



SBA Procedural Notice

TO: All SBA Employees, 7(a) Lenders and Certified Development Companies

CONTROL NO.: 5000-823852

SUBJECT: Guidance on the Implementation of the Section 1112 Debt Relief Program for the 7(a) and 504 Programs, Including the Availability of Funds for Section 1112 Payments and the Return of Payments Made for Ineligible Loans; and Guidance on Loan Increases Requested on or after October 1, 2021

EFFECTIVE: December 6, 2021

The purpose of this Notice is to provide further guidance on the implementation of the Section 1112 Debt Relief Program as the program winds down, including: (1) the availability of funding for Section 1112 payments on loans in the 7(a) and 504 Programs; and (2) the return of payments made for ineligible loans. Additionally, in section III below, this Notice informs 7(a) Lenders and Certified Development Companies (CDCs) that no loan increases will be approved for certain loans on or after October 1, 2021.

Except as provided in this Notice, all other guidance that SBA provided in prior notices with respect to the implementation of the Section 1112 payments continues to apply, including but not limited to:

- SBA Procedural Notice 5000-20079, “Guidance on the Implementation of the Extension of the Section 1112 Debt Relief Program for the 7(a) and 504 Loan Programs, as Authorized by Section 325 of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act”, effective January 19, 2021
- SBA Procedural Notice 5000-20095, “Adjustment to Number of Months of Section 1112 Payments in the 7(a), 504 and Microloan Programs Due to Insufficiency of Funds”, effective February 16, 2021

I. Availability of Funds

Funds will be available to make the Section 1112 payments for the loans described below:

A. New Loans Approved Beginning on February 1, 2021 and Ending on the Dates Identified Below

PAGE 1 of 5

EXPIRES: 12/1/22

SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete

Must be accompanied by SBA Form 58

1. 7(a) loans: Funds will be available to make the Section 1112 payments for 7(a) loans that were approved beginning on February 1, 2021 and ending on or before September 23, 2021. Funds for Section 1112 payments on 7(a) loans were fully exhausted during the day on September 23, 2021. If a loan was approved on September 23, 2021 after the funds were exhausted, SBA will notify the Lender that no Section 1112 payments are available for that loan. In addition, if a Lender submits a request for Section 1112 payments for a loan that was approved after the funds were depleted, SBA will notify the Lender that funds are not available for SBA to make the Section 1112 payments. For the loans for which funds are available, SBA will begin to make the payments for the 3-month period that is authorized for these loans only after the loan is fully disbursed and the loan is otherwise eligible to receive the payments.

2. 504 loans:

- a. **Regular 504 and 504 Loans Involving Debt Refinancing with Expansion:** Funds will be available to make the Section 1112 payments for regular 504 loans and 504 loans involving debt refinancing with expansion that were approved on or before September 7, 2021. SBA will begin to make the payments for the 3-month period that is authorized for these loans only after the loan is fully disbursed and the loan is otherwise eligible to receive the payments. With the funds for new regular 504 loans or 504 loans involving debt refinancing with expansion exhausted on September 7, 2021, no new regular 504 loans or 504 loans involving debt refinancing with expansion could be approved beginning on September 8, 2021 through September 30, 2021.
- b. **504 Loans Involving Debt Refinancing without Expansion:** Funds will be available to make the Section 1112 payments for 504 loans involving debt refinancing without expansion that were approved on or before September 30, 2021. SBA will begin to make the payments for the 3-month period that is authorized for these loans only after the loan is fully disbursed and the loan is otherwise eligible to receive the payments.

B. Newly Eligible First Round Loans

For a 7(a) or a 504 loan approved on or before September 27, 2020 that was not fully disbursed on or before September 27, 2020, and that was, or will be, fully disbursed on or after September 28, 2020 (referred to as “Newly Eligible First Round Loans” in Procedural Notice 5000-20079), funds will be available to make the Section 1112 payments for the 3-month period that is authorized for these loans and SBA will begin to make the payments only after the loan is fully disbursed and the loan is otherwise eligible to receive the payments. For loans that were approved and fully disbursed on or before September 27, 2020, funds will continue to be available to make the Section 1112 payments for the 6-month period authorized under the original CARES Act. SBA emphasizes that for all loans eligible for Section 1112 payments, SBA will begin to make the payments only **when** the loan is fully disbursed and the loan is otherwise eligible to receive the payments.

C. Second Round Section 1112 Payments for 504 and 7(a) Loans Approved Before March 27, 2020

For any 504 or 7(a) loan that has not yet received any or all of the Second Round Section 1112 payments described in Section III.B. of SBA Procedural Notice 5000-20079, funds will be available to make the Second Round Section 1112 payments for the authorized number of months when the loan becomes eligible to receive these payments.

D. Revolving Lines of Credit

For 7(a) loans involving revolving lines of credit, funds will continue to be available to make the First Round and/or Second Round Section 1112 payments for the authorized number of months. As stated in prior notices, including section III.G.2.b of SBA Procedural Notice 5000-20079 and section I of SBA Procedural Notice 5000-20023, the Section 1112 payments begin only after the Borrower has made its first draw on the line of credit. In addition, as stated in the prior notices, Borrower does not need to maintain a continuous outstanding balance in the revolving line of credit for the authorized number of months to be eligible for the Section 1112 payments and the Section 1112 payments for these loans do not need to be made in consecutive months.

For example, if the loan was approved June 1, 2021, Borrower may have an outstanding balance on the line of credit in August 2021, a zero balance in September through December 2021, and an outstanding balance again in January and February 2022, and funds will be available for SBA to make the Section 1112 payments for the three months during which there was an outstanding balance. An additional example includes a revolving loan that was approved before March 27, 2020, upon which the Borrower made its first draw by September 27, 2020. For the duration of this revolving loan, the Borrower is eligible to receive six months of First Round Section 1112 Payments in addition to the authorized number of Second Round Section 1112 Payments (either two or five additional months, as applicable) beginning February 1, 2021.

Accordingly, Lenders must continue to submit the required Section 1112 monthly reports for these loans to request the Section 1112 payments for the number of months authorized for First Round and/or Second Round Section 1112 Payments. SBA reminds Lenders that SBA will make these loan payments in accordance with the payment terms stated in the loan authorization and Section 1112 payments may not be used to cover any balloon payments.

II. 7(a) Lenders Must Return Payments Made on Ineligible Loans

SBA reminds 7(a) Lenders that, if they submit a request for Section 1112 payments and received such payments on a loan that was not yet eligible to receive the payment(s) because the loan had not been fully disbursed or for any other reason, the Lender must immediately return the payment to SBA via wire to the 7(a) Collection Account of SBA's Fiscal Transfer Agent with a reference to Section 1112 and the affected SBA Loan Number. The Lender may resubmit the request for the Section 1112 payments after the loan has been fully disbursed and the loan is otherwise eligible to receive the payments. Some examples of loans that would not be eligible

for Section 1112 payments to cover all or a portion of the regular monthly loan payment include, but are not limited to:

- A. Loans not yet fully disbursed (loan may become eligible once fully disbursed);
- B. Loans that were approved beginning on September 28, 2020 through January 31, 2021;
- C. Loans that have received all of the Section 1112 payments to which they are entitled;
- D. For Second Round Section 1112 Payment (as described in SBA Procedural Notice 5000-20079), the portion of the regular monthly loan payment that is in excess of \$9,000; and
- E. Loans in liquidation status or that the Lender should have transferred into liquidation status in accordance with Standard Operating Procedure (SOP) 50 57 2 or SOP 50 55, as applicable.

III. No Loan Increases will be Approved for Certain Loans on or after October 1, 2021

For any 504 loan or 7(a) loan that was approved on or before September 30, 2021, SBA will not approve any request for an increase to the 504 loan or 7(a) loan on or after October 1, 2021. In addition, for a 504 Project that was approved beginning on December 27, 2020 and ending on September 30, 2021, SBA will not approve any request for an increase to the Third Party Loan on or after October 1, 2021.

Options that are available to cover the 7(a) or 504 Borrower's need for additional funds include the following:

- A. Borrower can fund the amount of any increase needed with an additional borrower contribution.
- B. Borrower can obtain outside financing to cover the amount of any increase needed (i.e., companion SBA 7(a) loan, conventional loan, etc.)
- C. Borrower can cancel the existing 504 or 7(a) approval authorization and reapply for a new replacement 504 Project or 7(a) loan to cover the increased project costs. However, if this option is exercised, the replacement loans would not be eligible for any fee subsidy or waiver or Section 1112 payments that would have been authorized for the original 504 Project or 7(a) loan.
- D. To address the need for additional funds for a 504 Project approved on or before September 27, 2020, SBA may approve: (1) a request for an increase in the Third Party Loan, subject to credit underwriting review by the Sacramento Loan Processing Center (SLPC); or (2) subject to SLPC review, an application for a second 504 loan to fund the need for additional funds, with the Third Party Loan for the second project taking third lien position and the 504 loan on the second project taking fourth lien position. After the second 504 Project is approved, the CDC may request, through a 327 action, that SBA subordinate the original 504 loan from second lien position to third lien position,

allowing the Third Party Loan and the 504 loan of the second 504 Project to move into second and fourth lien positions, respectively.

Questions

Questions on this Notice may be directed to the Lender Relations Specialists in the [local SBA Field office](#).

John Miller
Deputy Associate Administrator
Office of Capital Access