

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.

*Our organization administers SBA 504 loans. You will need to contact your local lender if you are interested in a 7a loan through the SBA.

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)

Other Comparisons (details for lenders)

	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
PROGRAM REQUIREMENTS	• 51% owner occupancy for existing building • 60% owner occupancy for new construction • Equipment must have minimum 10-year economic life	• 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	• Generally, project assets being financed are used as collateral • Personal guaranties of the principal owners of 20% or more ownership are required	• 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	• 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	• 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