**Financing Options**

**SBA**

The SBA does not loan money. Banks receive a guarantee that the SBA will repay a portion of the loan if you default on payments.

**7(a) Loan**

1. It’s SBA’s primary and most popular program
2. **Am I eligible?** If you can demonstrate a need for funds and have a sound business purpose in mind, you’re on the right track. To be considered eligible for the SBA 7(a) Loan Program, your business must meet SBA’s [size standards](http://www.sba.gov/content/table-small-business-size-standards) and be considered small within your particular industry, operate for profit and you must have reasonable equity to invest. You’re also required to do, or propose to do business, in the United States or its possessions. Another eligibility requirement is that you must have tried to use other financial resources, including personal assets, before applying for a loan.
3. **How can I use 7(a) funds?** The 7(a) Program lets you get loan amounts (up to $5 million) to fund startup costs, buy equipment and more. Here’s what else you can do with 7(a) funds:
   1. Purchase new land (including construction costs)
   2. Repair existing capital
   3. Purchase or expand an existing business
   4. Refinance existing debt
   5. Purchase machinery, furniture, fixtures, supplies or materials
4. What are the benefits?
   1. The 7(a) Program offers flexibility, longer terms and potentially lower down payments compared to other financing options. There are also specialized programs for individuals interested in [exporting](http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs/7a-loan-program/sb); those located in [underserved communities](http://www.sba.gov/content/rural-business-loans); members of the [military community](http://www.sba.gov/content/express-pilot-programs); and small businesses owners looking to meet their [short-term and cyclical working capital needs](http://www.sba.gov/content/caplines).
5. **What are the repayment terms?** Most 7(a) term loans are repaid with monthly payments of principal and interest. For fixed-rate loans, the payments stay the same because the interest rate is constant. For variable-rate loans, the lender can require a different payment amount when the interest rate changes.
6. **What else should I know?** Keep in mind that SBA doesn’t fund these loans directly to small business owners, but banks receive a guarantee that the SBA will repay a portion of the loan if you default on payments. If you think you’re suited for a 7(a) loan, check out [these resources](http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/how-prepare-your-loan-application) and a checklist to help prepare your loan application.

**504 Loan**

1. Are you looking to expand or modernize your small business? If you’re exploring your financing options, then SBA’s 504 Loan Program (or Certified Development Company (CDC) loan) may be for you. Designed especially to help small businesses grow, you can use funds to make purchases for real estate and equipment, just to name a few. Read on for more details to see if this is a good option for you.
2. **Am I eligible?**
   1. In addition to operating your business for profit, you’ll need to have a feasible business plan and relevant management expertise to be considered eligible for a 504 loan. As with any business seeking SBA’s financial assistance, you’re also required to do business in the United States or its territories. And you must have tried to use other financial resources, including personal assets, before applying for a loan. Here are some other requirements to consider:
   2. Your business must have a tangible net worth of less than 15 million dollars.
   3. Your business must have an average net income less than $5 million after taxes for the preceding two years.
   4. You must have the ability to repay the loan on time from the projected operating cash flow of your business.
3. **How can I use the funds?**
   1. Loan funds can be used to:
      1. Purchase land;
      2. Purchase existing buildings;
      3. Purchase long-term machinery and equipment;
      4. Purchase improvements (including grading, street improvements, utilities, parking lots and landscaping); or
      5. Build new facilities or modernize, renovate or convert existing facilities.
   2. A 504 loan cannot be used for:
      1. Working capital or inventory;
      2. Consolidating, repaying or refinancing debt (although for a portion of the project, you may refinance debt associated with buying or renovating equipment or facilities); or
      3. Speculation or investment in rental real estate.
4. **What are the amounts and repayment terms?**
   1. Maximum loan amounts are determined by [how they’ll be used](http://www.sba.gov/content/cdc504-loan-amounts-repayment-terms-interest-rates-fees) ­– if they support goals associated with job creation, public policy or small manufacturing. The loan terms also vary. For land and buildings, the loan term is 20 years; it’s a 10-year term for machinery and equipment.
   2. Think the 504 Loan Program might be for you? [Find your local CDC](http://www.sba.gov/tools/local-assistance/cdc) and learn more about the [application process](http://www.sba.gov/content/cdc504-loan-application-process) today.