SBA 7(a) vs 504 pros and cons

available to businesses with a net worth under $15 million and annual net income under $5 million

Pros of the 7(a)

- One loan
- Prepay is only for 3 years, Short 3 year prepay
- Easier underwriting/easier loan to get approved
- Longer amortization and lower rate generally mean lower payments
- Full amortization and term, no balloon payment
- Can be used for both refinance & purchase
- Small balance loans OK

Cons of the 7(a)

- Variable rate, or 3 or 5 year fixed, no 7 or 10 year fixed.
- Over 85% loan to value weak borrowers might need to cross collateralize other property
- Maximum SBA 7(a) loan is $5,000,000
- Higher downpayment most of the time

Pro's of the 504

- The first is usually and the 2nd is a fixed rate
- Higher loan to value in most cases than the 7(a)
- The 2nd is always 10 or 20 years, is a fixed rate, and pays off faster, (though usually higher payments)
- No SBA guarantee fee paid on the 1st, (though there is a ½% point SBA loan fee paid on the 1st), (1st is a conventional loan)
- Maximum 2nd T. D. is $5,000,000, (= $12,500,000 value/sales price @ 40% 2nd)
- High balance loans to $10,000,000 total available.
- Smaller downpayment most of the time

Cons of the 504

- The first is often a 5, 7, or 10 year term with balloon, then you must refinance using SBA 7(a) or conventional financing
- 10 or 20 year amortization on the second = higher payments
- 2 loans, conventional 50% ltv 1st and up to 40% SBA 2nd .
- 2nd has a 10 year prepay penalty decreasing every 6 months, The penalty is equal to 100% of one year's interest during the first year, declining by 10% per year (to zero) after ten years. This can hinder refinancing and sales.
- higher costs, points, fees
- Tighter less lenient underwriting for the conventional first TD
- You can NOT prepay the 2nd TD
- 3 different loan approvals Bank, CDC, SBA
- Can only be used for purchase transactions
- Can not be used for refinancing
- Low balance loans often not available.