

SBA LOAN PROGRAMS--some comparisons

update: Aug. 19, 2009

	7(a) Guarantee	504 Debenture
Structure	private lender + 75% guarantee; 15% - 20% down (30% for startup); single note for land/bldg & equip, and for multiple sites.	50% private, 40% SBA debenture; 10%-15% down (more for startups); may be separate notes for land/bldg vs equipment; separate loans req'd for each project site.
Maximum Loan Amount	\$2.0MM typical (with 75% guarantee)	Up to \$5M generally (with 50% 1st mort.), up to \$10M for manufacturers & renewable energy
Max SBA Exposure	\$1.5MM guarantee	Generally, up to \$2M debenture (if Public Policy goals met); up to \$4M for mfg & renewable energy
Maximum Loan Term	25 yrs land/bldg; 10 yrs. equip 10 yrs working capital/inventory	20 yrs land/bldg, 10 yrs. equip No working capital/inventory
Size limit--borrowing business	3 yr avg. <u>gross</u> revenues < \$6.5MM (Under stimulus bill, can use 504 size standards in 2009-2010)	2 yr avg. after-tax <u>net</u> revenues < \$3 Million; tangible net worth < \$8.5 Million
Base for calculating rates	Prime rate + lender's margin	20 year T-bills + approx. 1.75% (debenture-financed portion). <u>Lender-negotiated</u> rate (private loan)
Rates (samples, as of 08/2009)	P +2.75% = 6.00%, floating	Blend: 7.0% private + 5.3% debenture (fixed)
Balloon payments	None allowed	Allowed on private loan portion
Pre-payment Penalties	None on loans under 15 years. 5%, 3%, 1% in 1 st 3 years if 15 year or greater term	10%, reduced 1%/yr (5% in 5th year, 1% in 10th)
Uses	All (land, bldg, inv, work cap, refi, etc)	Fixed assets only, Refinance of loans originally used for fixed assets, if less than 50% of total loan
Owner-occupied only for land/buildings	Owner must occupy minimum 51% of existing bldg or 60%, if new construction	Owner must occupy minimum 51% of existing bldg or 60%, if new construction
Interim loan after construction?	None needed	5 - 12 week interim, construction completion to permanent financing
Job creation/retention	No requirements	Must create 1 job per \$65,000 of debenture funds (or meet certain alternative criteria)
Time for loan approval--using Preferred Lender status on 7(a)	2-3 weeks (private & SBA)	4-6 weeks (private, 504 Company & SBA)
Commitment fee/points	Guarantee fee: 2.25% - 2.6% of loan (WAIVED under stimulus package, for 2009)	Points: 1.5% private + 3% debenture = 2.3% of total loan (Debenture fees WAIVED for 2009)
Misc closing costs/fees	One loan, single title commitment	Two loans, split title: slightly higher closing costs
Loan fees, points financeable:	Yes	504 Company fees, yes; private loan points, no

SUMMARY: 504 offers lower down, higher maximum loan, partially fixed interest rate, usually a lower blended rate. 504 cannot finance goodwill or business acquisition, other than fixed assets. 7(a) is more flexible (no prepayment penalties); simpler (2 loan parties vs 3 parties); broader in uses; and can require less time and costs to approve and to close. 504 often suited for: larger loans, with all or most costs in land/bldg/equip, on a single site. 7(a) often suited for: smaller RE loans, especially under \$750K; and loans with significant costs in goodwill, inventory & working capital, or more than one project site. It's often best to make a side-by-side comparison on the basis of your specific project. Results vary greatly according to project particulars, and will be valued differently by individual borrowers.