



SBA 7(a) vs. SBA 504:
Which Loan is Right for Your Healthcare Practice?

If you're a healthcare practice owner seeking financing, understanding the differences between SBA 7(a) and SBA 504 loans can help you choose the best option for your needs. Both are popular Small Business Administration loan programs designed to support small businesses, but they serve different purposes and have unique features. Here's a breakdown to help you decide which loan fits your healthcare practice best.

1. Purpose and Use of Funds

- **SBA 7(a) Loan:**

This is the SBA's most flexible loan program. It can be used for a wide range of business purposes, including:

- Working capital to cover day-to-day expenses
- Purchasing equipment and supplies
- Buying or renovating real estate
- Refinancing existing debt
- Starting a new healthcare practice or expanding an existing one

- **SBA 504 Loan:**

This loan is specifically designed for fixed asset financing, making it ideal for:

- Purchasing commercial real estate (e.g., office space, medical buildings)
- Buying heavy equipment or large medical machinery
- Renovating or constructing healthcare facilities
- Long-term, fixed asset investments rather than working capital or inventory

2. Loan Structure and Lenders

- **SBA 7(a) Loan:**

- Funded by SBA-approved lenders such as banks or credit unions.
- The SBA guarantees a portion of the loan (up to 85% for loans up to \$150,000).
- Loan amounts can be up to \$5 million.
- Terms vary depending on loan purpose (typically up to 10 years for equipment, and up to 25 years for real estate).

- **SBA 504 Loan:**

- Involves a partnership between a Certified Development Company (CDC), a private lender, and the borrower.
- Typically structured with 50% financed by a bank, 40% by the CDC (backed by the SBA), and 10% as a down payment from the borrower.
- Loan amounts can go up to \$5.5 million or more depending on project size.
- Terms are usually 10, 20, or 25 years with fixed interest rates.

3. Interest Rates and Fees

- **SBA 7(a) Loan:**

- Interest rates are variable or fixed and are negotiated between the borrower and lender but are capped by SBA guidelines.
- Rates typically range from Prime + 2.25% to Prime + 4.75%, depending on loan size and term.
- SBA guaranty fee applies, which can be financed into the loan.

- **SBA 504 Loan:**

- Offers below-market, fixed interest rates on the CDC portion of the loan.
- Rates are generally lower than 7(a) loans due to the bond-backed financing.
- Borrowers pay a CDC fee and closing costs, which are generally rolled into the loan.

4. Down Payment Requirements

- **SBA 7(a) Loan:**
 - Down payments vary; often minimal or none for working capital or equipment loans.
 - For real estate purchases, lenders may require 10-20% down.
- **SBA 504 Loan:**
 - Typically requires a 10% down payment from the borrower.
 - May require more (up to 15-20%) for special use properties or startups.

5. Best Use Cases for Healthcare Practices

- **Choose SBA 7(a) if you need:**
 - Flexible funding for working capital, payroll, inventory, or smaller equipment purchases.
 - Financing for a variety of business needs including debt refinancing.
 - A loan with shorter terms or variable interest options.
- **Choose SBA 504 if you need:**
 - Long-term, fixed-rate financing for buying or building your healthcare facility.
 - To purchase expensive medical equipment or renovate your practice space.
 - Lower interest rates and predictable payments over 20-25 years.

Final Thoughts

Both SBA 7(a) and SBA 504 loans offer valuable financing options for healthcare practices, but your choice depends on your specific needs:

- For flexible, general business funding, **SBA 7(a)** is often the best fit.
- For purchasing or improving real estate and large equipment with favorable fixed rates, **SBA 504** is the way to go.

[Consult with one of our financial advisors](#) to determine which loan aligns with your healthcare practice's growth plans and financial situation.