

504-7a Loan Comparison

If you're looking for a small business loan to purchase commercial real estate or heavy machinery/equipment, the SBA 504 loan is the best choice. If purchasing a business or getting working capital is the goal, the SBA 7A loan is likely the better tool.

More explicitly, with a SBA 504 loan, proceeds can be used to buy a building, finance ground-up construction or building improvements, or purchase heavy machinery and equipment. 7a loan proceeds can be used for short-term or long-term working capital and to purchase an existing business, refinance existing business debt, or purchase furniture, fixtures and supplies.

At-A-Glance Comparison

	SBA-504 LOAN (Commercial Real Estate & Equipment) 90% Fixed-Rate	SBA 7(a) LOAN (General Purpose)
LOAN SIZE	Minimum – \$125,000 Maximum – \$20 million +	Minimum – \$50,000 Maximum – \$5 million
INTEREST RATE	• Fixed	• Predominantly variable; some fixed-rate options
TERMS	• 20 years – real estate • 10 years – equipment	• Up to 25 years – real estate • Up to 10 years – business acquisition, equipment • 5 to 7 years – working capital • Weighted average for mixed-use requests
DOWN PAYMENT	• 10% borrower	• Minimum 10% borrower (often more)

	SBA-504 LOAN (Commercial Real Estate & Equipment) 90% Fixed-Rate	SBA 7(a) LOAN (General Purpose)
ELIGIBLE BUSINESS SIZE	• Business net worth not to exceed \$15 million • Average net profit after taxes for 2 consecutive years not to exceed \$5 million	• Determined by industry type • Annual sales not to exceed range of \$750,000 to \$33.5 million for retail, service and agriculture • Number of employees not to exceed range of 100 to 1,000 for wholesale and manufacturing
LOAN STRUCTURE	• 50% bank loan • 40% CDC loan • 10% borrower down payment	• Loan structure negotiable; dependent on risk • 10% down payment (minimum)
PROCEEDS USE	• Purchase existing building • Land acquisition and ground-up construction (can include soft cost development fees) • Expansion of existing building • Finance building improvements • Purchase equipment	• Expand, acquire or start a business • Purchase or construct real estate • Refinance existing business debt • Buy equipment • Provide working capital • Construct leasehold improvements • Purchase inventory

	SBA-504 LOAN (Commercial Real Estate & Equipment) 90% Fixed-Rate	SBA 7(a) LOAN (General Purpose)
PROGRAM REQUIREMENTS	<ul style="list-style-type: none"> • 51% owner occupancy for existing building • 60% owner occupancy for new construction • Equipment must have minimum 10-year economic life 	<ul style="list-style-type: none"> • 51% owner occupancy for existing building • 60% owner occupancy for new construction • All assets financed must be used to the direct benefit of the business
COLLATERAL	<ul style="list-style-type: none"> • Generally, project assets being financed are used as collateral • Personal guaranties of the principal owners of 20% or more ownership are required 	<ul style="list-style-type: none"> • Subject assets acquired by loan proceeds • Pledge of personal residence unless bank can justify why unnecessary • Personal guaranties of the principal owners of 20% or more ownership are required
FEES	<ul style="list-style-type: none"> • Fees are financed in the 504 loan • Fees are negotiated for the 50% bank loan • Servicing fee (lowest allowed by SBA) for CDC plus a legal review fee 	<ul style="list-style-type: none"> • Fees can be financed in the 7a loan • Fees vary with the size of loan paired with 504 loan • Additional .25% charged on any loan portion above \$1 million

A Certified Development Company (CDC) is a nonprofit corporation set up to contribute to the economic development of its community. CDCs are located nationwide and operate primarily in their state of incorporation (Area of Operation). CDCs work with SBA and private sector lenders to provide financing to small businesses through the CDC/504 Loan Program, which provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. Typically, a 504 project includes:

- A loan secured from a private sector lender with a senior lien covering up to 50 percent of the project cost;
- A loan secured from a CDC (backed by a 100 percent SBA-guaranteed debenture) with a junior lien covering up to 40 percent of the total cost;
- A contribution from the borrower of at least 10 percent equity.