



Billing Code: 8025-010

SMALL BUSINESS ADMINISTRATION

504 Loans and Debentures with 25 Year Maturity

AGENCY: U.S. Small Business Administration.

ACTION: Notice.

SUMMARY: The U.S. Small Business Administration is making available a 504 Loan, and the Debenture that funds it, with a 25 year maturity in addition to the 10 and 20 year 504 Loan and Debenture that are currently available in the 504 Loan Program.

FOR FURTHER INFORMATION CONTACT: John M. Wade, (202) 205-3647, john.wade@sba.gov.

SUPPLEMENTARY INFORMATION: The 504 Loan Program is an SBA financing program authorized under Title V of the Small Business Investment Act of 1958, 15 U.S.C. 695 et seq. The core mission of the 504 Loan Program is to provide long-term financing to small businesses for the purchase or improvement of land, buildings, and major equipment, in an effort to facilitate the creation or retention of jobs and local economic development. Under the 504 Loan Program, loans are made to small businesses by Certified Development Companies (“CDCs”), which are certified and regulated by SBA to promote economic development within their community. In general, a project in the 504 Loan Program (a “504 Project”) is financed with: a loan obtained from a private sector lender with a senior lien covering at least 50 percent of the project cost (the “Third Party Loan”); a loan obtained from a CDC (the “504 Loan”) with a junior lien covering up to 40 percent of the total cost (backed by a 100 percent SBA-guaranteed debenture sold in private pooling transactions); and a contribution from the

Borrower of at least 10 percent equity.

Pursuant to 13 CFR 120.933, “From time to time, SBA will publish in the FEDERAL REGISTER the available maturities for a 504 loan and the Debenture that funds it.” The available terms for the 504 Loan, and the Debenture that funds it (“504 Debenture”), have been 10 and 20 years since 1986. These instruments have provided intermediate and long-term financing for 504 projects involving small business acquisition of long-term fixed assets, including real property, buildings, and major equipment and machinery. CDC industry members have emphasized the small business need for an affordable fixed rate instrument with a term-to-maturity more closely resembling other long term mortgages. SBA has decided, therefore, to make available a 504 Debenture with a maturity of 25 years. By extending the payment cycle by 60 months, SBA expects that the new instrument will decrease the monthly payments for the small business borrower and will provide flexibility for small businesses to better manage critical operating capital, which becomes more important when small business cash flow is increasingly challenged by rising operating expenses and interest rates.

Each month, SBA pools the 20-year 504 Debentures and issues certificates backed by such pools to investors in public offerings. In the case of the 10-year 504 Debentures, these offerings occur every other month. SBA guarantees the timely payment of principal and interest when due on the 504 Debentures and the timely distribution of that principal and interest to certificate holders, and such guarantee is backed by the full faith and credit of the United States. SBA will similarly guarantee certificates backed by the 25-year 504 Debentures in their own pool, which, depending on demand, SBA expects to offer for sale on a monthly basis.

This new 25 year 504 Debenture will be made available for 504 Projects that are approved on or after April 2, 2018. The term of a 504 Debenture for any 504 Project approved prior to April 2, 2018 may not be extended to 25 years. In addition, the term of the Third Party Loan accompanying a 25-year 504 Loan must be at least 10 years.

Authority: 15 USC 697; 13 CFR 120.933.

William M. Manger,
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[FR Doc. 2018-06823 Filed: 4/3/2018 8:45 am; Publication Date: 4/4/2018]