



# News Release

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## *SBA Creates Secondary Market Guarantee Program for 504 First Mortgage Loan Pools*

**WASHINGTON** – Regulations published today by the U.S. Small Business Administration will create a secondary market guarantee program to provide greater liquidity for lenders and expand access to capital for small businesses.

Funded through the American Recovery and Reinvestment Act, the new program would encourage sales into the secondary market of the “first mortgage” portion of small business financing made possible through the SBA’s 504 Certified Development Company (CDC) program. As a result of the economic recession and the disruption in the credit markets, there has been a significant decline in secondary market activity for 504 first mortgage loans.

“This new program will stimulate activity in the secondary market, ensuring lenders have a place to sell first mortgage loans on their books and in turn have liquidity to make more loans to small businesses,” SBA Administrator Karen Mills said. “This is another tool in our Recovery toolbox that will expand access to the capital small businesses need to drive economic growth and create jobs.”

The 504 CDC program provides credit for the purchase of real estate and other fixed assets tied to a business’ expansion. Financing under the program includes three components: 1) a first mortgage or lien, which is made by a private commercial lender for 50 percent of the total project and does not come with a government guarantee, 2) a second mortgage or lien, which is made by a CDC for 40 percent of the total project and guaranteed fully by the SBA, and 3) borrower equity for the remaining 10 percent of the total project.

Under the new program, portions of eligible 504 first mortgages pooled by originators or broker dealers could be sold with an SBA guarantee to third-party investors in the secondary market. Lenders will retain at least 15 percent of each individual loan, pool originators will assume 5 percent of the risk, and the SBA will guarantee the remaining 80 percent. To be eligible to be included in a pool, the first mortgage must be associated with a 504 loan disbursed on or after Feb. 17, 2009. The program will be in place until Feb. 16, 2011, or until \$3 billion in new pools are created, whichever occurs first.

SBA will begin accepting applications to become a pool originator from banks and broker dealers immediately, and expects to be operational for the settlement of pools in about 60 days.

For more information, lenders or broker/dealers can contact James W. Hammersley, Deputy Assistant Administrator for Policy and Strategic Planning at [james.hammersley@sba.gov](mailto:james.hammersley@sba.gov).

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