



# 2009 RECOVERY ACT



## HELPING SMALL BUSINESS START, GROW AND SUCCEED

### **Enhancements Benefit Lenders In SBA Fixed Asset Loan Program**

As a lender, you play a vital role in spurring your community's economic growth. The U.S. Small Business Administration knows small business lending through SBA loan programs can be an important part of your portfolio. By partnering with a local Certified Development Company in SBA's 504 Loan Program, you can help your community prosper while retaining a first-lien position at favorable loan-to-value ratios. The American Recovery and Reinvestment Act of 2009 provides several incentives for lenders to increase participation in SBA's 504 program, including temporarily reducing fees for borrowers and lenders, allowing for a limited amount of debt refinancing on some expansion projects, and rejuvenating the frozen secondary market establishing SBA guarantees on first-mortgage pools to reinvigorate the 504 lending market.

#### **How lenders benefit:**

- You retain a first-lien position with as little as 50 percent exposure
- You can choose fixed or variable rate financing
- SBA's CDCs share borrower and property oversight responsibility with a subordinate lien on the financed property
- Enhanced secondary market opportunities: Infusion into the clogged 504 first-lien secondary market will get credit flowing again
- For loans after Feb. 17, 2009, SBA will temporarily reimburse lenders for CDC processing fees normally charged to borrowers

#### **How the community benefits:**

- 504 loans finance long-term projects, from start-ups to businesses needing facilities and equipment to expand
- 504 loans help build and retain community businesses, creating jobs and stimulating economic activity

#### **How small business owners benefit:**

- The temporary elimination of CDC processing fees charged to borrowers makes SBA 504 loans more affordable for small businesses that are hesitant to pursue a loan
- 504 projects can now include a limited amount of debt refinancing if there is a business expansion and the debt refinanced does not exceed 50 percent of the projected cost of the expansion. Expansion includes any project that involves the acquisition, construction or improvement of land, building or equipment for use by the small business. Allowing businesses to restructure eligible debt under new, better terms and conditions, will improve their cash flow and enhance their viability and capacity for growth and job creation or retention.

The following are some conditions under which borrowers will be eligible for refinancing:

- The debt being refinanced was incurred to acquire land, to construct a building or to purchase equipment. The assets acquired must be eligible for financing under the 504 program.
- The existing debt is collateralized by fixed assets.
- The existing debt was incurred for the benefit of the small business.
- The new financing provides a substantial benefit to the borrower when prepayment penalties, financing fees, and other financing costs are taken into account.
- The borrower has been current on all payments of existing debt for one year prior to the date of refinancing.

Under the program, a 504 loan is required to create or retain a minimum number of jobs within two years of the loan disbursement as a result of the project or to meet other defined economic development objectives.

Currently, one job must be created or retained for each \$65,000 in funds guaranteed by the SBA. (The previous goal was one job for each \$50,000 in guaranteed funds.) For a manufacturing project, it is one job per \$100,000 of 504 loan funding. For projects in Alaska, Hawaii, state-designated enterprise zones, empowerment zones and enterprise communities, labor surplus areas, as determined by the Secretary of Labor, and for other areas designated by SBA, the CDC's portfolio may average not more than \$75,000 per job created or retained.

Banks investing in small businesses will make credit more readily available for those businesses that need it

Making SBA loan programs available to your small business customers makes sense for you, the small business owners, and your community. For additional information on SBA's 504 loan program, or a list of Certified Development Companies serving your area, contact your local SBA District Office. Find the nearest SBA District Office by logging onto <http://www.sba.gov/localresources/index.html>.