

## All You Need to Know About the SBA 7A Loan Process

### Pre-Approval Needs List:

A pre-approval is a letter that is either general for you or specific for the business that indicates you qualify to purchase a business or a specific business. We can turn around a pre-approval letter within 24 hours of receipt of the required paperwork.

- The last three years personal tax returns for anyone that will own 20% or more of the business
- If the most recent tax return is not available, copies of any W2's earned in the previous fiscal year for any 20% or more owners
- A personal financial statement for anyone that will own 20% or more of the business. We can provide you with an SBA personal financial statement form, if needed, however we can accept this information in any format you might already have it in
- A resume from anyone that will own 20% or more of the business. We can provide you with a resume form you can use, if needed, however we can accept this information in any format you might already have it in
- Evidence via bank and/or brokerage account statements of where the cash down payment is coming from for your acquisition if you want us to indicate we have verified this information prior to issuing the pre-approval
- The listing for the business and any related financial information received if you want us to specify we have pre-approved you for this specific business acquisition

### Information Needed for a Formal Term Sheet:

A formal term sheet will be issued by one or more of our lending partners and will cover their proposed terms, structure, interest rates, and fees on the transaction. We require our lenders to complete initial underwriting and an initial credit review before issuing terms. Although this does not guarantee receipt of a loan approval, we rarely have transactions not get to full approval unless something comes up in the underwriting process. Once we receive the below information, we can typically get a loan request out to our lending partners for terms within 24 to 48 hours (we fully underwrite the deal before going to market to speed up the process and to get it in front of the right lenders), and typically we will receive terms within a few days to two weeks maximum depending on deal complexity.

- A copy of the executed letter of intent or purchase contract
- A copy of the listing for the business (if not already provided)
- Last three years tax returns for the business
- If the most recent corporate tax return is not available yet, year-end income statement and balance sheet for the business from the previous year-end
- Current accounts receivable report for the business (if there are any)
- Current accounts payable report for the business (if there are any)
- A breakdown of seller discretionary add-backs for each period provided
- Evidence of where the equity is going to come from if not already provided as part of the pre-approval process

### Information Needed to Get a Full Approval:

Once you have accepted terms, a Bank(s) will start working on their formal loan approval. Underwriting to approval can take from one week to three weeks depending on deal complexity and how quickly questions and requests for documents

come back from you and the seller. Once the loan is approved a formal commitment letter will be issued that commits the lender to make the loan subject to conditions in that letter. Those conditions can include receipt of an appraisal, business valuation, environmental report (for commercial real estate), property transfer of the business and/or real estate, etc. Any third-party reports (appraisal, environmental report, etc.) can be ordered during the approval process or you can wait until the loan is fully approved to order them. If you wish to order them earlier and the loan does not end up approved, you would be out the cost of ordering those reports. However, another lender may use those reports if you have to switch lenders for some reason during the approval process. Once you have accepted the commitment letter, we would move on to working on the closing checklist. Below is a list of the information typically needed to get to a full approval.

- Two years of projections with at least the first year broken down by month. We can assist you in putting this together once you identify a business
- Copies of W2's for the past three years for any seller salary & wages to be added back to cash flow and current paystubs that match the most recent interim financial statements provided
- Revenues broken down by customer for at least the past two years and year-to-date 2022 (if there are repeat customers)
- If we are more than 90 days into the next fiscal year, an interim income statement and balance sheet that is within 90 days and an interim income statement and balance sheet for the same time period the previous year (the SBA requires a year-over-year comparison on an interim basis)
- Supporting documentation for any add-backs that are one-time or seller discretionary (this can vary depending on what the add-backs are)
- Current inventory report (if the company maintains inventory)
- Current equipment list with values for each piece of equipment. For any equipment valued over \$5,000 the SBA also requires the make, model and VIN's / Serial Numbers
- A copy of the existing building lease or the lease terms for the new lease for any sites leased by the business you are buying (if you are not buying the building). The SBA requires you to have a lease term or a lease with options that matches the term of the loan. For most SBA loans that is a 10-year lease term or a lease that provides tenant options to take it to ten years.
- Ownership breakdown for the new operating company
- If available, articles of incorporation / organization and the operating agreement / by-laws for the new operating entity
- Some specific SBA paperwork that you will need to complete that we will help you put together and complete once we know which lender(s) we are moving forward with as it relates to the loan approval
- Answering questions provided by the underwriter
- If any 20% or more owner also owns other businesses that show up on the Schedule E of their personal tax return, the lender would need the last three years tax returns, year-end income statement and balance sheet (for any tax years completed but where the tax return has not been filed yet) and interim income statement and balance sheet within the last 90-days for any new tax year started

## Closing:

Once the commitment is accepted the lender will work towards closing. Closing for SBA loans can take from 2 weeks to 6 weeks with the average about 4 weeks. If third party reports were not ordered during the approval stage, those will add two to four weeks to the closing process. However, if paperwork was ordered in advance or the transaction does not require third party reports, we have easily closed transactions within two weeks time. Information typically needed to close is as follows:

- Articles of Incorporation or Articles of Organization, By-Laws or operating agreements, and Federal EIN / Tax ID letters for each entity involved in the transaction
- Verification of liquidity prior to closing going back at least sixty days for all sources

- Receipt of all required business insurance with the lender included as a mortgagee / loss payee
- Receipt of copies of any business licenses to operate the business
- Receipt of tax transcripts (ordered by the lender)
- Background and lien searches (ordered by the lender)
- Third party reports including appraisal, business valuations, environmental reports, equipment appraisals, etc. as they apply to your transaction (ordered by the lender)
- Final purchase contract reviewed and accepted by the lender
- Drafts of closing paperwork to be accepted by the lender
- Lender loan documents (typically drafted by lender counsel)
- Receipt of title insurance if real estate is involved
- If construction is involved, the signed contractor's statement, owner's statement, SBA contractor forms, plans, and other required documents for the Bank to manage construction
- Receipt of updated financial information (personal financial statements and business financials that are current within 120 days of closing)
- Final revised SBA paperwork that matches up with the final loan approval
- Other documents as may be required as part of the approval or specific to closing a certain type of business or loan

Although the process looks long from start to finish, we typically see full approvals in place within 2 to 4 weeks and closing taking another 2 to 4 weeks depending on whether or not real estate is involved. On average it takes six weeks at a minimum to close an SBA 7A loan, but it can take 90 days if third party reports are required, the business owners own multiple businesses, or there are delays in receipt of required paperwork to get an approval or to get to closing. We have closed deals in 4 weeks time and have had them go beyond 90 days with complex situations, but again the norm is 45 to 75 days.

We work hard to help our clients navigate the process, complete the required paperwork, avoid potholes, and speed up the process. We also seek to secure our clients competitive pricing on all loans. The SBA and our lending partners identify the value of a broker being involved in the transaction, so the majority of the time we get paid a referral fee by the lender that comes out of the lender's back-end profit on the transaction. All fees on SBA loans are set by the SBA and cannot get waived by any lender. The fee we earn is not paid by the customer but is paid by the lender. We still find we can typically get clients better pricing than they can on their own by creating a competitive bid environment and going to those lenders offering the best pricing up on their particular transaction type. We would love the opportunity to assist you with your next SBA loan transaction.

## AS SEEN ON:



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