

Which Loan Is More Appropriate: 7(a) or CDC/504?

The right loan for your client's business depends on their specific needs. Use the information below to help guide small business owners toward the best SBA product for them.

	CDC/504 Loans	7(a) Loans
Eligible Uses	<ul style="list-style-type: none"> Buy, build or renovate commercial real estate Purchase capital equipment and machinery Limited refinance of conventional commercial real estate and equipment debt when expansion of the business is involved 	<ul style="list-style-type: none"> Start, expand or acquire a business Buy, build, or renovate commercial real estate Refinance existing debt Purchase capital equipment & machinery Working capital & inventory Lines of credit
Maximum Loan Amount	A maximum of 40% of total project costs, up to \$5 million (or \$5.5 million for small manufacturers or projects that meet Energy Public Policy goals for energy reduction or upgrades of renewable energy sources).	Up to \$5 million with a maximum SBA guaranty of \$3.75 million.
Down Payment Requirement	For all projects, a minimum down payment of 10% is required. The down payment requirement increases by 5% if the applicant (a) is a new business, or (b) is purchasing an existing business or if the property being purchased is considered special use. If both conditions exist, the minimum down payment required is 20%.	Determined on a case by case basis.
Maximum Loan Term	Real Estate: 20 years Equipment: 10 years Projects involving both may qualify for 20 year term	Equipment: Typically 10 years, or up to the useful life of the asset being acquired Working Capital: Up to 10 years Debt Refinance: Based on remaining useful life of asset financed with the original debt
Interest Rate	For the portion of the project financed by the SBA 504 program, a 20 year fixed interest rate is available. For the portion of the project financed by the bank, the interest rate is set by the respective bank.	Typically variable but determined on a case by case basis.
Fees	Total approximately 2.6% of the SBA 504 portion of the transaction. These fees cannot be paid out-of-pocket and are automatically financed.	Ranges from 2.0% to 3.75% of the guaranteed portion for long-term loans and 0.25% of the guaranteed portion for short-term loans of 12 months or less.
Collateral Required	In most cases, the property or equipment being financed is sufficient to meet collateral requirements.	SBA requires that all 7(a) loans be collateralized to the maximum extent possible up to the loan amount. If business assets do not fully secure the loan, available personal assets of the owners are required as collateral. SBA will not decline a loan solely on the basis of inadequate collateral.
Prepayment Penalties	For the SBA 504 portion of the transaction, a prepayment penalty exists for the first 10 years and is a declining percentage of the outstanding loan balance.	Typically no prepayment penalty.
Eligibility Requirements	The small business applicant/operating company must be: <ul style="list-style-type: none"> Operating for profit Located in the United States (including territories and possessions) A small business as defined by their primary industry, or have a net worth of less than \$15 million and a net income of less than \$5 million Demonstrate a need for the desired credit with credit not available elsewhere on reasonable terms Not among the type of businesses considered not eligible under 13 CFR §120.110 	