

Talking Points
504 Debt Refinancing Conference Call
June 24, 2009

Administrator Karen G. Mills: Talking Points

- We are excited to be rolling out **another tool in the SBA's toolbox** to help America's small businesses lead the way with economic recovery efforts.
- The 504 loan program is one of our two flagship loan programs at the SBA. The program is administered by about 270 Certified Development Companies across the nation in partnership with a commercial lender and the SBA.
- This program provides growing businesses with long-term, fixed-rate financing for major fixed assets that are critical to business growth and job creation. It is a long-term financing tool that promotes economic development within a community.
- **The new, permanent changes we're announcing today will help small businesses build a stronger foundation for economic recovery throughout the country.**
- Under the changes, small businesses that are expanding will be able to refinance existing loans into an SBA 504 loan project for eligible fixed assets.
- This debt restructuring will improve small business cash flows and strengthen their long-term outlook.
- Here's how it works.
- Any small business planning an expansion may refinance existing, eligible debt as long as the amount being refinanced is 50 percent or less of the total cost of the expansion.
- Eligible debt for this program includes debt that was used to finance fixed asset purchases such as land, buildings, building expansions, or equipment.

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- Here are a few of the conditions.
- The debt being refinanced must be related to the expansion with fixed assets as collateral. Debt may be refinanced at a different location other than the Project expansion as long as the operation at the other location is a similar operation (with the same NAICS code) as the operation at the Project location.
- The new financing must provide a substantial benefit to the business after taking into account prepayment penalties, financing fees, and other financing costs.
- The borrower must have been current on all payments of debt being refinanced for one year prior to the date of refinancing.
- The terms and interest rate must be better than those of the existing indebtedness.
- Also, the business must create or retain a job for every \$65,000 guaranteed by SBA (changed from \$50,000).
- These changes are effective for loan applications received by SBA on or after June 23, 2009, the effective date of the regulations. (Applications received or loans approved prior to that date may be modified to include debt refinancing provided that the related debenture has not been funded.)
- With that as an initial overview, I will now turn the floor over to our most important partner in this effort, Chris Crawford. Mr. Crawford represents the Certified Development Companies as the President and CEO of NADCO and we are so pleased that he could take the time to join us for today's call.

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Chris Crawford, NADCO President's Talking Points:

- We are most pleased to be partnering with SBA on this very important enhancement to the 504 program. As Administrator Mills said, this will provide substantial financing benefits for small businesses across the nation.
- Through the 504 loan guarantee program, Certified Development Companies provide the largest and most successful federal economic development program. For every \$65,000 of 504 loans we provide to small businesses, they create or retain one American job in communities all over the country.
- These small businesses that have 504 loans have created over 2 million jobs since the program began in 1986, and no other federal, state, or local program comes even close to this success.
- With this refinancing provision - our small business customers will be able to improve their debt structure and their ability to withstand the impact of this recession. For example, most commercial real estate loans are not long term, unlike residential mortgages that are routinely 30 years. They may be for five or ten years, and have a “balloon” payoff payment at the end. These loans may be coming due at the very time that banks have squeezed the credit box and are not renewing commercial mortgages.
- With this new 504 provision, CDCs will be able to give a small business that now cannot roll over their existing mortgage debt an opportunity to obtain an SBA-guaranteed 504 loan, when there is just no other source of capital.
- With this refinancing provision – our borrowers can also improve their monthly cash flow by reducing their mortgage payments. For example, if a business needs \$1 mm for a new building expansion, and has a current \$500k mortgage that is a few years old, their payments might be over \$10k a month.

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- That same debt can be re-financed at today's lower rates and a longer term for about \$7,500 a month, saving almost \$3,000 a month. This could save a small business almost \$200k in interest on that refinanced debt, in addition to giving them access to more capital for their new expansion.
- If CDCs provide just 2,000 such loans in a year, the annual interest savings could be \$72 mm AND almost 15,000 jobs can be directly created by these expansion projects.
- Small businesses can even combine two existing mortgages and refinance both into a new 504 structure – even if those debts are for different buildings or assets.
- CDCs can work with a borrowers existing bank to structure a new first mortgage from the business's existing bank, and a SBA 504 second mortgage. We work with banks AND credit unions in virtually every city, town, and county in this country.
- Best of all, this program is available TODAY. Small businesses that have commercial real estate or fixed asset loans coming due can contact the SBA or go to their web site at SBA.GOV, or our web site at NADCO.ORG for the nearest Certified Development Company that can put together a 504 loan package for the borrower. CDCs will walk a borrower through every step of this loan process.
- This is a great opportunity for expanding small businesses that are suffering under a heavy debt payment load, or see a balloon mortgage payment coming due within the next few years, to get the support of our government in helping them get through this recession. I encourage small business owners to talk to the SBA offices located in every state, or to their own bankers, or locate their nearest Certified Development Company.
- Thank you.