



Billing Code

SMALL BUSINESS ADMINISTRATION

504 Debt Refinancing Without Expansion – Borrower’s Contribution for Projects Involving Limited or Single Purpose Buildings During Recession

AGENCY: U.S. Small Business Administration.

ACTION: Notice.

SUMMARY: The U.S. Small Business Administration (“SBA”) is announcing that, due to an economic recession as determined by the National Bureau of Economic Research, Borrowers in the 504 Loan Program may contribute not less than 10%, instead of not less than 15%, to Projects involving limited or special purpose buildings or structures when refinancing debt without expansion. The lower required contribution will be in effect until the first day of the calendar quarter following the end of the economic recession as determined by the National Bureau of Economic Research or its equivalent.

DATES: The lower required contribution will apply to applications submitted on or after [INSERT DATE OF PUBLICATION OF THIS NOTICE IN THE FEDERAL REGISTER].

FOR FURTHER INFORMATION CONTACT: Linda Reilly, Chief, 504 Loan Division, (202) 205-9949, linda.reilly@sba.gov.

SUPPLEMENTARY INFORMATION: The 504 Loan Program is an SBA business loan 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, to promote the creation or retention of jobs and local economic

development. Under the 504 Loan Program, loans are provided 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 for at least 50% of the project cost (the “Third Party Loan”); a loan obtained through a CDC (the “504 Loan”) with a junior lien covering up to 40% of the total cost (funded through a 100% SBA-guaranteed debenture sold in private pooling transactions); and a contribution from the Borrower of at least 10% equity. However, for 504 Projects that involve limited or special purpose buildings or structures, the Borrower is required to contribute at least 15% equity to the Project.

In accordance with 13 CFR 120.882(g), a Project in the 504 Loan Program may also be used to refinance debt where there is no expansion of the small business concern (“Refinancing Without Expansion Project”). Generally, if the Refinancing Without Expansion Project involves a limited or single purpose building or structure, the Borrower must contribute not less than 15% (excluding administrative costs) of the Project’s costs, unless SBA determines, in its discretion, and publishes in the *Federal Register* that, due to an economic recession as determined by the National Bureau of Economic Research or its equivalent, Borrowers may contribute not less than 10% of the Project’s costs during the recession. *See* 13 CFR 120.882(g)(5).

On June 8, 2020, the National Bureau of Economic Research published a report by its Business Cycle Dating Committee, <https://www.nber.org/cycles/june2020.html>, in which it determined that a peak in monthly economic activity occurred in the U.S. economy in February 2020, and that this peak marked the end of the expansion that began

in June 2009 and the beginning of a recession. The report noted that the usual definition of a recession involves a decline in economic activity that lasts more than a few months but recognized that the pandemic and the public health response have resulted in a downturn with different characteristics and dynamics than prior recessions. The report concluded that “the unprecedented magnitude of the decline in employment and production, and its broad reach across the entire economy, warrants the designation of this episode as a recession, even if it turns out to be briefer than earlier contractions.”

Based on the National Bureau of Economic Research’s determination, SBA is announcing in accordance with 13 CFR 120.882(g)(5) that, beginning with applications submitted on or after publication of this Notice, Borrowers may contribute not less than 10% of the costs for Refinancing Without Expansion Projects involving limited or special purpose buildings or structures. This lower percentage for the Borrower’s contribution will remain in effect until the first day of the calendar quarter following the end of the economic recession as determined by the National Bureau of Economic Research or its equivalent. SBA will publish a notice in the *Federal Register* announcing the date on which the requirement of the lower Borrower contribution ended.

Authority: 15 U.S.C. 696; 13 CFR 120.882.

Jovita Carranza,
Administrator.

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