SBA LOANS

A Comparison of SBA 504 and SBA 7a

When it comes to SBA lending, the most common question we hear is, *"What's the difference between the SBA 504 and SBA 7a programs?"* Many people are familiar with the better-known 7a and automatically assume that is the best option for financing any type of small business concern. However, each program was designed with a specific purpose in mind. When used for those purposes, both programs actually work together quite well.

So what's the difference? Essentially, the SBA 504, which is what Growth Corp specializes in, is the best choice when financing owner-occupied commercial real estate or heavy machinery/equipment. If the financing is to purchase a business, inventory or for working capital, the 7a is the best choice.

	SBA 504 Loan	SBA 7a Loan
Structure	• Bank 50% • Growth Corp/CDC 40% • Borrower 10% (additional 5% if single purpose real estate)	• Up to 90% (decided by the lender) • Minimum borrower down payment of 10%
Eligible Uses	• Buy, build or renovate primarily owner-occupied commercial real estate • Purchase capital equipment with a useful life of ten years or more • Refinance existing qualified commercial mortgage debt	• Start, expand or acquire a business • Buy, build or renovate primarily owner-occupied commercial real estate • Refinance existing debt • Purchase capital equipment • Working capital or inventory
Loan Amounts	• $5 million in many cases • $5.5 million for manufacturing or "green" projects	• $3.75 million net - guaranteed portion only • $5 million gross
Interest Rate and Terms	• Fixed for 20-years on commercial real estate and 10-years on equipment (504 portion) • Fully amortized for the life of the loan	• Predominately variable • Up to 25 years on commercial real estate • The useful life on equipment or business acquisitions • Up to 10 years for working capital

MAXIMIZE THE AVAILABILITY OF SBA DOLLARS

If you use each SBA loan program for what they were intended, the availability of SBA dollars is maximized overall, which allows businesses to grow more effectively. Considering each program has a lending limit imposed by SBA (*504 – $5 million in most cases*)(*SBA 7a – $3.75 million net [guaranteed portion only] or $5 million gross*), when the 7a is used for real estate or heavy equipment financing, it occupies more SBA-available dollars than the 504. This may prevent receiving additional SBA funding in the near future for things like working capital, inventory or other business needs when they arise…as they often do.

Quick take-away: If the financing is for owner-occupied commercial real estate or heavy machinery/equipment, think SBA 504. If the financing is for working capital or for the purchase of either a business or inventory, think SBA 7a. And remember, both of these programs can be used multiple times or even simultaneously.

EXAMPLE

A business owner approaches a bank needing $5 million in financing to purchase commercial real estate. The choice of SBA financing at this juncture may impact this borrower's future borrowing abilities. Take a look at how the use of each program affects SBA dollar availability:

SBA Program Choice	SBA Dollars Used in $5 million commercial real estate purchase	SBA Dollars Left Available for Future Borrowing
SBA 504	$2 million SBA dollars (40% of real estate purchase)	$1.75 million in 7a, or $3 million in 504
SBA 7a	$3.75 million SBA dollars (75% guarantee of $5 million)	$0 in 7a $1.25 million in 504

Now, consider this: let's say a year later this same business needs $750,000 in financing for working capital, inventory and additional equipment. If the 7a program was used to finance the purchase of the real estate, you're out of luck. There are virtually no SBA 7a dollars remaining to support the new loan request because they were used up in the real estate project. However, if you had used 504 for the original real estate project, there would still be $1.75 million in 7a dollars, or $3 million in 504 dollars, available to the business.

So while these programs are different, they actually work quite well together in achieving their overall mission...starting, growing and expanding small businesses.

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