

7(A) Loan Structures-Acquisition Finance

Loan Sizes Over & Under \$2 Million

7(A) is the SBA's main guaranteed loan program, widely used for financing business purchases

The figures below are illustrations. Please email lpaffhausen@rockymountaincapital.com for a "live" Excel spreadsheet, in which you can fill in total costs (red text) to calculate structure for a given transaction.

1) In a typical smaller 7(A) acquisition (under \$2M bank loan) , min. buyer cash is 20%, seller carry is 10% with 5% deferred 2 yrs; and bank loan is 70% of the total cost.							
		Total costs	Bank loan	Seller, amort	Seller, defrd	Cash equity	TOTAL
Total finance amortizing immediately:	75%	\$2,850,000	\$1,995,000	\$142,500	\$142,500	\$570,000	\$2,850,000
2) In a large 7(A) acquisition, over \$2M loan (no weakness other than collateral), min buyer cash is 20%, seller carry is 20% with 5% deferred 2 yrs & 5% deferred 7-10yrs; bank loan is 60%							
		Total costs	Bank loan	Seller, amort	Seller, defrd	Cash equity	TOTAL
Total finance amortizing immediately:	70%	\$8,300,000	\$4,980,000	\$830,000	\$830,000	\$1,660,000	\$8,300,000
3) In a large 7(A) acquisition with MINOR weakness other than collateral (e.g., good but less than ideal mgmt experience), buyer injection is 25%, seller carry is 25% of which 15% amortizes, 5% each deferred for 2 and 4 yrs; bank loan is 50%							
		Total costs	Bank loan	Seller, amort	Seller, defrd	Cash equity	TOTAL
Total finance amortizing immediately:	65%	\$10,000,000	\$5,000,000	\$1,500,000	\$1,000,000	\$2,500,000	\$10,000,000

"Total costs" is sum of **purchase price**, plus **bank fees & closing costs (approx \$24K, with RE; \$16K without RE)**, plus **SBA fee** (3.5% of amount guaranteed by SBA, plus 0.25% of guaranteed amount in excess of \$1 million.) Guaranteed amount is 75% of the loan. Also include in total costs: required permanent working capital (usually 1-2 months' operating costs will be required by bank as cash reserve for ownership transition).

- **Maximum financeable price may be increased by added down payment or by additional deferred seller notes, but may not exceed independent professional valuation / appraisal.**
 - Additional buyer cash equity may be substituted for deferred seller notes, in every case.
 - Up to half of required buyer cash equity may be in the form of family gifts, or "full standby" seller notes (payment deferred for 10 years).
 - Borrowed funds (HELOC, etc) may count as equity **ONLY IF** borrower has an income stream completely independent of the business sufficient to repay that debt (rental income, spousal income, etc.)