7a loan program. As loans come due or businesses look for additional funding for growth or expansion, it may make sense to refinance or consolidate existing debt.

Some lenders don't realize just how accommodating the SBA 7a program is for refinancing debt, even your own lender debt.

Now don't get me wrong, there are still certain rules and requirements that must be carefully followed.

First you must understand what the original use of proceeds were. When I say original I mean proceeds of the first loan made. SBA requires that the original purpose of the loan must have been eligible under SBA guidelines at the time of origination. If it was not, refinancing of such debt is ineligible.

The debt must be in the name of the business and not debt that is in the personal name of the owners (with the exception of credit card debt in the personal name) with evidence that it was used for business purposes only.

The following types of business debt may be refinanced under an SBA Loan.

1. Debt structured with a balloon payment or demand feature.
2. Debt with an interest rate that exceeds the SBA Max Rate for the processing method used.
3. Credit Card Debt used for business purposes.
4. Over-collateralized Debt, based on SBA's collateral requirements.
5. Revolving Lines of credit, where the original lender is unwilling to renew the line or applicant is restructuring to obtain a lower rate or longer term.
6. Debt with maturity that was not appropriate for the purpose of the loan. (ie. a 3 yr

term for a piece of equipment with a useful life of 15 yrs)

7. Debt used to refinance a change in ownership if;
  - a. The lender obtains a current business valuation that meets SBA's requirement.
  - b. The amount reflected on the applicant's most recent business financial statements for intangible assets exceeds \$500,000 and the applicant does not have at least 25% equity, application may not be processed using a lenders delegated authority.
  - c. The lender may consider refinancing any seller take-back financing if it has been in place for at least 24 months following the change in ownership and payments have been paid as agreed during that time.

When refinancing debt, the lender's credit analysis must include:

1. Why was the debt incurred?
2. Has over-obligated or imprudent borrowing necessitated a major restructuring of the debt?
3. Is the debt being refinanced currently on reasonable terms?
4. Will the new loan improve the financial condition of the Small Business Applicant?
5. Does the refinance include payments to creditors in a position to sustain a loss?
6. Would the lender/SBA be likely to sustain part or all of the same loss by refinancing the debt or will additional collateral or altered terms protect the interest of the taxpayer?

When refinancing term debt the new installment amount must be at least 10 percent less than the existing installment amount(s).

When refinancing same lender debt, a transcript of the loan showing the due dates and when payments were

received must be part of the file. Any late payments in the last 36 months must be explained.

This type of refinance cannot be processed under a lenders delegate authority.

Refinancing an SBA-Guaranteed Loan is permissible if you have contacted the lender holding the existing SBA guaranteed loan and verify they have declined to approve an increase in the loan amount or a second loan and they are either unwilling or unable to modify the current payment schedule. You must document the file with the information of the person you spoke to, date and time, along with a short summary of the conversation.

You can only refinance same lender SBA guaranteed debt if it you are unable to modify terms because a secondary market investor will not agree to modify the terms of the loan.

Refinancing a change in ownership must also adhere to SBA's strict rules as they pertain to a change in ownership. If you would like more information on this, please contact us directly.

If you are looking at refinancing under one of SBA's other programs, such as the SBAExpress, the PatriotExpress, CAPLines or International Trade Program, please contact us for additional information.

| SBA Base Rates      |       |
|---------------------|-------|
| Jan. 2012           |       |
| SBA LIBOR Base Rate | 3.30% |
| SBA FIXED Base Rate | 5.00% |
| SBA Peg Rate        | 2.38% |
| WSJP Rate           | 3.25% |

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REFERENCES:

1. U.S. Small Business Administration, Office of Financial Assistance SOP 50 10 5 (D) Lender and Development Company Loan Programs; Pgs. 132-137



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## Internal Audits

January tends to be a time to get back on track. A time to make changes. This year we recommend you take a look at your existing portfolio and implement an internal policy to examine recently closed loans. By doing this it gives you an opportunity to review the file to be sure you have closed and funded the loan in accordance with your loan approval and credit policy. A chance to make sure you have dotted your "i's" and crossed your "t's". If anything was missed, now is a great time to correct the deficiency and make sure the loan file is in order. Doing this will alleviate the added stress that comes with liquidating a poorly documented file, should such an occurrence happen. It's also a good idea to have the files examined by someone other than the originating staff. An outside perspective will likely catch or question any holes in the documentation that may be overlooked by the originating staff when working so closely on it. This is another great tool to measure the quality of your portfolio and the quality of work performed by the staff. It can be a learning tool to determine which areas of training your staff needs. After all, you don't know what you don't know, right? When sbaSTRATEGIES performs a portfolio review, we will provide you with a detailed listing of deficiencies on each file reviewed, a summary report of most common errors found and recommendations for ways to improve your processes. This will give you piece of mind that your guaranty will be in place when you need it. So call us today to schedule your review and let us help you get 2012 off to a great start.

## SECONDARY MARKET SALES ARE STILL HIGH.

Take a look at the estimated premiums we are in in the market recently.

| Maturity | Gross Margin | Servicing | Price  |
|----------|--------------|-----------|--------|
| 10 yrs.  | 2.75%        | 1.00%     | 111.40 |
| 15 yrs   | 2.75%        | 1.00%     | 112.25 |
| 20 yrs   | 2.75%        | 1.00%     | 114.00 |
| 25 yrs   | 2.75%        | 1.00%     | 114.50 |



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