SBA Loans – How To Purchase A Business With A SBA Loan

Getting SBA loan financing to buy a business can be one of the most important aspects of buying a business. Not too many buyers have all cash for a purchase and not many business owners are willing to take back a sizeable note. Buyers need to be prepared in advance with the info below to increase the odds of getting a loan to buy a business.

Lenders look at many different things in both the business buyer (borrower) and at the business that is being purchased. Below are some key factors that make a difference whether you will receive SBA financing to buy a business:

1. Buyers need between 10% - 30% for a down payment depending if there is real estate with the business or if just the business is being sold by itself. The down payment can come from many different sources: savings, equity built up in your home (home equity line of credit or 2nd on your home), a gift (usually from only family members), or retirement plan-401k rollover program for business purchase or down payment (401K, Pension, IRA etc.). You CAN NOT borrow the money or utilize a credit card for your down payment!

2. Buyers need to have good to excellent credit, usually a credit score over 650 will suffice. Get any "dings" in your credit history removed or fixed well before the buying process. Early in the SBA lending process, the lender will be running a credit check to see if you qualify.

3. SBA lenders like a borrower who has experience in the business they are buying or in a related industry, or with specific job skills relating to the business they are buying. Lenders also like management experience or buyers who have previously owned a business and know what it takes to grow and keep a business on track. You will need to provide a resume of your work experience. Have one ready that focuses on your industry strengths and management experience.

4. Writing up a mini business plan on the business they are thinking of buying can be helpful. Lenders usually require this to make sure you know about the business and industry you are buying into and what you are going to do with the business once you buy it. These plans can be a short outline (3-5 pages) where the business has been, what is happening with it now, and what you plan to do with the business once you buy it. Depending on the lender this step may or may not be necessary.

5. Positive cash flow (or adjusted net income) must cover the debt service of the SBA loan and provide you with an adequate income to live off of, otherwise you won't get the loan. Lenders look closely at the tax returns of the business being sold – so if the seller is playing any games (not showing income, excess deductions, etc. on his business tax returns) chances are you won't get a loan. Ask for the business tax returns early in the process of looking at a business and see if you can "add back" sufficient net income, depreciation, interest, and owners salary (adjusted net income) to pay back the loan.

6. Does the buyer have equity in any real estate that can be attached to the loan? Although not imperative with some lenders, this can strengthen the deal if the other parts of your loan application are weak such as the down payment, work experience or a lower credit score.

7. Does the business that's being sold have management in place or key employees who are going to stay? Try to get commitments from existing key personnel and management to stay for a period – this shows the lender continuity and less risk after you take over.

8. Make sure there is adequate training after the sale of the business. Lenders look for a training period to be anywhere from 2 months to 12 months from the seller (depending on the type of business you are buying and your past work experience and how it relates to the business you are purchasing). Make sure you negotiate this point carefully in the purchase agreement.

9. Will the seller take back a note? If the owner is willing to take back a note (even a small one for 10%-20%) this shows the lender that the owner is confident in the deal and is willing to take a chance on the buyer!

10. Lenders will also want to know if you have any other outside sources of income i.e. other business income, income from a spouse's employment, rental properties, investment income etc. You will also need to provide 3 years of current personal tax returns.

11. The loan process takes anywhere from 24 to 45+ days it really depends on you. The quicker you get info, forms, and questions answered to the lender the faster the process takes. When the lender asks for certain data/info move on it quickly!

12. Remember all SBA lenders are different and their underwriting criteria for business purchase SBA loans changes all the time - make sure you consult a professional to assist you in this process it will save you time and possible the business you are trying to buy!

About The Author: Peter Siegel, MBA is a Principal at BizBuyFinancing.com a SBA Loan consulting and SBA loan brokerage company assisting with business purchase financing. BizBuyFinancing assists business buyers with SBA loans for business purchases (based on cash flow, not assets!) priced between $400K and $5M. Mr. Siegel can be reached at 925-830-3447 and make sure to visit www.BizBuyFinancing.com for more information on SBA financing for business purchases.