

SBA 7(a) vs. SBA 504 Loan Programs

Category	SBA 7(a) Loan	SBA 504 Loan
1 Loan Purpose:	General working capital, equipment, business acquisition, real estate, refinance	Real estate acquisition, construction, renovation, and long-term fixed assets
2 Loan Amounts:	Up to \$5 million	Up to \$5.5 million (SBA portion); projects up to \$15 million+
3 Loan Structure:	One loan with SBA guarantee	Tiered loan structures: » Bank (~50%) » CDC/SBA (up to ~40%) » Borrower (10-20%)
4 Terms:	Up to 10 years (non-real estate); up to 25 years (real estate)	10, 20, or 25 years (fixed) (debenture); bank portion negotiable
5 Rates:	Variable or fixed; SBA sets caps	SBA portion fixed for life of the loan; Bank determines the TPL rate
6 Use Of Funds:	Flexible: working capital, inventory, equipment, real estate, refinance, acquisitions	Primarily fixed assets: land, buildings, construction, equipment; limited refinance
7 Collateral:	Usually required (up to availability)	Secured by project assets
8 Guarantees:	20%+ owners must personally guarantee	20%+ owners must personally guarantee
9 Eligibility:	SBA size standards	SBA size standards + Policy goals are to determine economic development / job creations
10 Timeline Consideration:	Sometimes faster processing, depending on client / lender abilities	Follows SBA debenture funding timeline

SBA 7(a) Loan

Pros:

- Flexible use of funds
- Faster processing (in some cases)
- Comingled loan = simpler structure
- Readily available

Cons:

- Interest rates are typically variable (and thereby often higher, indexed to Prime)
- Shorter terms (amortizations) for non-real estate purposes
- SBA guaranty fee can be significantly higher
- Collateral shortfalls may trigger more guarantees

SBA 504 Loan

Pros:

- Long-term loan (amortizations)
- Fixed interest rates (20-25 years)
- Low equity injection (10% vs 20-30% conventional)
- Affordable loan payments
- Predictable expenses (beneficial for payments for real estate/construction)
- Beneficial for asset acquisition - community / economic development

Cons:

- Limited to fixed assets and some limitations in refinances
- More coordination required (3 parties: Lender + CDC + SBA)
- Closing can be extended with complications of valuations (appraisal, environmental)
- Job creation / economic development initiatives will be applied