



Fact Sheet: **SBA 7a Loans for Business Acquisitions**

The SBA 7(a) loan program plays a crucial role in supporting small businesses across America. By providing accessible financing options, it enables entrepreneurs to secure the capital needed to start, grow, and acquire small businesses. With favorable terms, including lower down payments and longer repayment periods compared to traditional loans, the 7(a) program offers vital support for underserved markets and helps promote economic growth. By empowering small business owners, the SBA 7(a) loan program not only contributes to individual success but also fosters community development and job creation nationwide.

In Fiscal Year 2024, the SBA approved over 70,000 loans totaling \$31 billion.

Eligibility	<p>Types of ineligible businesses:</p> <ul style="list-style-type: none">• 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 <u>SOP (page 18-25)</u> <p>Core Requirements</p> <ul style="list-style-type: none">• Business must be located in the United States and meet SBA size requirements (<\$6.5MM in net income and <\$20MM tangible equity).• Be a for-profit business.• Business must be 100% owned by U.S. Citizen / Lawful Permanent Resident.• Buyer must be of good character (Form 1919).• Partial buyouts are now acceptable.• All shareholders with 20% must provide full unlimited guaranty.
Terms and Conditions	<p>Loan Overview</p> <ul style="list-style-type: none">• Maximum loan of \$5,000,000 per business and its affiliates.• Equity must be a minimum of 10% of the total project cost for complete change of ownership transactions.<ul style="list-style-type: none">◦ Total project cost = purchase price + working capital + closing costs + SBA Fees + real estate (if applicable).◦ Note: When an existing business acquires a business in the same 6 digit NAICS code with identical ownership and in the same geographic area as the acquiring entity, SBA will not require a minimum equity injection.

Terms and Conditions	<ul style="list-style-type: none">• Seller financing may be considered as equity injection if it is on full standby for the life of the SBA loan. This is limited to up to half of the required 10% equity injection.• Loan Terms:<ul style="list-style-type: none">◦ Working capital or inventory loans and the financing of intangible assets (including goodwill) must not exceed 10 years.◦ Generally, equipment, fixtures, or furniture loans should not exceed 10 years. However, the term may be up to 15 years if the IRS asset class useful life supports the term.◦ Real estate must not exceed 25 years, unless a portion of the loan is used for construction or renovation of the real estate.◦ When 7(a) loan proceeds are used for changes of ownership and/or for multiple purposes (real estate, working capital, equipment, etc.), the maturity may be a blended maturity or, if 51% or more of the use of the 7(a) loan's proceeds are for real estate, the maximum maturity may be up to 25 years.• If a 20%+ owner owns any real estate with 25%+ equity, that equity must be pledged toward the loan until the loan is fully secured or all available collateral has been pledged – whichever comes first.						
SBA Guarantee Fees	<table><tr><td>Loans up to \$150,000:</td><td>2% of the guaranteed portion</td></tr><tr><td>Loans \$150,001 - \$700,000:</td><td>3% of the guaranteed portion</td></tr><tr><td>Loans over \$700,000:</td><td>3.5% of the guaranteed portion and an additional .25% on the guaranteed portion over \$1,000,000</td></tr></table>	Loans up to \$150,000:	2% of the guaranteed portion	Loans \$150,001 - \$700,000:	3% of the guaranteed portion	Loans over \$700,000:	3.5% of the guaranteed portion and an additional .25% on the guaranteed portion over \$1,000,000
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Business Requirements	<ul style="list-style-type: none">• Loan repayment ability is based on three years of historical cash flow of the business.• SBA requires that the business show a historical debt service coverage ratio of at least 1.15x in the most recent full year.<ul style="list-style-type: none">◦ Note: most lenders want to see more - generally between 1.25x to 1.50x.• Debt service = Total Business Cash Flow / Total Debt Service.• SBA defines business cash flow as EBITDA +/- other valid addbacks / adjustments such as:<ul style="list-style-type: none">◦ Rent (if real estate is being purchased, for example)◦ Officer compensation net of new owner salary◦ Other case-by-case standard items						

Buyer Requirements	<ul style="list-style-type: none">• While the SBA does not have a minimum credit score requirements, lenders do review personal credit history to assess personal character.• Borrowers should have enough cash for an equity injection + sufficient post-close liquidity.• Some lenders require direct industry experience, while others look for relevant management experience.
Other Items to Note	<ul style="list-style-type: none">• SBA must take collateral when available. Each lender can decide whether to make a loan with a collateral shortfall.• Loan proceeds used for a change of ownership transaction cannot exceed the business valuation.• For a change of ownership, the SBA Lender must verify the seller's financial data, including a selling sole proprietor's Schedule C, except when there is an acquisition of a division or a segment of an existing business, the SBA Lender may use alternative forms of third-party verification such as third-party CPA-prepared or reviewed financial statements, sales tax payment records, transient occupancy tax, credit reporting services, etc., to verify the seller's financial data.• Transactions with earnouts are not eligible.• Forgivable / conditional seller notes that benefit the borrower are allowed.• The seller may not remain as an officer, director, stockholder, or employee of the business.• The buyer may contract with the seller as a consultant for a period not to exceed 12 months.
For partial change of ownership transactions (seller rolling equity) ONLY	<ul style="list-style-type: none">• Can only be done as stock purchases.• Any selling owner who remains an owner and owns less than 20% of the business post-sale must provide a guaranty for the full loan amount for a period of 2 years.• All new shareholders must be co-borrowers on the loan, regardless of their ownership percentage.• The seller may stay on as an employee of the business indefinitely.