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02

FINANCING

The SBA Loan Playbook

How to finance a business acquisition with 10% down using government-backed lending — qualification, process, structure, and the traps.

FREE BUYER'S GUIDE

From the makers of the free AI valuation toolkit at businessvaluationcalculator.com

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CHAPTER 1

Why SBA 7(a) Powers Main Street M&A

The SBA 7(a) program is the engine behind most small business acquisitions in America. The government guarantees up to 75% of the loan, which makes banks willing to lend ~90% of a purchase price they would never touch otherwise. For a buyer, that changes everything: a $1.5M business becomes reachable with roughly $150K down.

10%	$5M	10 yrs
typical minimum buyer down payment	maximum 7(a) loan size	standard term for acquisition loans

Compare the alternatives: conventional acquisition loans usually want 25-30% down plus hard collateral. Search funds need investors. Seller financing alone rarely covers more than 20-30% of a deal. The 7(a) is the only broadly available path to control of a cash-flowing company with a modest personal check.

REAL NUMBERS

Leverage, illustrated

Buy $400K of SDE for $1.2M with $120K down. After roughly $190K/yr of debt service you keep about $210K — a 175% cash-on-cash return on your down payment in year one, before growth. That is why buyers tolerate the SBA paperwork.

CHAPTER 2

Do You Qualify?

SBA lenders underwrite two things: you, and the deal. You do not need to be rich — you need to be credible, liquid enough, and matched to a business that cash-flows.

What they check about YOU

- Credit score — 680+ comfortable, 650 possible with strengths elsewhere
- Down payment source — must be seasoned, documented funds (gifts OK, undisclosed borrowing not)
- Post-close liquidity — 6-12 months of reserves
- Relevant experience — industry or management background
- Clean background — felonies and defaults on federal debt are problems

What they check about the DEAL

- DSCR of 1.25x or better after your salary
- 3 years of tax returns supporting the price
- Reasonable valuation (they order an independent one)
- Business keeps its licenses, lease, and key contracts post-sale
- Trend — declining revenue triggers hard questions

PRO TIP

Experience gaps are fixable

No industry experience? Lenders accept transferable management experience plus a transition plan: seller training period (write it into the purchase agreement), a key employee staying on, or a franchise system's training program.

CHAPTER 3

The Numbers That Matter

Term	Typical range	What it means for you
Down payment	10% (5% w/ seller note)	Seller standby note can cover half the equity injection
Interest rate	Prime + 2.25-3.0%	Variable, most acquisition loans float with Prime
Term	10 years	25 if real estate is the majority of the deal
SBA guaranty fee	2-3.75% of guaranteed portion	Financeable — usually rolled into the loan
Personal guarantee	Required, all 20%+ owners	Your house may be pledged if it has equity
DSCR requirement	1.25x minimum	SDE must cover debt payments 1.25x AFTER your salary

DSCR is the number that kills or clears deals. Example: $350K SDE, you need a $120K salary, leaving $230K for debt service. At 1.25x coverage the bank allows about $184K/yr of payments — which at Prime+2.75 on a 10-year note supports roughly a $1.15M loan. That math, not the asking price, is your real budget.

RED FLAG

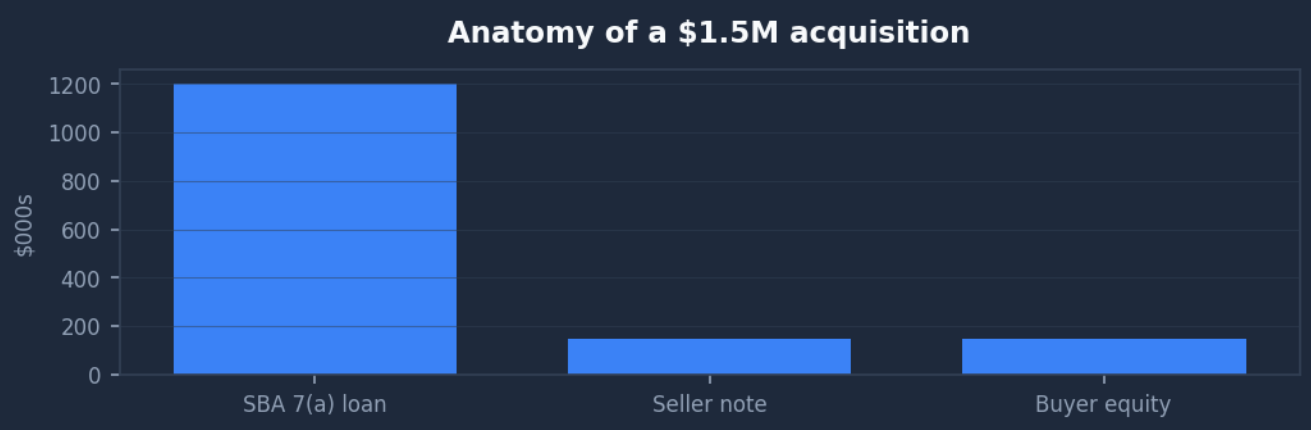
Variable rate reality

Most 7(a) notes float. If Prime rises 2 points, the payment on a $1.2M loan climbs about $1,400/month. Stress-test every deal at +2% before you sign — the Forecast Analyzer's conservative scenario does this automatically.

CHAPTER 4

Deal Structures That Work

Sophisticated buyers stack capital sources to shrink their check and shift risk to the seller. The classic main street stack:



The seller note does double duty. On full standby (no payments for 24 months), the SBA counts it toward your equity injection — meaning as little as 5% true cash from you. And a seller holding 10% of the price has a six-figure reason to make your transition succeed.

PRO TIP

Earnouts vs. the SBA

The SBA restricts traditional earnouts. The workaround: a forgivable seller note — full price on paper, with note balances forgiven if revenue targets are missed. Same risk-shifting, SBA-compliant. Have your attorney draft it.

REAL NUMBERS

What standby is worth

On the $1.5M deal above, a full-standby seller note cuts your day-one cash from $150K to $75K and delays $150K of payments for two years — exactly the window when cash is tightest.

CHAPTER 5

The Process, Start to Close

1. **Get pre-qualified (before you shop)**
   A 30-minute lender call plus your PFS. You will know your realistic budget and shop with credibility. Cost: free.
2. **Deal under LOI (day 0)**
   Send the lender your LOI, the CIM, and 3 years of business tax returns. Term sheet typically follows in 1-2 weeks.
3. **Underwriting (days 14-45)**
   Full package: your PFS and returns, business financials, purchase agreement draft. Bank orders the independent business valuation.
4. **Commitment + conditions (days 45-60)**
   Loan approved subject to conditions: insurance, licenses, lease assignment, life insurance policy.
5. **Closing (days 60-90)**
   Final docs, equity injection wired, funds released. You own a business.

WATCH OUT

The valuation checkpoint

The bank's independent valuation must support the price. If it comes in low, the deal renegotiates or dies. Buyers who valued the business properly up front are never surprised here — one more reason to run your own analysis first.

CHAPTER 6

Choosing a Lender

SBA lenders are not interchangeable. A Preferred Lender (PLP) approves loans in-house without sending your file to the SBA — often several weeks faster. Beyond speed, you want a lender that does acquisition loans in your deal's industry and size class every month, not once a year.

Lender type	Best for	Watch for
National SBA shops (Live Oak, Huntington...)	Speed, acquisition expertise	Less flexibility on unusual deals
Regional banks w/ SBA desks	Relationship, local market knowledge	Confirm PLP status and deal volume
Community banks / CUs	Deals big banks pass on	Slower, may lack acquisition experience
SBA loan brokers	Shopping many lenders at once	Quality varies wildly — get references

- ☑ Ask: how many acquisition 7(a) loans did you close last year?
- ☑ Ask: have you funded deals in this industry?
- ☑ Ask: what DSCR and post-close liquidity do you require?
- ☑ Ask: will you accept a seller standby note as equity injection?
- ☑ Get term sheets from 2-3 lenders — terms genuinely differ

CHAPTER 7

The 7 SBA Deal Killers

1. **Unverifiable cash revenue**
   If it is not on the tax return, the bank prices the deal as if it does not exist — because officially, it does not.
2. **Declining revenue trend**
   Two down years in a row makes underwriters flinch regardless of the story.
3. **Low independent valuation**
   Price above appraisal means renegotiate or walk.
4. **Landlord refuses lease assignment**
   No lease, no loan, for any location-dependent business.
5. **Licenses that don't transfer**
   Contractor, liquor, medical licenses — solve for this in week one, not week eight.
6. **Unseasoned down payment**
   Cash appearing in your account 30 days ago without a paper trail stalls everything.
7. **Customer concentration**
   One customer over 25-30% of revenue draws hard scrutiny; get comfortable explaining the relationship.

CHAPTER 8

Your Pre-Flight Checklist

Complete these before making offers and you will move faster than 90% of buyers — which sellers and brokers notice:

- [x] Personal financial statement (PFS) prepared and current
- [x] Last 3 personal tax returns organized
- [x] Down payment funds seasoned 90+ days in your account, documented
- [x] Credit report pulled and any issues addressed
- [x] Resume framed around management and industry experience
- [x] Pre-qualification letter from at least one PLP lender
- [x] Attorney and CPA with acquisition experience identified
- [x] Target DSCR math understood — you know your real budget
- [x] Post-close liquidity plan (6-12 months reserves)
- [x] Insurance quotes lined up (the bank requires life insurance)

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Ready to Analyze a Real Deal?

Put this guide to work. Upload any CIM or financial statement and get an institutional-grade valuation, risk analysis, and deal recommendation in under five minutes — free.

Start Your Free Analysis

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- ✓ Market Opportunity Analyzer
- ✓ Forecast Analyzer + Excel Model
- ✓ Buyer Readiness Assessment