

# SBA LOAN FACT SHEET FOR BROKERS

In Fiscal Year 2023, the SBA approved over **57,000** loans totaling **\$27.5 billion**.

## Types of ineligible businesses:

Engaged in lending activities

Passive businesses / Non-profits

Restrictive patronage / discriminatory hiring practices

Religious activity / prurient sexual material

Prior government loss / delinquent federal debt

*Full list found in SOP*

## Blended term:

Term is calculated in proportion to business and real estate portion.

Example:

\$1,000,000 used for business purchase

\$1,000,000 used for real estate purchase

$0.5 \times 120 \text{ months} = 60$

$0.5 \times 300 \text{ months} = 150$

Blended term = 210 months

The SBA 7(a) program is designed to reduce the credit risk faced by lenders when lending money to smaller enterprises. Encouraging lending to borrowers that otherwise would not meet their internal credit standards. In terms of acquisition financing, the 7(a) program allows qualified borrowers to finance a purchase of an eligible business with only 10% down on a 120 month term and has the potential to be lower with accepted seller notes, giving entrepreneurs the opportunity to purchase a business on favorable lending terms with as little as zero % downpayment.

## Core Requirements

- Business must be located in the United States and meet SBA size requirements
- Be an eligible for profit business\*
- Business must be owned 51%+ by U.S. Citizen / Permanent Residence and buyer must be of good character (Form 1919)
- Partial buyouts are now acceptable as of 8/1/23
- All remaining owners over 20% must provide full unlimited guaranty

## Loan Overview

- 7(a) loans have a maximum loan size of \$5,000,000
- Business acquisitions can have three term lengths:
  - Business only: **120 months**
  - Business and Real Estate (RE <51%): **Blended term\***
  - Business and Real Estate (RE >51%): **300 months**
- Interest rate cannot exceed WSJ Prime + 3.00% (fixed or variable)
- Equity injection cannot be <10% of Total Project Cost
- Total Project Cost is defined as:
  - Purchase Price + Working Capital + Closing Costs
- Seller financing may be considered as equity injection if it is on full standby for 24 months or longer (repayment may be amortizing thereafter, subject to lender review). Seller financing contributed toward equity injection can be up to 100% of total equity injection at lender discretion.
- Required lien on personal residence when equity positions exceeds 25% and loan is under collateralized. Under 25% then becomes a lender policy decision

## Credit Requirements

### Business

- Loan repayment ability is based on three years of historical cash flow of the business
- Business must show historically a debt service coverage ratio of at least a 1.15x in most recent year
- Debt service = operating cash flow / SBA loan payment
- SBA defines operating cash flow as EBITDA +/- other justifiable addbacks / adjustments such as:
  - Rent (if real estate is being purchased)
  - Officer compensation net of new owner salary
  - Other case-by-case standard items

### Borrower

- Typically require 640+ credit score
- Can inject at least 10% of total project cost
- 1+ years of direct industry experience or 3 years of indirect industry experience (*unwritten rule*)
- Strong resume can help with D/P requirement
- Spouse personal guaranty may not be required

## Other Items to Note

- SBA must take collateral when available, but cannot decline a loan solely for lack of collateral
- Loan proceeds used for a change of ownership transaction cannot exceed the business valuation
- SBA cannot fund passive investments or businesses and must be presented as owner / operator
- All historical financials used in loan underwriting must be third-party verified. Verified tax returns or CPA-signed financials are acceptable

## Forgivable Promissory Notes

### Are acceptable

- Typically tied to gross revenues
- Milestones are determined by buyer and seller
- No set level of note reduction
- Flexible terms with no lender involvement
- Must be in benefit of the buyer

Forgivable promissory notes

### CANNOT:

- Be credited toward D/P
- Removed for BV calculations
- Removed from the D/P calculation

\*\*Earn outs are not eligible in SBA transactions