REAL 504 Debt Refinancing Program

The Challenge: Capital Access for Our Small Businesses

Small businesses have created more than 65 percent of jobs as part of the national economy in the past 17 years. However, in a recent Pepperdine University study, 60 percent of small businesses said lack of financing was inhibiting their growth, while 50 percent said it was preventing them from hiring new employees. Addressing those challenges in a still-recovering economy is the role of the SBA-guaranteed loan programs, including the REAL 504 program. In 2013, more than $11.7 billion in financing was extended through 7,700 loans from the traditional REAL 504 program. The REAL 504 program provides the borrower with excellent, historically low fixed-rates, ten percent down, and the opportunity to purchase assets that are likely to appreciate as the real estate market continues to recover. Beyond those standard loans, the continued tight credit market calls for the reinstatement of the REAL 504 Debt Refinance program.

Program Outline

The REAL 504 debt refinancing program, or "debt refi," allows small businesses to refinance existing owner occupied real estate debt. These businesses use the structure of a standard 504 loan to refinance eligible fixed assets. This program can only be used for existing debt, not an expansion.

Supporters of the Program

Legislative efforts to continue debt refi has been endorsed by a wide range of groups, including: U.S. Chamber of Commerce, International Franchise Association, Consumer Bankers Association, National Small Business Association, Association for Corporate Growth, FRANdata, National Association of Development Companies, and the National Association of Women Business Owners.

Use of the Program

Small businesses who participate in debt refi are required to reinvest the savings in their business, creating jobs and opportunity. Some buy down debt, buy inventory, supplies, and fixtures, or expand production and services. The entrepreneurs can decide where in their business needs investment the most. This flexibility leverages a simple real estate debt refinance, which provides the small business owner with monthly savings, into more business growth as well as job retention and expansion. In some cases, debt refi has saved companies tens of thousands of dollars per month that they can now use to improve and expand their businesses. In other cases, debt refi has not lowered their debt service substantially, but gets companies out of balloon loans and demand notes that threatened their very existence.

Eligibility

The debt refi program is designed to refinance badly structured debt for small businesses in good financial standing. The program requires that the companies are at least two years old, and that they have been current on their loan payments for at least one year. Virtually any company defined as a small business by SBA that also meets these criteria would be eligible for this program.

Importance of the Program

Many banks today for regulatory reasons cannot finance additional commercial real estate and those that do very often will not refinance small business commercial real estate with a long term and low fixed-rate. The 20-year, fixed-rate, long term financing uniquely provided by any REAL 504 loan provides a higher level of savings to the borrower than virtually any other product on the market.

History of Debt Refi

The initial debt refi program ran from mid-2011 to September 2012. In that time, over 2,300 small businesses were able to refinance $5 billion of their own capital locked up in their real estate. That capital was then reinvested into their businesses to create and sustain jobs. This program has saved some businesses up to $100,000 a year in lower interest rates. On the last day of the trial period, over 400 businesses applied in just a few hours. Based on those statistics as well as independent analysis done by firms such as Deutsche Bank, at least 100,000 small businesses could greatly benefit from a return of the debt refi program. A sustained debt refi program without damaging starts and stops would strengthen U.S. small businesses in the long term.

Cost of the Program

504 debt refinancing is paid for by fees and is done at no cost to the government and the taxpayer. The SBA Administrator is required by statute to offset any government costs with fees on program participants. The borrowers pay an interest rate on 504 refinancing loans that are slightly higher (.17%) than on standard 504 loans. While the SBA guarantee of any loan, including this one, does very slightly impact the government's balance sheet, the performance history of these loans is strong enough that SBA puts its budget request for debt refi as costing zero dollars. The debt refi program helps growing small businesses take their next growth step.

Legislative Solutions

Members in both the House and the Senate have introduced bipartisan legislation to reinstate debt refi. The CREED Act, S.289 and H.R. 1240, requires no Congressional appropriation and has been scored by CBO as zero cost. S.289 passed out of the Senate Small Business Committee unanimously last spring. There are currently 52 Senators and Representatives on the CREED Act, which also has endorsements from the many groups listed earlier. Cosponsoring and voting in favor of the CREED Act will allow small businesses to save money, access funds, and grow businesses and jobs.