



DEBT REFINANCING REQUIREMENTS

Business & Industry (B&I) Guaranteed Loan Program

Debt refinancing is an authorized B&I purpose when it is in keeping with the program's underlying goal – i.e., to create and save jobs in rural areas. This standard is typically met **either** (1) by improving a business's cash flow **or** (2) by supporting a business's expansion:

1. Improving Cash Flow

The B&I loan must provide improved cash flow by offering better rates & terms than the debt being refinanced. A 20%-or-better reduction in debt service cost is desirable, but not essential.

The refinance of a loan with a balloon payment clearly improves cash flow significantly (even if the annual debt service cost is not reduced) and is therefore authorized.

2. Support Business Expansion

Debt refinancing is allowed if it is being done in connection with a business expansion project and the refinancing is necessary for the lender to obtain the lien priority position it requires.

(Example: A property with an existing 1st deed of trust is to be improved with a B&I loan. The lender requires a 1st lien position. So, a B&I loan is made both to refinance the existing 1st and to improve the property. The B&I loan will then be secured by a 1st lien.)

SPECIAL CASE: Commercial lease projects (retail centers, office buildings, industrial facilities, etc.):

Refinancing for these types of businesses is typically not authorized, since the only jobs connected with such facilities are those of the tenants, and the debt refinancing does not have any financial impact on the tenants.

However, refinancing of such businesses may be justified if the B&I loan will also expand, renovate, or revitalize the facility – which does have a positive impact on the tenant businesses and the jobs situated there.

Refinancing “Portfolio Debt” – when a lender is refinancing a loan already on their books:

A lender may use the B&I program for a new loan to refinance their existing loan(s) to a borrower under any of the following circumstances:

a. Takeout of interim financing

Permanent, take-out financing is permitted *provided the lender applies to USDA before the last scheduled disbursement* of their interim loan.

b. Loans that are already Federally-guaranteed (including B&I, SBA 7(a), or SBA 504 debt)

Refinancing loans that are already Federally-guaranteed is permitted, provided the refinancing improves cash flow and/or supports business expansion. The loan must have been current for at least the past 12 months (and not merely because of debt restructuring).

c. “Portfolio refinancing” is a secondary purpose

In all other cases, “portfolio debt” refinancing must be a secondary purpose – the majority of the B&I loan proceeds (> 50%) must be used for purposes other than portfolio debt refinancing (e.g. real estate improvement, M&E, working capital, refinancing of other creditor's debt, etc.). The portfolio loan(s) being refinanced must have been current for at least the past 12 months (and not merely because of debt restructuring).