

DEBT REFINANCING ADDENDUM (Addendum E)

SBA has certain restrictions on the use of loan funds for refinancing of prior debt. Complete each item below. If "No" is checked, the use of proceeds for refinancing may not be eligible.

The debt to be refinanced had an original purpose that would have been eligible for SBA funding. YES___ NO___

For an Applicant to be eligible for debt refinancing, the debt must not presently be on reasonable terms **and** in the event of refinanced long term debt, the new installment amount must be at least 20% less than the existing installment amount(s). (Revolving lines of credit are not considered "long term debt.")

Existing debt is **presently on unreasonable terms** if:

- (i) long term debt structured with a demand note or balloon payment;
- (ii) that the Lender believes no longer meets the needs of the Small Business Applicant;
- (iii) debt with an interest rate that exceeds the SBA maximum interest rate for the processing method used;
- (iv) credit card debt;
- (v) interest only term debt (interest only lines of credit are not considered unreasonable); and
- (vi) debt that was over collateralized at inception (however, the SBA guaranteed loan must meet SBA collateral requirements).
- (vii) Revolving lines of credit (short or long term) where the original lender is unwilling to renew the line or the applicant is restructuring its financing in order to obtain a lower interest rate or longer term.
- (viii) Debt with a maturity that was not appropriate for the purpose of the financing (e.g. a 3 year term loan to finance a piece of equipment with a useful life of 15 years).

Q: Is the existing debt presently on unreasonable terms? YES___ NO___

Proceeds may not be used to pay a **creditor in a position to sustain a loss** causing a shift to SBA of all or part of a potential loss from an existing debt.

A creditor is in a position to sustain a loss if repayment cannot be reasonably demonstrated and the loan is not fully collateralized using reasonable liquidation values.

However, SBA may not be in the position to sustain the same loss by refinancing the debt if new terms and conditions provide reasonable assurance of repayment or additional assets can be acquired so that the loan becomes fully collateralized.

Q: Lender is not in the position to sustain a loss or SBA will not be in the position to sustain the loss by refinancing the debt. YES___ NO___

Loan will not refinance debt to an SBIC. YES___ NO___

Loan will not refinance third party financing for any existing 504 project. YES___ NO___

SBA has specific requirements for the refinancing of participant's loan and for refinancing a prior SBA loan. Check below as applicable and provide the requested information.

___ Loan will refinance participant's loan (non-SBA loan). *If checked, provide the following information:*

1. Lender must certify in writing, on the Form 4 or below, that the debt to be refinanced is and has been current for at least the last 36 months. Lender must also provide a transcript of the borrower's account showing that its debt to be refinanced is, and has been current for at least the last 36 months.

2. When a major part of the loan proceeds is for repayment of participant debt, lender must fully explain below how and why the debt accumulated.

___ Loan will refinance a prior SBA loan. *If checked, provide the following information:*

1. If the prior SBA loan is being refinanced through a new lender, document that the new lender has contacted the lender holding the existing SBA loan and confirmed that the lender has declined to approve a second loan and is either unwilling or unable to modify the current payment schedule in such a way that a new lender could approve a loan without SBA's guaranty.

2. If a lender is refinancing its own SBA guaranty loan, document that the sole reason the lender is unable to modify the terms of the existing loan is that a secondary market investor will not agree to modified terms.

Debt Refinancing Justification/Calculation (Addendum E cont.)

Questions to address/explaining and ascertaining eligibility, if applicable:

For Lines of Credit and Term Notes/Leases or Credit Cards

- Why was the debt incurred? What was the original use of proceeds?
- Has over-obligated or imprudent debt scheduling necessitated a major restructuring of the debt?
- How will the new loan improve the financial condition of the business and what benefit will refinancing give the applicant?
- Is the debt already on reasonable terms?
- Will the refinancing include payments to creditors in a position to sustain a loss due to either an inadequate collateral position or low or deficit new worth?
- If Yes to the previous question, will 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 agency?

Term Notes/Leases or Credit Cards:

Existing Loan Terms	Proposed Loan Terms
Creditor Name:	Creditor Name:
Current Loan Balance:	Refinance Amount: *
Current Interest Rate:	Proposed Interest Rate:
Loan Term (Remaining):	Loan Term (Total)
Current Payment Amount:	Proposed Payment Amount:
Identify Savings Amount per month:	
Identify Savings Percentage:	
Identify Collateral the Secures Existing Loan:	

* the amount should be the same as the current loan balance that you are refinancing, NOT the total amount of the SBA loan.