

News Release

PRESS OFFICE

Release Date: March 29, 2011

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Release Number: 11-22

Internet Address: <http://www.sba.gov/news>

SBA Opens Temporary Refinancing Program to Real Estate Mortgages Maturing after December 2012

WASHINGTON, D.C. –Small business owners with eligible commercial real estate mortgages maturing after Dec. 31, 2012, will be able to secure more stable, long-term financing through the U.S. Small Business Administration’s temporary 504 refinancing program as a result of a change that will be published in *The Federal Register* by April 6.

In February, SBA implemented a temporary refinancing program enacted under the Small Business Jobs Act of 2010, which allowed small businesses facing maturing commercial real estate mortgages or balloon payments before Dec. 31, 2012, to refinance with an SBA 504 loan. The SBA change will lift the date limitation and will allow more small businesses to secure stable, long-term financing and avoid potential foreclosure on mortgages approved before and during the recession that were based on inflated real estate values.

“With the collapse of the real estate bubble, many small business owners have found themselves unable to refinance as a result of inflated real estate values at the time they took out their mortgage,” SBA Administrator Karen Mills said. “SBA’s temporary 504 refinancing program was first made available to those small businesses with the most immediate need. Today’s step opens this critical assistance to more small businesses, giving them the opportunity to restructure their debt and free up capital that will be essential to keeping their doors open and also their future ability to grow and create jobs.”

To be eligible for the temporary 504 refinancing program, a business must have been in operation for at least two years, the debt to be refinanced must be for owner-occupied real estate and have been incurred no less than two years prior to the date of application and the proceeds used for 504-eligible business expenses, and payments on that debt must be current for the last 12 months.

The refinancing loan is structured like SBA’s traditional 504 loan. Typically, a 504 project includes three elements: a loan (or first mortgage) secured with a senior lien from a private-sector lender covering 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.

Borrowers are able to refinance up to 90 percent of the current appraised property value or 100 percent of the outstanding mortgage, whichever is lower, plus eligible refinancing costs. Loan proceeds may not be used for other business expenses. Existing 504 projects and government-guaranteed loans are not eligible to be refinanced.

Under the Jobs Act, Congress authorized SBA to approve up to \$15 billion in loans under this program (\$7.5 billion in both fiscal years 2011 and 2012). Together with the first mortgage, this temporary program will provide up to \$33.8 billion of total project financing. Additional fees charged to the borrower will cover the cost of this refinancing program and as a result no loan subsidy will be needed from taxpayer funds. The program is expected to benefit as many as 20,000 businesses.

SBA's traditional 504 loan program is a long-term financing tool, designed to encourage economic development within a community. A 504 loan provides small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization.

With publication in the *Federal Register*, which is expected by April 6, SBA will begin accepting applications from small business owners with mortgages maturing after Dec. 31, 2012. The program will be in effect through Sept. 27, 2012.

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