



504 LOAN REFINANCING FOR ELIGIBLE SMALL BUSINESS ASSETS UNDER THE JOBS ACT

Market research shows that a large percentage of commercial mortgages outstanding are set to mature within the next few years, particularly those held by community banks. As real estate values have declined, however, even small businesses that are performing well and making their payments on time can have a hard time refinancing these loans and may need to restructure their debt.

Under the Small Business Jobs Act, the SBA will implement a temporary program—authorized until Sept. 27, 2012—allowing small businesses to refinance eligible fixed assets in its 504 program without requirement of an expansion, as is the case with typical 504 loans. This program will provide small businesses the opportunity to lock in long-term, stable financing, as well as protect jobs.

Key Program Features

- SBA will launch this temporary program on Feb. 17, 2011 and will begin accepting loan applications on Feb. 28, 2011. The program will end on September 27, 2012.
- Borrowers can finance up to 90 percent of the current appraised property value, or 100 percent of the outstanding principal, whichever is lower, plus 504 eligible refinancing costs.
- SBA will initially open the program only to businesses with immediate need. Priority will be on those businesses potentially at risk because they face loan maturity or balloon payments before Dec. 31, 2012. SBA will later revisit the program parameters, and may open the program to businesses with later balloon payments or that can demonstrate need in other ways.
- The program is structured like SBA's traditional 504 loan program: borrowers will work with third-party lending institutions and SBA-approved Certified Development Companies (CDCs), typically private, non-profit organizations to obtain financing, in a traditional 10%/50%/40% split.
- SBA estimates that as many as 20,000 businesses may ultimately participate in this program, which will provide up to \$15 billion in SBA-guaranteed financing leading to total project financing of over \$30 billion.



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Key Risk Mitigating Factors

- Applicants must demonstrate that their loans are current and that they have successfully made all required payments in the last year.
- A new, independent appraisal will be required for all projects.
- SBA will perform full and thorough underwriting on all refinancing applications (i.e., there are no 'delegated' lenders).
- Initially, the first mortgage loans on existing 504 projects are not eligible, and "cash out" refinancings are not permitted. SBA may later revisit these restrictions. In addition, no government guaranteed loan is eligible for this refinancing program.

SBA's 504 Loan Program

SBA's 504 loan program is a long-term financing tool, designed to encourage economic development within a community. The 504 Program accomplishes this by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization.

Proceeds from 504 loans must be used for fixed asset projects, such as:

- The purchase of land, including existing buildings
- The purchase of improvements, including grading, street improvements, utilities, parking lots and landscaping
- The construction of new facilities or modernizing, renovating or converting existing facilities
- The purchase of long-term machinery and equipment

Typically, a 504 project includes three elements:

a loan (or first mortgage) secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a second mortgage secured with a junior lien from an SBA Certified Development Company (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business borrower.

Call CMDC to discuss your options **763.784. 3337**