



Exit Planning for Small Business Owners: The SBA Loan Advantage



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Overview



Exiting a business marks a significant milestone for owners. It's an opportunity to capitalize on your hard work and secure your financial future. However, the selling process can be complex, with challenges from finding the right buyer and negotiating a fair deal to navigating complex financial options, making a seamless transition difficult. One effective tool to explore to help streamline the process of selling your business and attract a larger pool of qualified buyers is the [US Small Business Administration, or SBA, loan program](#).

Whether you're actively seeking a buyer for your business or just starting to explore your options, understanding how to leverage SBA loans is a strategic move that can positively impact your financial future.

Here's how to navigate business exit planning during this pivotal stage of your company's journey.

Why SBA loans are ideal for business sellers

While SBA loans are commonly associated with buyers, they offer unique advantages that benefit sellers and buyers. Features like lower down payments and extended repayment terms can draw a wider range of potential buyers, simplifying the sales process and leading to a more lucrative exit. With a government-backed guarantee, SBA loans can help reduce the risks associated with seller financing.

Leveraging SBA loans can substantially benefit business sellers when preparing the business for an exit. These loans are designed to make buying easier for potential buyers, making selling your business more straightforward and profitable.

Here's how SBA loans can work to your advantage:



You expand your buyer pool

One of the biggest hurdles sellers face is finding qualified buyers to secure financing. Many buyers who might not qualify for conventional financing can access SBA-backed funding, opening possibilities for those with less capital.

SBA loans offer several features that can help attract a wider array of potential buyers:

- **Lower down payments:** SBA loans typically require lower down payments than conventional loans—typically 10%—making your business attractive to buyers who may not have a lot of cash on hand. This is particularly beneficial if you're considering selling to managers, family members or long-term employees who may have the experience to run your business but not the funds for a large down payment.
- **Flexible terms:** Extended repayment terms and competitive interest rates make SBA loans attractive to buyers. This can lead to a larger pool of qualified applicants, increasing your chances of finding the right fit.



You reduce seller financing risk

Seller financing is common in SBA loan transactions, offering benefits to both buyers and sellers. With it, the seller extends a loan to the buyer for a portion of the purchase price, often alongside the SBA loan. Seller financing can bridge the gap between an SBA loan amount and the purchase price, making the deal more attractive to buyers and lenders while the SBA mitigates the risk by providing a government-backed guarantee.

Structuring seller financing with SBA loans

Sellers can potentially finance 10% of the total purchase price, but it's subject to certain SBA requirements and conditions.

- **Equity injection requirement:** The SBA mandates a minimum 10% equity injection of the total project costs from the buyer for a change of ownership. Seller financing can be considered part of this equity injection under specific conditions.
- **Seller financing conditions:** The seller's loan can't include a balloon payment if it'll be counted toward the buyer's equity injection. There's also a standby period during which, for the first 24 months of the SBA loan, the seller's debt must be either on full standby with no payments or partial standby with interest-only payments if cash flow supports them. If it's on partial standby, at least 25% of the SBA-required equity injection should be from a source other than the seller.
- **Default priority:** If there's a default, the SBA loan takes priority over seller financing.

It is important to work closely with your SBA lender to structure a seller financing agreement that aligns with SBA guidelines and meets your specific financial needs and goals. As an example, seller earnouts are prohibited. However, buyer rebates based on business performance are allowed. An SBA lender can help you understand the risks and benefits and negotiate terms that work for you and the buyer.

Why SBA loans are ideal for business sellers (continued)



You maximize your sale price

The accessibility of SBA loans can drive increased interest in your business—potentially leading to more competitive bidding, which could drive up your final sales price.

SBA loans can directly impact the sale price of your business in several ways.

- **More competitive offers:** With a larger pool of qualified buyers, you're more likely to receive multiple offers, leading to a more competitive bidding process and potentially a higher sale price. The sales price must be supported by a business valuation.
- **Full purchase price upfront:** In many cases, sellers can receive the total purchase price if they don't provide seller financing. This eliminates the uncertainty and financial strain of waiting for payments, and it gives the seller immediate liquidity.



You facilitate succession planning

SBA loans can be used to structure ownership transitions. Whether you transition your business to family members, employees or partners, [SBA loans can facilitate these changes](#), helping with business continuity.

SBA loans can provide new opportunities for transitioning your business ownership, making it easier for family members, employees or partners to take over.

- **Complete partner buyouts:** If a manager has any ownership in the business for at least 24 months, a 100% partner buyout can be financed, making it easier for trusted insiders to take over the business.
- **Employee stock ownership plans, or ESOPs:** SBA loans can finance ESOPs, allowing employees to purchase the business as long as it results in the ESOP owning at least 51% of the employer small business. This option allows for continuity and can be an attractive exit strategy for business owners that also rewards employees. No personal guarantors are required unless the seller keeps part ownership and must provide a full guarantee.



Why SBA loans are ideal for business sellers (continued)



You access working capital

Making sure the new owner has sufficient working capital to continue operations seamlessly can be challenging. Without access, the business may struggle to continue maintaining operations and grow after the sale.

SBA loans may help secure working capital for the new owner by including funding specifically for those needs.

- **Essential funding:** SBA loans can include funding for working capital, making sure buyers have the resources to cover day-to-day operations, inventory and other expenses. This makes your business more attractive to potential buyers and provides a smoother transition for the new owner.



You get flexible loan structures

A benefit of SBA loans is the added flexibility they offer in structuring deals. Whether you're selling a small business or a larger company with real estate, SBA loan options can be structured to meet your specific needs. This flexibility can help optimize terms for you and the buyer.

SBA loans offer various structures to tailor the financing to fit the unique needs of your business sale.

- **Larger transactions:** For deals over \$5 million, an SBA loan can be combined with traditional financing to cover the total purchase price. This allows you to access the benefits of both loan types and structure a deal that meets your specific financial needs.
- **Real estate:** If your business owns real estate, an SBA 504 loan can be used alongside a 7(a) loan to finance the property separately. This can be particularly advantageous because 504 loans often offer longer repayment terms and fixed interest rates, reducing the buyer's monthly payments and making the deal more attractive.



You gain a competitive advantage

Pre-qualifying for an SBA loan can give you a competitive edge. It demonstrates your business's financial viability and assures potential buyers that financing is already in place.

SBA loan prequalification can reassure buyers that financing is available and your business is a sound investment.

- **Financial sustainability:** Prequalifying for an SBA loan before listing your business demonstrates to potential buyers that it's financially sound and a good investment. This can lead to faster sales, more competitive offers and a quicker closing process.



Why SBA loans are ideal for business sellers (continued)



You can remain involved

SBA loans now allow for partial business sales, allowing you to sell a portion of your business while retaining some ownership. This can be one way to gradually transition out of ownership while maintaining a stake in the business's future success.

Recent changes to SBA rules offer sellers more flexibility when it comes to seller financing and staying involved in the business.

- **Continued involvement:** Sellers can remain involved in the business after the sale. This allows you to share your expertise with the new owner for an easier transition and maximize the business's chances of success under new leadership. While previously limited to 12 months, new SBA rules allow sellers to stay on as employees or consultants indefinitely, making this option even more appealing.
- **Partial sale:** Sellers can sell a portion of the business while retaining some ownership—an option for those who aren't ready to fully exit but who want to bring on a successor or partner. Anyone with 20% or more ownership after the sale is required to personally guarantee the loan.

By leveraging SBA loans, sellers can position a business for a successful and profitable exit. These loans offer a range of benefits that can attract more qualified buyers, reduce financial risk and help maximize the sale price. Whether considering selling to family, employees or external buyers, exploring SBA loan options can be a strategic move to achieve your exit goals.

SBA loans versus conventional loans: A side-by-side comparison

It's helpful to compare SBA loans to conventional loans to understand the advantages for sellers. The following table highlights key differences that can make SBA loans a more attractive option for both sellers and buyers, ultimately creating a smoother and potentially beneficial sale process.

SBA loans vs conventional financing

Feature	SBA loans	Conventional loans
Down payment	Lower, often 10 to 20%	Higher, typically 20 to 30% or more
Interest rates	Varies, capped by SBA regulations	Varies
Repayment terms	Longer, can be up to 25 years for real estate	Shorter, about 5 to 10 years
Guarantee	Up to 75% SBA guarantee	No guarantee
SBA eligibility	Must meet SBA eligibility	N/A
Time to funding	Can take longer due to additional documentation required by the SBA	Potentially faster
Seller financing	Often encouraged, with SBA protections	Less common, higher risk for seller
Partial business sales	Allowed	Typically not allowed
Succession planning	Strong support with partner buyouts, ESOPs	Less flexible options

Why SBA loans are ideal for business sellers (continued)

Key pros of SBA loans versus potential pain points for sellers

To help you weigh the benefits and considerations of using SBA loans in your exit strategy, here's a closer look at the key pros and cons from a seller's perspective:

Advantages

- ⊕ **Expedited sale**
The potential for faster closings due to streamlined financing and pre-qualified buyers.
- ⊕ **Full payment potential**
Receive a larger portion or even the total purchase price upfront.
- ⊕ **Competitive offers**
Attract more qualified buyers and potentially higher offers due to more favorable financing terms.
- ⊕ **Smooth transitions**
Facilitate succession planning for family, employees or partners.

Disadvantages

- ⊖ **Finding the right buyer**
While SBA loans expand the buyer pool, finding the right fit can still take time and effort.
- ⊖ **Paperwork and process**
Compared to conventional financing, the SBA loan process can be more complex and involve additional paperwork.
- ⊖ **Uncertain timeline**
Loan timelines can be longer than conventional loans due to the additional paperwork the borrower has to provide, requiring early preparation.



Understanding SBA loans for sellers: Key features and benefits

Having a clear understanding of loan options, eligibility requirements and the process itself can help you make informed decisions for your exit.

SBA loan options: Finding the right fit for your sale

The SBA offers several loan programs, but the two most relevant for sellers are:

7(a) loan program

Known for its flexibility, the 7(a) loan program is the SBA's most popular and versatile loan product. It's ideal for various purposes, including business acquisitions, working capital and purchasing equipment or real estate, making it a valuable tool for sellers.

Key Features Include:

- **Loan amounts:** Up to \$5 million or higher if combined with a conventional loan
- **Use of funds:** Working capital, business acquisition, refinancing debt, purchasing equipment, construction, renovations, leasehold improvements and real estate
- **Terms:** Repayment terms up to 25 years for real estate and 10 years for everything else
- **Down payment:** Usually 10%, but First Citizens offers 100% financing for many loans and follows SBA guidelines for business acquisitions and startups, which may require a down payment
- **Interest rates:** Competitive, capped by SBA maximums

504 loan program

The [504 loan program](#) is designed to purchase or improve fixed assets like commercial real estate. If your business owns significant assets like land or buildings, a 504 loan can be a valuable tool.

Key Features Include:

- **Loan amounts:** Borrowers may receive up to \$13.5 million, combining a maximum of \$5 million SBA portion—or \$5.5 million with the Green Energy Loan Program—with bank financing and a 10% borrower down payment. Higher amounts may be possible depending on the project.
- **Use of funds:** These funds are limited for fixed assets like commercial real estate, construction and renovations.
- **Terms:** The loans offer long-term fixed-rate financing, typically up to 25 years for real estate.
- **Occupancy requirement:** For existing buildings, the owner must occupy at least 51% of the property being financed. For new construction, the owner must occupy at least 60% of the rentable property. Up to 20% of the remaining space can be permanently leased to a third party, but the remaining 20% may be temporarily leased with plans for the owner's business to begin occupying the space within 3 years and fully occupy it in 10 years.

Combining 7(a) and 504 Loans

In some cases, 7(a) and 504 loans can be combined to provide a comprehensive financing solution, covering the business acquisition and any real estate or equipment purchases. This allows you to structure the deal to optimize the terms and benefits for both you and the buyer.

Understanding SBA loans for sellers: Key features and benefits (continued)

Eligibility requirements: Who qualifies?

Your business and the potential buyer must meet specific criteria to [qualify for an SBA loan](#). These requirements help determine that the loan is a good fit for all parties involved and that the company has a strong chance of success under new ownership.



Business eligibility

To be eligible for an SBA loan, your business must meet certain criteria related to its legal size, status and industry.

- **Business type:** The business must be a for-profit entity operating legally in the US or territories.
- **Size standards:** The business must meet SBA size standards, which vary by industry. There are two ways to determine size. First Citizens uses the alternative size standard, which requires that the business has no greater than \$15 million in tangible net worth and no more than \$5 million in average net income after taxes for the last 2 fiscal years.
- **Industry:** The business must be in an eligible industry. Certain industries, like lending, gambling and lobbying, aren't eligible for SBA loans.

Financial requirements

In addition to the business eligibility requirements, there are also financial requirements that must be met to qualify for an SBA loan.

- **Sufficient cash flow:** The business must demonstrate adequate cash flow to repay the loan.
- **Debt service coverage ratio (DSCR):** For loans over \$500,000, a minimum DSCR of 1.15 is typically required.
- **Sound financial history:** A good financial history is typically demonstrated through 3 years of tax returns and financial statements.

Buyer eligibility

Your business's potential buyer must meet certain requirements set by the SBA to qualify for loan approval.

- **Credit history:** The buyer must have a good credit history and demonstrate the ability to repay the loan.
- **Management experience:** The buyer should have relevant management experience in the industry or a similar field. This demonstrates that they have the skills and knowledge to run the business successfully after the sale.
- **Equity injection:** The buyer must be able to invest a certain amount of their own money into the business, typically 10%.

While these are the general requirements, specific lenders may have additional criteria. Sellers should work closely with experienced SBA lenders like First Citizens to navigate the complexities of the process.

The SBA loan application process involves several steps, but understanding what's involved and being well-prepared can create a better experience for your exit strategy.

Application and approval process

Preparing your application: Key documents and requirements

Gathering the necessary documentation upfront is crucial for the SBA loan process. Here's what you'll typically need.

- **Financial documents:** Prepare key documents, including tax returns, profit-and-loss statements, and balance sheets.
- **Business valuation:** An independent business valuation is required if the loan amount is \$250,000 or more or the transaction is between two unrelated parties. This must be ordered by the lender.
- **Character verification:** Must comply with SBA and lender's criminal record requirements.

Navigating the application steps

① Before applying

Connect with an SBA-approved lender to discuss your business, goals and eligibility. During this period, you'll discuss your business and financial situation to determine which loan program is the best fit and get a preliminary estimate of how much you can borrow.

② Gather documentation

Collect the necessary financial documents, including tax returns, profit-and-loss statements, balance sheets, debt schedules and any other relevant information about your business to expedite the process.

③ Formal application

Work with your lender to complete the formal SBA loan application. They'll guide you through the process and make sure all required information is accurate and complete.

④ Underwriting and review

Your lender will review your application and supporting documents, assessing your business's financial health and the buyer's qualifications. The SBA will also review the application and make the final credit decision.

⑤ Closing

You'll finalize the loan terms and close the deal. This involves signing the loan agreement and completing any remaining legal and financial requirements.

Preparing your business for sale

Successful business exit planning requires preparation. Starting the process early and having all your documentation in order can help expedite the approval process and lead to a timely closing. Partnering with an experienced SBA lender like First Citizens can also help streamline the process and ensure you meet all the requirements.



Here's a timeline to guide you through the process.

Seller's timeline



Preparing your business for sale (continued)

Preparing your business for sale is crucial for maximizing its value and attracting qualified buyers. Here's what you need to focus on.

Get your financials in order (12 to 24 months before listing)

Having accurate and organized financial records is essential for an easier SBA loan process and a successful business sale.

Gather key documents:

Prepare the following documents for at least the past 3 years.

- Purchase agreement or letter of intent signed by both parties
- Accounts receivable and accounts payable if transferring with the business
- Contracts and leases, if applicable
- Franchise agreement and franchise disclosure document, or FDD, if purchasing a franchise
- Interim financial statement within 60 days
- Inventory and equipment lists, if applicable
- Three years of filed tax returns
- Tax return verification forms

Address add-backs

Work with your accountant to identify potential add-backs—expenses that can be added back to your earnings to increase your business valuation and potentially qualify for a larger loan amount.

These may include owner-discretionary expenses, one-time costs or non-recurring expenses. It's essential to look for expenses outside the ordinary course of business, such as travel and entertainment or one-time repairs. The lender will require that all of these are fully documented.

Identifying expenses in the business that won't continue for the new owner can provide a clearer picture of the cash flow, making the company more attractive to potential buyers.

Consider legal and tax implications (6 to 12 months before listing)

Selling a business involves legal and tax complexities that can impact your final payout. Addressing legal and tax considerations early in the sale process can help avoid complications during the transaction.

▪ Consult an attorney

Work with an attorney experienced in business sales to be sure your purchase agreement complies with SBA rules and regulations. This will help protect your interests and avoid potential legal issues, especially when structuring complex deals involving seller financing or partial sales.

▪ Work with a tax advisor

Consult a tax advisor to understand the potential tax implications of selling your business. They can help you explore strategies to minimize your tax burden and maximize your after-tax proceeds.

Preparing your business for sale (continued)

Get prequalified (3 to 6 months before listing)

Consider getting prequalified for an SBA loan before listing your business. This will demonstrate financial strength to potential buyers, give you a competitive advantage and potentially streamline sales.

This process involves a preliminary review of your business's financial health. It can give you a sense of what you might qualify for and may help find the right buyer more quickly. Having all the required documents together for your seller may help the SBA loan process go much quicker and smoother.

By taking these steps, you'll be prepared to navigate the financial and legal aspects of selling your business or having a partner buy in for a successful outcome.

Comparing SBA loans to other sale options

While there are several paths to exiting your business, SBA loans often provide unique advantages over other sale options, making them a compelling choice for many sellers. Here's how SBA loans stack up against some common alternatives.

Comparison of exit strategies for sellers

Sale option	Description	Unique advantage of SBA loan
ESOP	Employees purchase the business, often through a trust, creating an ownership structure.	SBA loans can finance ESOPs, ensuring employees can afford the purchase. This provides continuity and rewards employees.
Open-market sale	An owner sells the business to an unknown buyer through listing it on the open market.	SBA loans attract a larger pool of qualified buyers due to favorable terms and lower down payments. A government-backed guarantee reduces seller financing risk.
Business partner buyout	An owner sells their share of the business to an existing partner.	SBA loans can finance partner buyouts especially if the partner has 1% ownership for 24 months. Facilitates smooth transition within existing management team.
Family member sale	An owner transfers their ownership to a family member, often as part of a succession plan.	SBA loans provide lower down payments and favorable terms, making it easier for family members to afford the purchase and ensure the business stays within the family.

By understanding these advantages, you can better evaluate your options and choose the sales strategy that best meets your goals and circumstances.

Partnering with First Citizens for a seamless exit

Navigating the SBA loan process is easier than you might think, especially with the guidance of an experienced lender. SBA-preferred lenders have a proven track record of successfully processing SBA loans. They have the authority to make loan decisions in-house, which can expedite the approval process. This means you can get your loan approved faster, allowing you to move forward with your business sale sooner.

At First Citizens, we understand the unique challenges and opportunities that come with selling a business. Our experienced SBA lending team is committed to helping small business owners like you achieve your exit goals. We provide personalized guidance, streamlined processes and competitive financing solutions for a successful sale.

By leveraging the benefits of SBA loans, you can attract a broader range of qualified buyers with lower down payment requirements and flexible terms, mitigate the risks of seller financing and facilitate succession planning.

Don't leave your business exit to chance.

Our SBA experts are here to help you navigate the process and unlock the full potential of your business sale. Ready to explore your SBA loan options?

[Contact a First Citizens SBA specialist](#) today and discover how an SBA loan may be the right fit for your prospective buyers.





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US Small Business Administration. (2020). SOP 10 50 6. <https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs>

This information is based on SOP 50 10 6 and is subject to change

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