GUIDE

Understanding Loan Products

Term loans, lines of credit, SBA products, and mission-based lending explained in plain language.

Start with the question, not the product

The right product is determined by what the money is for and how long it takes to pay back. Match the life of the loan to the life of the thing you are buying: short-term needs get short-term money, and buildings get long-term money.

Product comparison

Product	Best used for	Typical term	What to watch
Term loan	Equipment, renovation, one-time expansion	3–10 years	Prepayment penalties; fixed vs. variable rate
Line of credit	Seasonal gaps, payroll timing, receivables	1–2 years, renewable	Annual renewal risk; clean-up requirements
SBA 7(a)	Working capital, acquisition, mixed uses	7–25 years	Longer approval; personal guarantee required
SBA 504	Owner-occupied real estate and heavy equipment	10–25 years	Occupancy rules; two-lender structure
Commercial mortgage	Property purchase or refinance	5–20 years, often with balloon	Balloon date; appraisal and LTV limits
Construction loan	Ground-up builds and major renovation	12–24 months, then converts	Draw schedule; interest reserve; cost overruns
Mission / CDFI loan	Community impact projects, thinner files	3–15 years	Reporting requirements; geographic limits
Grant	Programs, capacity, pilot work	N/A	Restricted use; reimbursement timing

Reading the true cost

Interest rate is only part of the price. Ask every lender for the APR, the origination and packaging fees, and the total dollars repaid over the life of the loan. A 9% loan with modest fees is often cheaper than a 7% loan carrying four points up front.

- Rate type — fixed, variable, or fixed for a period then reset
- Amortization vs. term — a 20-year amortization on a 5-year term means a balloon payment

- Fees — origination, packaging, appraisal, legal, servicing
- Covenants — coverage ratios, reporting, and limits on new debt
- Guarantees and collateral — who signs and what is pledged

Questions to ask before you sign

- [ ] What is my total repayment over the full term?
- [ ] What happens at the balloon or renewal date?
- [ ] What triggers a default besides a missed payment?
- [ ] Can I prepay, and what does it cost?
- [ ] What reporting will you expect from me each year?

Avoid stacking short-term, high-frequency products (daily or weekly repayment advances). They rarely solve a structural cash flow problem and frequently disqualify you from affordable financing later.