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Changes to SBA 504 Loan Program will allow businesses to refinance existing debt, expand, create new jobs

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Small businesses seeking to expand will be able to refinance existing loans used to purchase real estate and other fixed assets as a result of permanent changes to the U.S. Small Business Administration's 504 Certified Development Company loan program. The changes were authorized in the American Recovery and Reinvestment Act of 2009.

The permanent changes will allow small businesses to restructure eligible debt to help improve their cash flow which, in turn, will enhance their viability and support growth and job creation. The 504 loan program can be used to purchase business real estate or fixed assets, such as heavy equipment or machinery, and expand current development projects.

"This is one more piece of the Recovery Act that is going to have a direct impact and put more money in the hands of small business owners just when they need it most," SBA administrator Karen Mills said. "Lower interest rates mean lower payments and less money going out the door each month in debt repayments. That means more cash on hand to keep their doors open, their employees working and to even expand and create more jobs."

Mills pointed out that the 504 program's refinancing changes are the latest in several Recovery Act provisions that have been implemented by the SBA in recent weeks. On March 16, the agency temporarily raised to 90 percent the guarantee level on many of its 7(a) program loans and reduced fees on both 7(a) and 504 loans, and also doubled to \$5 million the surety bond guarantee level for small businesses competing for construction and service contracts. Additionally, on June 15, SBA ARC loans became available for viable small businesses facing immediate financial hardship.

"All of these steps, along with other Recovery Act provisions, are aimed at increasing access to capital and giving small businesses just what they need to help lead our nation's economic recovery," Mills said. The 504 loan program is administered through 271 Certified Development Companies across the nation. SBA today began implementation of the changes by publishing them as a permanent rule in the Federal Register.

The changes announced include:

*Debt Refinancing: Legislation allows 504 program projects to 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. The following are some of the 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.

For more information on the 504 loan program and eligibility requirements, go to www.recovery.gov or www.sba.gov/recovery.

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