



U.S. Small Business
Administration

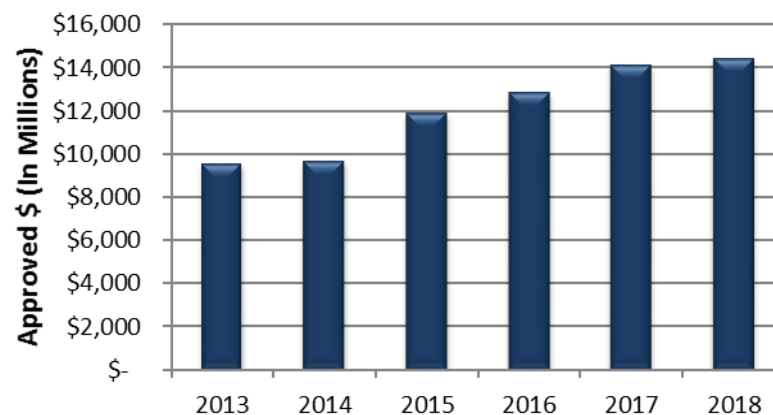
SBA Updates

- Bill Manger, Associate Administrator – Office of Capital Access
- Steve Kucharski, Director, OPSM
- Susan Streich, Director, OCRM
- Jihoon Kim, Director, OFPO
- Dianna Seaborn, Director, OFA

YTD Activity – Total 7(a) and 504

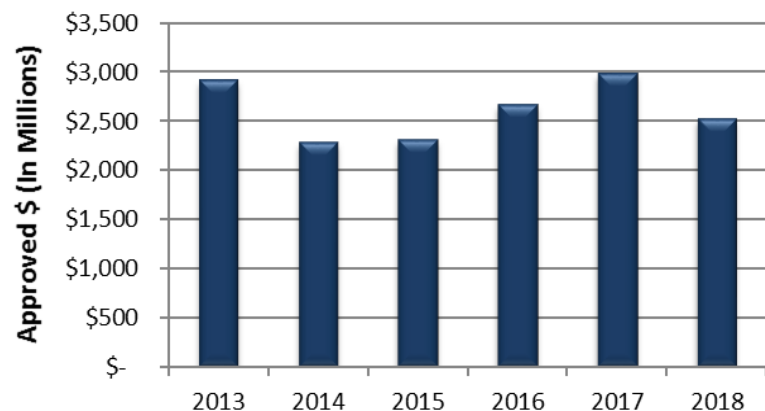
7(a) Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2018	34,450	\$ 14,451,910,700
2017	33,937	\$ 14,118,324,900
2016	35,645	\$ 12,872,759,600
2015	33,417	\$ 11,913,457,400
2014	27,124	\$ 9,688,269,800
2013	25,527	\$ 9,573,714,000



504 Lending Activity

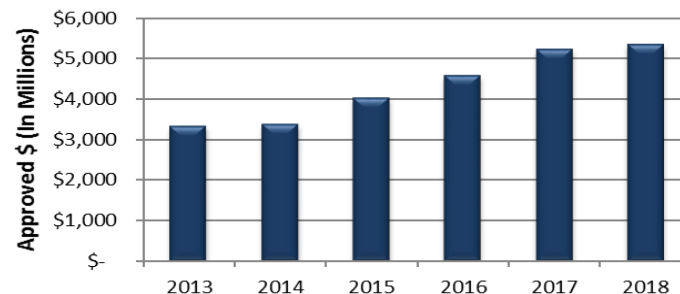
Fiscal Year	Approved Loans	Approved Dollars
2018	3,133	\$ 2,517,641,000
2017	3,640	\$ 2,982,030,000
2016	3,302	\$ 2,667,712,000
2015	3,211	\$ 2,312,747,000
2014	3,261	\$ 2,280,694,000
2013	4,342	\$ 2,917,020,000



YTD Activity – Underserved Markets

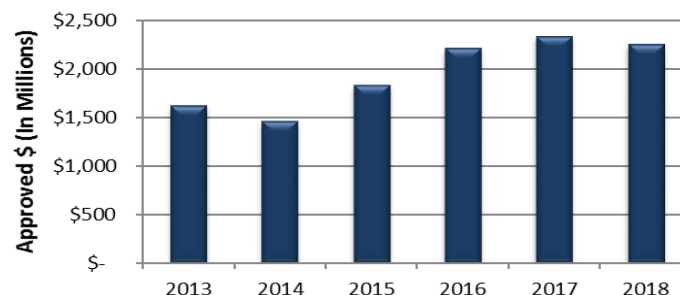
Minority

Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	9,661	25.7%	\$ 5,345,247,200	31.5%
2017	9,514	25.3%	\$ 5,224,793,100	30.6%
2016	9,950	25.5%	\$ 4,582,564,200	29.5%
2015	8,623	23.5%	\$ 4,029,834,800	28.3%
2014	7,061	23.2%	\$ 3,376,571,900	28.2%
2013	6,680	22.4%	\$ 3,314,863,900	26.5%



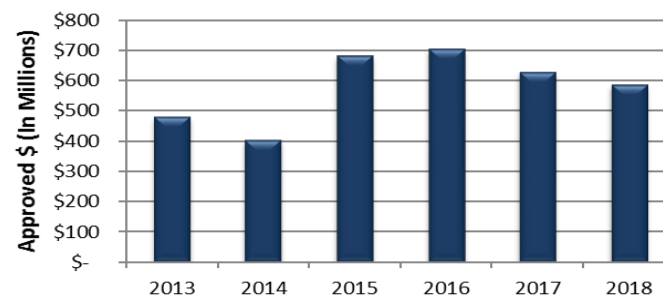
Women

Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	6,431	17.1%	\$ 2,240,291,700	13.2%
2017	6,677	17.8%	\$ 2,325,870,000	13.6%
2016	7,074	18.2%	\$ 2,200,404,000	14.2%
2015	6,290	17.2%	\$ 1,829,441,600	12.9%
2014	4,842	15.9%	\$ 1,457,414,500	12.2%
2013	4,837	16.2%	\$ 1,614,548,400	12.9%



Veteran

Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	1,757	4.7%	\$ 582,589,800	3.4%
2017	1,966	5.2%	\$ 626,580,900	3.7%
2016	1,949	5.0%	\$ 701,948,300	4.5%
2015	1,719	4.7%	\$ 681,330,700	4.8%
2014	1,313	4.3%	\$ 403,078,700	3.4%
2013	1,484	5.0%	\$ 479,077,200	3.8%



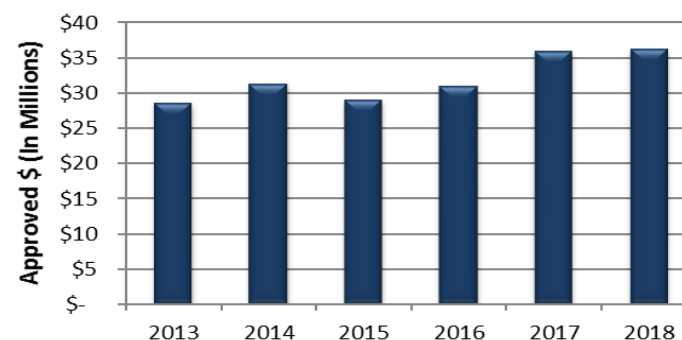
Time Period Comparison (activity through 04/30 of each FY)

**Information submitted on a voluntary basis and not verified by SBA for completeness or accuracy

YTD Activity – Mission Programs

Microloans

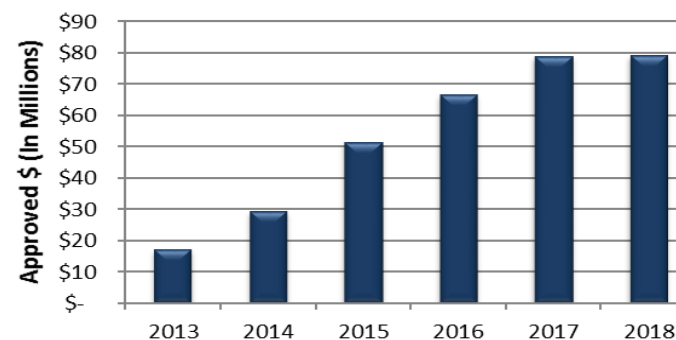
Fiscal Year	Approved Loans	Approved Dollars
2018	2,650	\$ 36,250,994
2017	2,621	\$ 35,997,329
2016	2,250	\$ 30,990,446
2015	2,008	\$ 29,123,349
2014	2,134	\$ 31,330,829
2013	3,128	\$ 28,597,100



- FY18 Microloan approvals underreported due to lag in micro lender reporting.

Community Advantage

Fiscal Year	Approved Loans	Approved Dollars
2018	585	\$ 79,254,100
2017	597	\$ 79,070,200
2016	542	\$ 66,798,600
2015	407	\$ 51,558,900
2014	226	\$ 29,309,600
2013	129	\$ 17,162,700



Steve Kucharski, Director, OPSM

Etran System Updates

Susan Streich, Director, OCRM

504 Lender Oversight Updates

Jihoon Kim, Acting Director, OFPO

Center Updates

Dianna Seaborn, Director, OFA

Policy Updates

Hot Topics

Appraisal reports

- Required prior to loan closing
- Dated within 12 months of application
- At least two of the three valuation methods (cost, income, sales)
- SBA listed as a client or intended user

Hot Topics

Life Insurance

- Required when:
 - No succession plan AND
 - Liquidation value of collateral assets is insufficient to cover net debenture amount of SBA loan
- Based on liquidation value of collateral assets as determined by appraisal (not project cost)

Hot Topics

Statements of Personal History

- SBA Form 912 (for Borrowers) – not required if Questions 1, 2, and 3 are “no” – SBA Form 1244, Section XIX
- SBA Form 1081 (for CDC staff)
 - “Name checks” are no longer accepted
 - FBI Form FD-258 (fingerprint card) required

504 Loan Program Updates

- 504 Program Statistics
- 25 year Debenture
- Appraisal update clarification
- SOP 50 10 5 (J) Updates
- Credit Elsewhere update
- 504 Debt Refinancing Final rule

25 Year Debenture - Overview

- Launch date – April 2, 2018; Federal Register Notice
- Longer repayment term
- Lower monthly loan payments
- Project approved prior to April 2, 2018 may not be extended to 25 years
- Third Party Loan term must be at least 10 years
- As of June 1, 2018:
 - 188 applications received
 - \$204,398,000

Modification of 20 year to 25 year Prior to Closing

- Requests for term modification can be made after SLPC loan approval if approved on or after April 2, 2018
- Submit 327 request in ETran with justification for the extended maturity
- Applicant must provide written consent to the modification and CDC must retain in file
- The term of the 504 Debenture may not be modified after the debenture closing request is submitted to SBA.

504 Loans – Appraisal Clarification

Appraisal Threshold

- OCC, Board, and FDIC rule increases appraisal threshold to \$500,000
- Small Business Act states the SBA shall require appraisals at \$250,000
- Will require a legislative update to match Federal Regulator limits

SOP 50 10 5 (J)

- [SBA Information Notice 5000-17008](#), Issuance of SOP 50 10 5 (J)
- [SBA Information Notice 5000-17028](#), Technical corrections issued on 12/15/2017.
- [SBA Policy Notice 5000-17057](#), Revised Credit Elsewhere and Other Provisions effective 4/3/2018.
- SOP 50 10 5 (J) includes rearrangement of some material, and other small changes that are not included on this presentation.

Recent Changes – Policy Notice 5000-17057

Changes affecting both 7(a) and 504 Loan Programs:

- Credit Elsewhere
 - Increased minimum ownership percentage requiring a review from 10% to 20%;
- Additional guidance for businesses engaged in any illegal activity;
 - “Direct Marijuana Business”
 - “Indirect Marijuana Business”
 - “Hemp Related Business”
- Leasing Part of a Building Acquired with Loan Proceeds;
 - Borrower may not lease space to a business that is engaged in any activity that is illegal under federal, state or local law.

Loans Outside a CDC's Area of Operations

- Exception Requests:
 - As of August 21, 2017, SLPC is the contact for case-by-case exception requests for submitting loans outside a CDC's area of operations.
 - Requests no longer go through the District offices.
- 13 CFR §120.839 was updated – “The **SLPC** may approve the application if:
 - a) The applicant CDC has previously assisted the business to obtain a 504 loan; or
 - b) The existing CDC or CDCs serving the area agree to permit the applicant CDC to make the 504 loan; or
 - c) There is no CDC within the Area of Operations.

SOP 50 10 5(J) Updates

- Franchise documentation;
- Credit Elsewhere;
- Affiliation based on management;
- Change of ownership between owners in EPC;
- Borrower contribution – Special Purpose properties
- Life insurance requirements
- Historic Properties review
- Illegal Businesses

Franchise

- If brand is not listed on the Directory:
 - CDC must determine the brand is eligible before proceeding with the application
 - SBA will review this decision at time of application for non-PCLP applications and prior to closing for PCLP applications
- Avoid delays on non-PCLP applications
 - Send any agreement not on the Directory to Franchise@sba.gov for review prior to submitting the loan application to SLPC
 - When submitting loan application - Include the approval received from SBA's Franchise department as Exhibit 13.
- Management agreements – to SLPC as a pre-application

SOP 50 10 5(J) – Credit Elsewhere

Same update for 7(a) and 504 Loan Programs:

- Revised existing language to make clear that “non-Federal sources of financing” includes sources both related to and unrelated to Applicant
- Non-Federal sources related to the Applicant: Increased minimum ownership percentage requiring a review from 10% to 20% in Policy Notice 5000-17057
- Defines non-federal sources unrelated to the applicant to include “conventional lenders or other sources of credit” including the processing lender

SOP 50 10 5(J) – Affiliation Based on Management

Same for 7(a) and 504 Loan Programs

Affiliation may be created by a Management Agreement – determination based on degree of Applicant business' oversight and control

- **Affiliation created - Ineligible:** No owner oversight
- **No affiliation created - Eligible:** Applicant has “meaningful oversight” of the management company’s activities
- **FINDING OF AFFILIATION – May be eligible:** The Agreement provides limited discretion over the business operations by the management firm, and the owner(s) retain meaningful oversight of the decision-making process. Combined size will determine eligibility.

EPC Change of Ownership

- Change of ownership between owners of Eligible Passive Company: Now permitted when the assets of the EPC are limited to real estate and/or other long term fixed assets that the EPC leases to its Operating Company.
- *Reminders:*
 - Real estate must have been held by the EPC for at least 36 months
 - The limitation on what assets can be held by the EPC is in place due to potential litigation that would impact the OC if other real estate unrelated to the OC were allowed to be held by the EPC.

Borrower Contribution - Special Purpose Properties

- Limited or Special Purpose Property requires at least 15% borrower contribution
- Minimum borrower contribution increases to 20%:
 - If a business (including affiliates) already has an outstanding debenture for a Project involving a Limited or Special Purpose Property
 - If a Project will finance both a New Business and a Limited or Special Purpose Property
 - Minimum required equity injection will not exceed 20%, regardless of whether a business (including its affiliates) has an outstanding debenture(s) for a Project involving a Limited or Special Purpose Property

Insurance Requirements Guidance for 504

Life Insurance:

- Required when liquidation value of collateral is insufficient to secure the net debenture amount of the SBA loan
- Calculation of liquidation value is based on appraisal value (not project cost)

Insurance Calculation Example

Total Project Cost: \$5,000,000 (50/30/20 Structure)

TPL Amount: \$2,500,000

504 Amount: \$1,500,000

Borrower: \$1,000,000

Breakdown of Project Costs:

Building/Land: \$4,050,000

Equipment: \$ 500,000

Other Expenses: \$450,000

Liquidation Value = Collateral Appraised Value * Standard Liquidation Rates

Collateral	Appraised Value	Liquidation Rate	Liquidation Value
Real Estate	\$4,500,000	75%	\$3,375,000
Equipment	\$500,000	50%	\$250,000
Total Collateral Liquidation Value			\$3,625,000

Life insurance is required when the liquidation value of the collateral is insufficient to secure the SBA loan.

Collateral Liquidation Value	\$3,625,000
Subtract TPL Amount – 1 st lien	-\$2,500,000
Subtract 504 Loan Amount – 2 nd lien	<u>-\$1,500,000</u>
Liquidated Collateral Shortage	=\$(\$375,000)
Required Life Insurance Amount	\$375,000

Equipment that is part of appraised value for special use facilities such as hotels / gas stations – a 75% liquidation rate will be applied to the overall appraised value.

504 Updates on Historic Properties Review

- Historic properties review required: Projects impacting sites listed or eligible to be listed on the National Register of Historic Places (“NRHP”)
- Consult with local SBA counsel
- No further obligation if no potential to cause effect on historic properties Example: purchase with no renovation/no changes
- If SBA finds no adverse effect and the SHPO agrees or does not object within 30 days, the Agency can proceed with the approval of the loan.
- If SBA Counsel finds an adverse effect on the historic nature of the property, SBA must consult with the State Historic Preservation Officer (SHPO) to resolve the issue.

SOP 50 10 5(J) – Ineligible and Illegal Businesses

- Applies to 7(a) and 504 Loan Programs
- Added guidance on Marijuana-Related Businesses.
 - “Direct Marijuana Business”
 - “Indirect Marijuana Business”
 - “Hemp-Related Business”
- Added guidance on leasing part of building acquired with loan proceeds to an illegal business.

504 Debt Refinancing (without expansion) Program

- SBA received statutory authority to reauthorize the 504 Debt Refinancing Program for up to \$7.5 billion annually. This is in addition to the \$7.5 billion authorization for the 504 Loan Program. With this change, total 504 lending has a \$15 billion authorization for FY18.
- SBA published the Interim Final Rule on May 25, 2016, and the Policy Notice on May 26, 2016. The Interim Final Rule had a 30-day effective date after publication and SBA launched the 504 Debt Refinancing Program on June 24, 2016.
- The Final Rule published on May 7, 2018, becomes effective on June 6, 2018.

504 Debt Refinancing (without expansion) Program

Fees Update

As per SBA Information Notice 5000-1954, for loans approved under the 504 Debt Refinancing (without Expansion) Program during FY 2018, the total annual guarantee fee is 0.682% (68.2 basis points).

SBA will review the fee annually and issue notices of any change.

Final Rule Changes – Debt Refi w/o Expansion

1

Qualified Debt

2

Current on All Payments Due

3

Refinancing Projects - Special Purpose Properties

4

Eligible Business Expenses Update

5

Documentation Requirements Update

1 Qualified Debt Update

The definition of “Qualified Debt” was revised to allow loans that were refinanced within 2 years prior to the date of application to be eligible for refinancing if:

- the effect of the most recent loan was to extend the maturity date without advancing any additional proceeds (except to cover closing costs); and
- the collateral for the most recent loan includes, at a minimum, the same Eligible Fixed Asset(s) that served as collateral for the prior loan that was refinanced.

Q&A

Q: For loans that were refinanced within 2 years prior to the date of application, what documents must be provided to show eligibility as Qualified Debt?

A: CDCs must submit to SBA copies of the most recent loan and lien instruments, as well as copies of the loan and lien instruments for the loan that was replaced by the most recent loan, to show that the effect of the most recent loan was to extend the prior loan's maturity date without advancing any additional funds to the Borrower (other than to pay the closing costs of the refinancing).

2 Current on All Payments Due

*Modification or refinance within the year prior to application is eligible:

- Purpose was to extend the maturity date of the loan
- No additional proceeds were advanced (except for closing costs); and provided that
- Applicant has been current on all payments due with no deferments for the 1-year period prior to the date of application
- ***NOTE:** This does not apply to debt refinance with expansion under the 504 Loan Program

Q&A

Scenario 1:

Q: My Borrower's loan will mature in 3 weeks. The Borrower will not be able to come into my office until after that time. If we provide an extension, would this be considered a loan modification that would mean the debt is ineligible?

A: The lender may provide an extension, and the loan may still be considered current, provided that the purpose of the modification is **ONLY** to extend the maturity date of the loan and no additional proceeds are advanced.

Scenario 2:

Q: My Borrower was unable to refinance its note before it expired; however, the Borrower continued making timely payments. Is this debt eligible?

A: No.

3 Borrower Contribution – Special Purpose

Special Purpose collateral:

- Borrower must contribute at least 15%
- Economic Recession: Borrower contribution may be reduced to 10%

4 Eligible Business Expenses

Three Things to Consider:

- Eligible Business Expenses (EBE) can't exceed 20% FMV of Eligible Fixed Assets securing the Qualified Debt
- Total project financing (TPL loan + SBA loan) can't exceed 85% FMV of the fixed assets serving as collateral; AND
- Cannot increase the value of the project by adding collateral

NOTE: No “cash out” permitted in debt refinance with expansion

Q&A

Q: The fair market value of the collateral for the proposed loan will not support the refinance. What are the options for addressing the collateral shortage?

A: It depends.

- Collateral for the most recent loan must include, at a minimum, the same Eligible Fixed Asset(s) that served as collateral for the prior loan.
- If no EBE, options include adding eligible collateral, and/or subordinated debt if it meets criteria for “borrowed equity” per the SOP (demonstrates repayment ability, not repaid faster than the 504 loan, etc.)
- However - If the Refinancing Project includes the financing of EBE, the 504 loan and Third Party Loan may be no more than 85% of the fair market value of the fixed assets that will serve as collateral, and **the Borrower may not increase the value of the Refinancing Project by adding any additional assets as collateral.**

4 Eligible Business Expenses

Eligible: Operating expenses that were accrued but not paid prior to the date of application or that will become due within 18 months

- Examples: repairs, maintenance, minor improvements, salaries, rent, utilities, inventory
- Includes any operating expense that can be deducted as an expense in the taxable year in which it was paid or incurred
- Business lines of credit & business credit card debt are eligible
- Ineligible: capital expenditures such as expenditures for expansion and acquisition

4 Eligible Business Expenses

Debt does not qualify as an EBE unless:

- Incurred with a business credit card or business line of credit and
- Applicant certifies the debt was exclusively for business uses
- CDCs must document the nature of the expense and provide an itemization in the credit memorandum

4 Eligible Business Expenses

- Both the CDC and the Borrower must certify in the application that the funds will be used for EBE.
- Borrower may be asked to show that loan proceeds provided for EBE were actually used for EBE
- Loan proceeds must not be used to refinance any personal expenses.

Q&A

Q: What is the documentation requirement for Eligible Business Expenses (EBE)? Is a gross figure acceptable, or must expenses be itemized?

A: CDCs must document the nature of the EBE, provide an itemization of the expenses, and certify that they are eligible in the credit memorandum.

Additionally:

- At application, the Borrower must certify that the debt is eligible
- The TPL must certify the EBE is eligible in its commitment letter
- EBE documentation should be retained at the CDC so it is available if requested by SBA.

5 Disbursement Period

Disbursement Period - Increased from 6 months to 9 months

- May request an exception to policy for an extension for an additional 6 months for good cause
- Total allowable months with an exception to policy is 15 months

504 Debt Refinancing Program

Ineligible Request

Refinance \$ XXX,XXX (any amount of business loans) none of which was used to acquire an Eligible Fixed Asset and none of which is secured by fixed assets.

Acceptable Structure

NONE

Comments

There is no Qualified Debt to refinance so the project would not be eligible under this program. Each project must have a Qualified Debt to be eligible.

504 Debt Refinancing Program

Request

Refinance \$100K existing acquisition mortgage plus \$400K 2nd mortgage borrowed 5 years ago for property renovations. Property is appraised at \$1,000,000.

Comments

All eligible. The total amount of Qualified Debt is \$500,000. TPL loan amount must be equal to or greater than the debenture amount, at least \$250,000 in this example.

Acceptable Structure

Appraised value of Property	\$ 1,000,000
Qualified Debt	\$ 100,000
Qualified Debt	\$ 400,000
Total Loan Proceeds	\$ 500,000
Third Party Loan	\$ 250,000
SBA 504 Loan	\$ 250,000
Borrower Equity Contribution	\$ 500,000

504 Debt Refinancing Program

Request

Refinance \$300K existing Qualified Debt plus \$400K for a business line of credit and other Eligible Business Expenses. Property is appraised at \$1,000,000.

Comments

The \$300K Qualified Debt can be included but only \$200K of the requested \$400K in Eligible Business Expenses can be included. Eligible Business Expenses are limited to 20% of the Refinancing Project amount. In this case \$200K. Total LTV remains below the 85% maximum for transactions involving Eligible Business Expenses.

Acceptable Structure

Refinancing Project (Appraisal)	\$ 1,000,000
Qualified Debt	\$ 300,000
Eligible Business Expenses	\$ 200,000
Total Loan Proceeds	\$ 500,000
Third Party Loan	\$ 250,000
SBA 504 Loan	\$ 250,000
Borrower Equity Contribution	\$ 500,000

504 Debt Refinancing Program

Request

Refinance three Qualified Debt mortgages totaling \$1,250K. Loan #1 to buy the land, Loan #2 to build the building, Loan #3 for property improvements. Property is appraised at \$1,000,000.

Comments

Applicant would have to put in \$350K cash or add additional eligible assets with an appraised value sufficient to increase the Refinancing Project to \$1,389K and maintain the required 10% equity. 90% LTV acceptable as no funds provided for Eligible Business Expenses and the property is not special purpose.

Acceptable Structure #1 with \$350K cash to close

Refinancing Project (Appraisal)	\$ 1,000,000
Qualified Debt	\$ 900,000
Third Party Loan	\$ 500,000
SBA 504 Loan	\$ 400,000
Borrower Equity Contribution	\$ 100,000

Acceptable Structure #2 add eligible fixed assets

Refinancing Project	\$ 1,389,000
Qualified Debt	\$ 1,250,000
Third Party Loan	\$ 694,500
SBA 504 Loan	\$ 555,500
Borrower Equity Contribution	\$ 139,000

504 Debt Refinancing Program

Request

Refinance \$800,000 in Qualified Debt on a bowling alley. Property is appraised at \$1,000,000.

Comments

The request can be structured to meet program guidelines. Borrower contribution (equity) must be at least 15% reducing the SBA share to no more than 35%. Equity above the 15% required may reduce either the TPL or 504 share as long as the TPL is equal to or greater than the SBA.

Acceptable Structure

Refinancing Project (Appraisal)	\$ 1,000,000
Qualified Debt	\$ 800,000
Total Project Financing	\$ 800,000
Third Party Loan	\$ 450,000
SBA 504 Loan	\$ 350,000
Borrower Equity Contribution	\$ 200,000

504 Debt Refinancing Program

Request

Refinance \$700,000 in mortgage debt originally taken out 5 years ago and refinanced 10 months ago for better rate and terms plus \$200,000 to cover Eligible Business Expenses, some of which will be incurred in the following 6 months. Property is car wash business appraised at \$1,000,000.

Comments

The mortgage debt would be a Qualified Debt if the earlier refinancing was, in effect, a replacement for the prior loan with no new funds advanced (other than closing costs). Only \$150,000 of the request is eligible as this project is limited to no more than 85% LTV. As a special purpose property the Borrower contribution must be at least 15% and SBA cannot exceed 35%.

Acceptable Structure

Refinancing Project (Appraisal)	\$ 1,000,000
Qualified Debt	\$ 700,000
Eligible Business Expenses	\$ 150,000
Total Loan Proceeds	\$ 850,000
Third Party Loan	\$ 500,000
SBA 504 Loan	\$ 350,000
Borrower Equity Contribution	\$ 150,000

Debt Refi w/o Expansion

Max Borrower contribution required 15%, unless SBA determines risk mitigation requires more

Federally guaranteed loans ineligible

TPL loan can be reduced to less than 50% of project cost provided:

- 1) the TPL loan is equal to or greater than the SBA loan, AND
- 2) SBA not to exceed 40% of the total project cost or 35% for Special Use properties

Subject to supplemental annual fee. Current total annual fee is 0.682%

Debt Refi with Expansion

Max Borrower contribution required 20%

Federally guaranteed loans eligible if allowed by originating Federal Agency

TPL loan must be at least equal to 50% of Project costs

SBA not to exceed 40% of the total project cost or 35% for Special Use properties

No supplemental annual fee. Current total annual fee is 0.642%

Debt Refi w/o Expansion

“Eligible Business Expenses” up to 20% of appraised value of the Eligible Fixed Assets w/max LTV of 85%. Collateral must be fixed assets securing the Qualified Debt. No additional collateral can be added to meet LTV requirements.

Min. 2 year requirement: Age of original eligible debt, time debt secured by the same Eligible Fixed Asset & time applicant in business

Borrower must be current on all payments for preceding year as of date of app. Loan may have been modified/refinanced within the year if no additional funds disbursed and if purpose was to extend maturity date.

Debt Refi with Expansion

No “cash out”. Costs such as prepayment penalties, financing fees or other refi costs required by original debt instrument may be included.

“Substantial benefit” test – must provide better rates or terms – 10% lower payment

Borrower must be current on all payments due on the existing debt for not less than 1 year or for the time the debt has been open if less than 1 year. No allowance for modification or refinance to extend maturity date.

504 Contacts

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Please send your questions about the 504 Debt Refinancing
(without Expansion) Program to: 504RefiQuestions@sba.gov

Questions?