

# Fact Sheet

## **Administration Announces New Small Business Commercial Real Estate and Working Capital Programs**

President Obama announced today two new small business lending initiatives to help increase access to capital and create jobs. These temporary Small Business Administration initiatives include a refinancing program for small business owner-occupied commercial real estate and an expanded working capital loan program. At the same time, the president continued his call for a permanent increase of the maximum loan sizes for SBA's 7(a), 504 and microloan programs and to extend the successful small business Recovery Act lending programs. These initiatives are part of the Administration's broader agenda to improve access to credit for small businesses, including a proposal to transfer, through legislation, \$30 billion to a new Small Business Lending Fund that will support lending by community and smaller banks.

### *New Proposals:*

1. **Temporary Small Business Owner-Occupied Commercial Real Estate (CRE) Refinancing**
  - Expand SBA's existing 504/Certified Development Company (CDC) program temporarily to support refinancing for small business owner-occupied CRE loans that are maturing in the next few years and help refinance over \$20 billion each year in commercial real estate that might otherwise be foreclosed and liquidated.
2. **Temporary Expansion of Working Capital Loans**
  - Temporarily increase the cap on SBA Express loans from \$350,000 to \$1 million to expand access to much-needed working capital and allow more small businesses to take advantage of the streamlined approval process.

### *Previously Announced:*

3. **Increase maximum loan size for 7(a), 504 and Microloan Programs**
  - Increase SBA support for larger projects to help America's small businesses drive long-term economic growth and the creation of jobs in communities across the country.
    - i. Permanently increase 7(a) loans from \$2 million to \$5 million
    - ii. Permanently increase 504 loans from \$2 million to \$5 million for regular projects, and from \$4 million to \$5.5 million for manufacturing
    - iii. Permanently increase SBA Microloans from \$35,000 to \$50,000
4. **Continue Successful Recovery Act Programs for Fee Relief and Higher Guarantees through Fiscal Year 2010**
  - These provisions helped support a significant turnaround in SBA lending in 2009. To date, SBA has supported nearly \$20 billion in lending to tens of thousands of small businesses across the country, supporting the retention and creation of hundreds of thousands of jobs.

## New Temporary Commercial Real Estate Program

The Administration is proposing legislation to temporarily allow small businesses to refinance existing, qualified, owner-occupied, small business commercial mortgages into SBA's 504 program, which provides guarantees supporting loans for the development of real estate and other fixed assets. Currently, 504 loans must be used for new development or construction—and can only include a limited amount of refinancing when businesses are expanding. *(See additional proposal details, page 5)*

- **Refinance Existing Loans into SBA 504 Structure:** SBA's existing network of Certified Development Companies and private lenders already help small businesses finance long term investments like real estate and heavy equipment through a financing structure that includes a 50% private first mortgage, a 40% SBA-backed debenture, and 10% borrower equity. With collateral values falling and many banks pulling back on CRE lending, even refinancing well performing loans has become harder. Under this new proposal, borrowers with either existing 504 loans or conventional CRE loans could apply for refinancing through the 504 program.
- **Leverage Existing Infrastructure and Programs:** SBA's existing network of Certified Development Companies and participating first mortgage lenders will be able to deliver this program to borrowers quickly. Eligibility would be similar to the existing SBA 504 program. Certified Development Companies are SBA's critical partners in this program, linking small businesses and private lenders and helping to manage program risk.
- **Target Performing Real Estate Loans:** Eligible small businesses will have commercial first mortgage loans or existing 504 first mortgage loans that are maturing in the next year. In order to qualify, businesses will have to be current on all loan payments for the previous year.
- **Help Finance up to 90% of Current Property Values:** Lenders that are refinancing mortgages for existing customers will make a loan for up to 70% of the current property value; and SBA will help finance the remaining 20%. For lenders taking on a new refinancing project, SBA will take on a greater share of financing, up to 40%.
- **No Cost Program through Incremental Refinancing Fee:** SBA's proposal for a temporary, zero-subsidy rate CRE refinancing program would be funded through an additional fee for refinancing projects, and would not require credit subsidy appropriations.
- **Prevent Foreclosure:** Borrowers can finance up to 90% of existing property values through this program. By allowing eligible small businesses to refinance their CRE mortgage into an SBA 504 loan project, this program would provide creditworthy small businesses the opportunity to lock in stable, long-term financing—and save jobs—by protecting small businesses from unnecessary foreclosure.
- **Free up Capital for Community Banks:** Market research shows that a large percentage of CRE mortgages are set to mature within the next few years, and that nearly half of these mortgages are held by community banks. By removing a percentage of existing CRE mortgages from their books, lenders will free up capital that they can use to make more small business loans.

### New Large Working Capital Loans

Today, the Administration is proposing increasing the limit on SBA 7(a) working capital loans from \$350,000 to \$1 million.

- **Increase SBA Express Working Capital Loan Size to \$1 Million:** In response to feedback from borrowers and lenders alike, the Administration is proposing to temporarily increase the maximum SBA Express loan size to \$1 million, which would expand the program's ability to help a broad range of small businesses.
  - **Simplified SBA Processing:** Unlike traditional 7(a) loans, lenders can use their own paperwork for SBA Express loans, which can be structured as revolving lines of credit. Currently, these Express loans are capped at \$350,000 and carry a 50% guarantee.
  - **Help Businesses Restock Inventory:** SBA Express loans are an important lifeline for small businesses. Increasing the maximum loan size to \$1 million will help address the liquidity needs of small businesses as the economy recovers and they are restocking inventories and financing increasing sales.

### Permanent Increases to SBA Loan Size

In October, the President proposed increasing the maximum 7(a) loan size from \$2 million to \$5 million, and the maximum 504 guarantee size from \$2 million to \$5 million for standard projects and from \$4 million to \$5.5 million for manufacturing projects.

- **Increase the cap on 7(a), 504, and Microloans:** The president is re-iterating his proposal to permanently increase the limits on some of SBA's most popular loans. Entrepreneurs, small business owners, and lenders alike have indicated that there is a market gap for larger-sized SBA loans, and SBA's own trends show increasing demand for larger loans. The proposal includes the following increases:
  - **7(a) loans from \$2 million to \$5 million;**
  - **504 loans from \$2 million to \$5 million** for standard borrowers (supporting a total project of \$12.5 million), and from **\$4 million to \$5.5 million for manufacturers** (supporting a total project of \$13.75 million); and
  - **Microloans from \$35,000 to \$50,000.**
- **Larger Support for Job Creation:** The capacity to support larger projects will allow the SBA to help America's small businesses drive long-term economic growth and the creation of jobs in communities across the country.
- **Budget Neutral:** Over the long-term, these steps would be budget neutral, and raising loan sizes will help improve the availability of smaller loans.

### Extending SBA's Successful Recovery Act Loan Programs

The Administration is calling on Congress to further extend Recovery Act provisions that temporarily raised SBA 7(a) loan guarantees and reduced fees for 7(a) and 504 loans through the end of Fiscal Year 2010 – measures that have helped increase weekly SBA loan volume by over 85 percent compared to the depths of the recession.

- **Continue 90% Guarantees:** The Recovery Act allowed SBA to raise its standard 7(a) program guarantee up to 90%. This higher guarantee helps address continued tightening in lending standards by reducing a lender's risk exposure, and helps encourage lending to small businesses that might otherwise not receive financing.
- **Continue Borrower Fee Eliminations:** In addition, Recovery Act funding allowed SBA to eliminate borrower fees in both its 7(a) and 504 programs. These fee reductions have helped free up capital for small businesses to use in their business.
- **Programs have supported \$20 billion in Small Business Lending:** SBA received \$375 million in Recovery Act funding for higher guarantees and fee reductions. Congress later appropriated an additional \$125 million to extend and fund these provisions through February 2010. These provisions helped support a significant turnaround in SBA lending in 2009. To date, SBA has supported nearly \$20 billion in lending to tens of thousands of small businesses across the country, supporting the retention and creation of hundreds of thousands of jobs.

### **Details for Commercial Real Estate Refinancing Program**

- **Program Structure follows SBA 504 Program:**
  - 50% or more Commercial First Mortgage (private lender, no government guarantee)
  - Up to 40% SBA-backed Debenture (CDC facilitates, 100% backed by SBA)
  - At least 10% borrower equity
  
- **Eligibility Criteria Mirrors existing 504 Program:**
  - Lending to small business that cannot obtain credit elsewhere
  - 504 Eligible collateral (owner-occupied real estate, fixed assets)
  - Commercial mortgages and existing 504 program first mortgages within one year of maturity that are currently performing
  
- **Debenture Size:**
  - SBA debenture size up to \$5 million, \$5.5 for manufacturing (new proposed limits)
  - Supports total debt for a project of up to \$12.5 million or \$13.75 million for manufacturing, depending on existing loan characteristics
  
- **Refinancing Parameters:**
  - 90% refinance of current independent appraised value or
  - 100% of the outstanding principal (whichever is lower), plus allowable closing costs
  - 70% Loan to Value (LTV) ratios required for same institution debt; 50% for new institutions
  - Either 10 or 20 year term, as appropriate
  - Lenders would have to write down or subordinate any debt in excess of the refinancing limits
  
- **Pricing and Fees**
  - Regular 504 fees, plus new refinancing fee to keep at zero subsidy
  - Fees and costs can be written into debenture
  - Debentures are priced through SBA 504 monthly debenture sales
  
- **Program Oversight and Management Process**
  - Requires new independent property appraisal
  - Certified Development Companies provide first-line due diligence
  - SBA reviews all loan applications
  
- **Program Level and Costs**
  - Separate annual \$7.5 billion program authority for refinancing (on top of existing 504 program)
  - Program offered in FY 2010 and 2011, with an option to extend into 2012, if market conditions warrant
  - New incremental fees to cover program costs
  - Administrative funds for SBA review, risk management and oversight