



## REFINANCING SBA LOANS CHAPTER 2: REFINANCING SELLER DEBT

*Here's the second in our series on refinancing SBA loans. We're looking at what needs to happen when the seller carries back a portion of the financing as part of a change of ownership - what's commonly referred to as "Seller Debt" - or debt owed to the seller.*

Let's assume there's a change of ownership and the buyer/applicant meets the Credit Elsewhere Test for SBA refinancing. Now let's say the buyer can only put down 10% of the SBA's required 25% down payment for a \$500,000 loan to qualify for PLP processing. So the seller - probably eager to close the deal - agrees to take back a note for the rest, or the additional 15% required down payment.

**The tricky question: Can the seller carry loan be refinanced?** Not for some time. Here's how it works: The SBA can only refinance a loan after 24 months of ongoing payment of principal and interest. Yet when a seller takes back a note, the SBA regards that portion of the loan as an injection into the business if the loan is on full standby, not as a loan to the buyer. So rather than the buyer making payments to the seller, with the loan on "full stand-by," no payments of principal or interest are made to the seller for 24 months.

After those 24 months, assuming satisfactory repayment history, the seller may receive payments of principal and interest from the buyer. Then, after 24 months of continued payment of principal and interest to the seller, SBA can refinance the seller debt with the SBA guaranty. So we're looking at a total of 48 months after the loan origination before the refinance could be eligible.

**For your reference.** Of course there's more to this. For more details SBA loan refinancing, see [SOP 50 10 5 \(H\) Lender and Development Company Loan Programs](#), effective May 1, 2015. Change of ownership refinancing is covered in Subpart B: Chapter 2; E. Policies Regarding Debt Refinancing; Item 12: Refinancing as Part of a Change of Ownership pg. 117.

At J.R. Bruno & Associates, we have decades of experience with SBA lending. Whether you're just getting your program off the ground or looking to expand, we're here to answer your questions and help you through any knotty issues at any stage of the process. For our full array of services, [Contact JRB!](#)

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