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## SBA Loan Comparison - 504 vs 7(a)

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. 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.

If purchasing a business or getting working capital is the goal, the SBA **7(a) loan** is likely the better tool. 7(a) 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. The most flexible of the lending programs, there are also variations of the basic 7(a) program that address specific financing needs for particular types small businesses.

### At-A-Glance Comparison

	<b>SBA-504 LOAN</b> (Commercial Real Estate & Equipment) 90% Fixed-Rate	<b>SBA 7(a) LOAN</b> (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)

For more information on a **SBA 7(a) loan**:

<https://www.sba.gov/7a-loan-program>

For more information on a **SBA 540 loan**:

<https://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs/real-estate-and-eq>



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## Other Comparisons Details

	<b>SBA-504 LOAN</b>  (Commercial Real Estate & Equipment) 90% Fixed-Rate	<b>SBA 7(a) LOAN</b>  (General Purpose)
<b>ELIGIBLE BUSINESS SIZE</b>	<ul style="list-style-type: none"> <li>• Business net worth not to exceed \$15 million</li> <li>• Average net profit after taxes for 2 consecutive years not to exceed \$5 million</li> </ul>	<ul style="list-style-type: none"> <li>• Determined by industry type</li> <li>• Annual sales not to exceed range of \$750,000 to \$33.5 million for retail, service and agriculture</li> <li>• Number of employees not to exceed range of 100 to 1,000 for wholesale and manufacturing</li> </ul>
<b>LOAN STRUCTURE</b>	<ul style="list-style-type: none"> <li>• 50% bank loan</li> <li>• 40% CDC loan</li> <li>• 10% borrower down payment</li> </ul>	<ul style="list-style-type: none"> <li>• Loan structure negotiable; dependent on risk</li> <li>• 10% down payment (minimum)</li> </ul>
<b>PROCEEDS USE</b>	<ul style="list-style-type: none"> <li>• Purchase existing building</li> <li>• Land acquisition and ground-up construction (can include soft cost development fees)</li> <li>• Expansion of existing building</li> <li>• Finance building improvements</li> <li>• Purchase equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Expand, acquire or start a business</li> <li>• Purchase or construct real estate</li> <li>• Refinance existing business debt</li> <li>• Buy equipment</li> <li>• Provide working capital</li> <li>• Construct leasehold improvements</li> <li>• Purchase inventory</li> </ul>
<b>PROGRAM REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>• 51% owner occupancy for existing building</li> <li>• 60% owner occupancy for new construction</li> <li>• Equipment must have minimum 10-year economic life</li> </ul>	<ul style="list-style-type: none"> <li>• 51% owner occupancy for existing building</li> <li>• 60% owner occupancy for new construction</li> <li>• All assets financed must be used to the direct benefit of the business</li> </ul>
<b>COLLATERAL</b>	<ul style="list-style-type: none"> <li>• Generally, project assets being financed are used as collateral</li> <li>• Personal guaranties of the principal owners of 20% or more ownership are required</li> </ul>	<ul style="list-style-type: none"> <li>• Subject assets acquired by loan proceeds</li> <li>• Pledge of personal residence unless bank can justify why unnecessary</li> <li>• Personal guaranties of the principal owners of 20% or more ownership are required</li> </ul>
<b>FEES</b>	<ul style="list-style-type: none"> <li>• Fees are financed in the 504 loan</li> <li>• Fees are negotiated for the 50% bank loan</li> <li>• Servicing fee (lowest allowed by SBA) for CDC plus a legal review fee</li> </ul>	<ul style="list-style-type: none"> <li>• Fees can be financed in the 7a loan</li> <li>• Fees vary with the size of loan paired with 504 loan</li> <li>• Additional .25% charged on any loan portion above \$1 million</li> </ul>