

Finding the Right Path to Capital

Using SBA Loans to Finance Your Business

The biggest obstacle people have when trying to buy a business stems from lack of down payment and little start-up capital. However, any VR Business Sales intermediary will explain that SBA-guaranteed loans are a great option that will become easier to obtain given the latest SBA bill that was signed into law. They are very attractive to small business buyers due to long-term financing and a low down payment.



Maximum Amount Allotted per Business

The loan size for a business acquisition SBA loan is up to \$1 million; and up to 80 percent financing over a 10 year period is available to buy a business. When real estate becomes part of the financed assets, the term can go well beyond 10 years and often more than 80 percent of the deal can be financed.

What Lenders Investigate

The SBA defines a small business as one that has average annual revenue of less than \$5 million. That average is typically drawn from the past three years of annual revenue by the business. Lenders always look to finance businesses and buyers that are financially sound.

There are two major areas where lenders will cast a sharp eye when determining whether to approve an SBA loan:

- **The borrower's personal credit history;**
- **Cash flow of the business.**

Generally, lenders require three years of personal financial history from the prospective buyer with three years of financials for the business.

However, it is the cash flow of a business that makes it both saleable and attractive for financing.

Analyzing Adjustments

There will be adjustments when a lender analyzes the financials of a business. The books reflect numbers that are unique to every business, as lenders know very well.

- **Salaries may be distributed differently in a business** – a handful of family members versus one owner and four non-family associates.
- **Other expenses may be treated differently by a new owner** – discretionary or one-time expenses, for example.

Lenders will consider industry standards for adjustments regarding salary requirements between the seller and the proposed purchaser. The lender will determine a reasonable adjustment for discretionary and/or nonrecurring expenditures as well as standard adjustments for noncash items – depreciation or amortization, for example.

MAKING FINANCING WORK IN YOUR FAVOR

Even when an SBA loan requires a 20 percent down payment, there are creative ways to make financing work for you. You may be able to buy a business with less than 20 percent down with seller financing. VR Business Sales intermediaries always encourage that sellers use this route in order to have a successful transaction with the buyer.

Putting Down Collateral

Buyers always have concern when it comes to lenders asking for collateral. Besides a down payment, how much loan-to-value is there with an SBA loan?

Lenders have their own formulas for calculating collateral value that will be pledged to secure a loan:

- **Property and equipment;**
- **Good will;**
- **Cash flow of business** – must demonstrate history of capacity to service proposed debt for the last two full years, plus the current year.

The loan will require a lien on all of the assets being purchased. **Overall, the low down payment for an SBA loan allows the borrower to keep a larger percentage of cash available for start-up and operation costs.**

Projection for Business Sales

Lenders want to find out the ability of the buyer to produce results and what his sales projections are. Lenders look for a buyer that has direct or related industry experience – *preferably direct industry experience within the last few years.*

Lenders want to know:

- **Sales goals;**
- **Marketing strategies;**
- **Plans for growth;**
- **Profile of the business' management.**

Lenders need the confidence of knowing that the buyer has specific and detailed plans to operate the business effectively and profitably. This will demonstrate the ability to repay the SBA loan being issued.

Search for lenders that specialize in business acquisition loans. Some lenders have greatly streamlined the loan process, particularly when it comes to SBA financing. They are familiar with the underwriting of business acquisition loan requests.

Being Approved for an SBA Loan

Many aspiring business owners understandably have the perception that SBA financing will take nothing short of an eternity to complete.

The truth is actually far from the above assumption:

The prospective business buyer can be pre-qualified within 24 hours. Certain lenders who specialize in SBA financing can get the borrower to the closing table in just four to six weeks.

With prices ranging from several thousand dollars to a few million, business opportunities are ripe and ready for anyone who wants to be his or her own boss. An SBA loan is a great resource for you to get started on your path to entrepreneurial success.