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## **Small Business Administration Backed Business Acquisition Loans**

SBA loans are actually bank loans guaranteed by the Government. As such, you and the business you want to buy need to meet bank loan criteria, which may be relaxed because of the Government's insurance. All business loans are based on an evaluation of the borrower's Credit, Cash Flow (or cash on hand), and Collateral (the 3 Cs). How do you demonstrate your 3 Cs are strong so that the purchase looks like it is low risk to a bank? There are two parts:

### **Personal Strength (You and any Partners)**

- Very Good Credit (close to 700 FICO or above)
- Your own Cash to invest (typically 25% of purchase price)
  - o The SBA requires a minimum of 10% cash investment from you/partners and it may NOT be borrowed. The additional 15% can come from relatives, seller financing, etc.
- Collateral – ideally real estate, such as home or rental property equity, and/or strong assets of a business you already own
- Industry and Management Experience
- Additional sources of income outside the business that is being purchased (pension, spouse income, rental property income, existing business, etc.)

### **Strength of the Business Being Purchased**

- Strong Cash Flow shown on 3 years of the Seller's Business Tax Returns
  - o Profit on tax returns must be at least 1.2x greater than your expected annual loan payment. If it is not, the business is not strong enough to pay for the purchase.
  - o If the seller will not show you the tax returns, you will not be able to get a loan
- Collateral – ideally business real estate, otherwise, a strong balance sheet may work

In addition, here are some of the common requirements to determine if you will be eligible:

- Must be current on ALL taxes
- No bankruptcy in the past 3 years and no bankruptcy ever where the SBA lost money
- U.S. citizen or legal permanent resident

You may have heard that SBA loans require a lot of paperwork. It is really not much more than a regular bank loan, but more people qualify due to the government insurance. Additionally, you get 10 years to repay (25 years if the purchase involves real estate) resulting in lower monthly payments than the standard 5-year bank loan – so the paperwork is really worthwhile.

If you are ready to apply for an SBA business acquisition loan or have questions about the process, please contact us at Complete Business Capital. Our experts will be more than happy to assist you.