



News Release

PRESS OFFICE

Release Date: Sept. 29, 2010
Release Number: 10-52

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First Two 504 First Mortgage Loan Pools Assembled, Ready to be Sold on Secondary Market

WASHINGTON – Bank of America and United Midwest Savings Bank have become the first financial institutions to assemble SBA 504 first mortgage pools to be sold on the secondary market, the U.S. Small Business Administration announced today.

The announcement follows the launch of the 504 First Mortgage Loan Pooling program on July 1, 2010. Authorized as part of the American Recovery and Reinvestment Act of 2009, the measure is expected to jump start the secondary market for the first mortgage loans made in conjunction with Section 504 Certified Development Company loans. The ability to sell loans into this secondary market will provide liquidity to those lenders that want to partner with a Certified Development Company to provide real estate and fixed asset financing to small businesses.

“The 504 loan pool guarantee program is one more tool we’ve added to SBA’s toolbox to expand access to capital for America’s small businesses,” SBA Administrator Karen Mills said. “By jump starting the 504 secondary market, more banks will have greater opportunity to strengthen their liquidity and in turn increase their lending to small businesses and entrepreneurs.”

Bank of America pooled \$32.07 million in loans it purchased from other lenders, with \$25.65 million guaranteed by the SBA. United Midwest Savings Bank assembled a pool of \$7.96 million, with \$6.4 million guaranteed by the SBA.

Under the program, the SBA provides a government guarantee on pools of portions of eligible 504 first mortgage loans assembled by approved pool originators who sell them to third-party investors. Lenders retain at least 15 percent of each individual loan, pool originators assume 5 percent of the risk, and the SBA guarantees the remaining 80 percent.

Typically, a 504 project includes three elements: a loan (or first mortgage) secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a second mortgage secured with a junior lien from a Certified Development Company (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business borrower. Brokers, or pool originators, purchase portions of the first mortgages, package and sell them on the secondary market.

For additional information on the pool originators, visit <http://www.sba.gov/aboutsba/sbaprograms/elending/secondarymarket/index.html>. The list will be updated regularly as new originators are approved.

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