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U.S. Small Business  
Administration

Bas M Basyouni 9-23-2025



## TODAY'S AGENDA - SBA Pre-qualification Checklist



**WHAT IS SBA? SBA LOAN TYPES**



**1. Personal Credit & Financial Readiness**



**2. Equity Injection & Seller Participation**



**3. Business Financials**



**4. Loan Structure & Deal Size**



**5. Experience & Background**



**6. Legal & Compliance**



**7. Documentation Checklist**



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# WHAT IS SBA?

The United States Small Business Administration (SBA) is a government agency that provides support to entrepreneurs and small businesses.



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## SBA LOAN TYPES



**7(a) Loans  
& Subtypes**



**504 Loans**



**Microloans**



**Disaster  
Loans**



**Economic Injury  
Disaster Loans**



**Community  
Advantage**



**SBIC Program  
(Debentures)**



**Surety Bond  
Guarantee Program**



**Paycheck Protection  
Program - PPP**



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## **1. Personal Credit & Financial Readiness**

- **Credit Score:** Minimum FICO of 680+ (700+ preferred for smoother approvals).
- **Credit History:** No recent bankruptcies, foreclosures, or unpaid judgments.
- **Liquidity:** At least 10–20% of purchase price available in cash or liquid assets (for down payment & closing costs).
- **Net Worth:** Positive net worth (assets > liabilities).
- **Debt-to-Income Ratio:** Existing personal debt manageable; post-loan obligations should not exceed 40–45% of monthly income.



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## **2. Equity Injection & Seller Participation**

- **Cash Injection:** Typically 10% minimum equity contribution by the buyer.
- **Seller Financing:** Check if seller is open to a note for part of the price (often 5–10% on standby counts toward equity).
- **Source of Funds:** Funds must be documented and not borrowed (unless from a non-repayable gift).



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### **3. Business Financials**

- **Profitability:** Historical profitability with enough cash flow to cover loan payments (debt service coverage ratio DSCR of 1.15x+ is standard).
- **Tax Returns:** Last 3 years of business tax returns available.
- **Interim Financials:** Year-to-date financials and balance sheet current within 90 days.
- **Add-backs/SDE:** Adjusted owner's compensation, personal expenses, and non-recurring costs identified.



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## **4. Loan Structure & Deal Size**

- **Purchase Price Range:** Confirm affordability relative to cash flow and industry multiples.
- **Loan Amount Needed:** SBA 7(a) loans typically finance up to \$5M; 504 loans can go higher for real estate heavy deals.
- **Working Capital:** Include in loan request (3–6 months of expenses recommended).
- **Collateral:** Not required to fully secure loan, but personal assets (like home equity) may be pledged if available.





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## **5. Experience & Background**

- **Industry Experience:** Direct or transferable skills related to the target business.
- **Management Ability:** Resume should show ability to operate/scale a business.
- **Ownership Role:** Commitment to active ownership (not absentee only).



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## **6. Legal & Compliance**

- **Citizenship/Residency:** U.S. citizen or legal permanent resident (some visa holders may qualify case-by-case).
- **Criminal Record:** No unresolved criminal charges; felonies reviewed on a case-by-case basis.
- **Government Debt:** No delinquent federal debt (student loans, taxes, prior SBA loans).



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## **7. Documentation Checklist**

**(Have these ready for faster pre-qualification)**

- **Personal financial statement (PFS).**
- **Last 3 years of personal tax returns.**
- **Resume or business background summary.**
- **Bank statements showing liquidity.**
- **Purchase agreement or Letter of Intent (LOI).**
- **Business financials (tax returns, P&L, balance sheet).**
- **Business valuation (if available).**



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## HOW TO START

Ready to buy a business? Here's your next step:

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## **TODAY'S AGENDA - SBA Benefits from Big Beautiful Bill**



**1. Makes the 2017 Tax Cuts Permanent**



**2. Prevents Doubling Tax Rates on Small Businesses**



**4. \$750B in Estimated Growth & 1M New Jobs**



**3. 100% Expensing for Equipment, Factories, R&D**



**5. Lifts Pressure on Gig & Tipped Workers**



**6. Administrative & Regulatory Simplicity**



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## **How does the Big Beautiful Bill Benefit SBA Loans**

**The “Big Beautiful Bill” appears to be highly beneficial for SBA loans, based on its pro-small business and pro-growth provisions.**

**While the full legislative text isn’t publicly available yet, the summary highlights several reforms that would support SBA lending indirectly and directly.**





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## **1. Makes the 2017 Tax Cuts Permanent**

- **Preserves Section 199A: The 20% Qualified Business Income (QBI) deduction is crucial for pass-through entities like LLCs and S-Corps—structures commonly used by SBA loan borrowers.**
- **Impact: Lower tax burdens improve cash flow and debt service coverage ratios, making borrowers more creditworthy under SBA underwriting guidelines.**



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## **2. Prevents Doubling Tax Rates on Small Businesses**

- **Without this bill, the top rate for many small business owners would revert to 43%.**
- **Keeping rates lower protects margins, making SBA loan repayment more feasible..**



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### **3. 100% Expensing for Equipment, Factories, R&D**

**SBA 7(a) and 504 borrowers using funds for equipment, real estate, or improvements could benefit from:**

- **Immediate depreciation = stronger tax shields**
- **Improved cash flow in early years = easier loan servicing**



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## **4. \$750B in Estimated Growth & 1M New Jobs**

**Greater economic activity means:**

- **More startups eligible for SBA microloans or 7(a) loans**
- **More business acquisitions through SBA-backed transitions**



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## **5. Lifts Pressure on Gig & Tipped Workers**

**Removing the \$600 IRS reporting threshold and reducing taxes on tips and overtime:**

- **Increases disposable income**
- **Encourages entrepreneurial activity, especially among independent contractors—key users of SBA microloans and startup capital**



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## **6. Administrative & Regulatory Simplicity**

**While not explicitly stated, bills that reduce IRS and regulatory burden often lead to:**

- **Faster approvals**
- **Less red tape for SBA lenders**



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## **Bottom Line**

**The bill improves tax treatment, reduces compliance burdens, and incentivizes capital investment—all of which increase small business viability and loan eligibility under SBA programs like the 7(a), 504, and Microloan initiatives.**



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## **TODAY'S AGENDA - SOP 50 10 8 UPDATES**



### **1. Citizenship and Eligibility**



### **5. Loan Size and Credit Scoring**



### **2. Insurance and Documentation**



### **6. Equity Injection Requirements**



### **3. Construction Lending Updates**



### **7. Franchise Directory Reinstatement**



### **4. Partial Change of Ownership Rules**



### **8. Refinancing Restrictions**



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## **1. Citizenship and Ownership Eligibility**

**Businesses must be 100% owned by U.S. citizens, lawful permanent residents, or U.S. nationals.**

*Conditional permanent residents and other non-qualifying statuses are ineligible.*



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## **2. Insurance and Documentation Requirements**

- **Hazard insurance is now required for all loans over \$50,000.**
- **Life insurance requirements have been reinstated for certain borrowers.**
- **Tax transcript verification is mandatory for all loans.**



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### **3. Construction Lending Updates**

- **The threshold for requiring performance bonds and insurance has been lowered to \$350,000.**
- **The “Do What You Do” underwriting philosophy has been eliminated, requiring stricter financial verification.**
- **SBA Form 601 is no longer required for construction loans.**



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## **4. Partial Change of Ownership Rules**

- 1. Seller Guarantee:** Sellers in a partial change of ownership must provide a limited guarantee of the full loan amount for at least 2 years after disbursement, regardless of the amount of ownership retained.
- 1. Equity Retention:** If the seller retains any equity, even as little as 1%, they are required to guarantee the loan for up to 2 years. If the seller retains more than 20% equity, they must be a full additional guarantor on the loan.
- 1. Licensing:** Buyers can operate under the seller's license for up to one year. If the buyer needs to use the seller's license for more than 12 months, the seller must retain some equity, triggering the guarantee requirement.

*These changes aim to ensure that sellers remain partially responsible for the business's success post-sale, providing additional security for the SBA loan.*



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## **5. Loan Size and Credit Scoring**

- **The threshold for 7(a) Small Loans has been reduced from \$500,000 to \$350,000.**
- **The minimum acceptable FICO Small Business Scoring Service (SBSS) score has increased from 155 to 165.**





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## **6. Equity Injection Requirements**

- 1. A minimum 10% equity injection is now mandatory for: (A) Startup businesses (B) Complete changes of ownership.**
- 1. Seller-financed notes can count toward this requirement only if: (A) They are on full standby (no payments) for the entire loan term. (B) They do not exceed 50% of the total required injection.**
- 1. Elimination of "Do What You Do": The previous flexibility in equity injection practices has been removed.**
- 1. Documentation: Stricter documentation and due diligence requirements have been implemented.**



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## **7. Franchise Directory Reinstatement**

- **The SBA Franchise Directory has been reinstated.**
- **Only franchises listed in the directory are eligible for SBA financing.**
- **Franchise agreements must be executed before the first loan disbursement.**



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## **8. Refinancing Restrictions**

- **Merchant Cash Advances (MCAs) and factoring arrangements are no longer eligible for refinancing.**
- **Refinancing same-institution debt must be processed non-delegated.**



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- **According to SBA, 69% of small businesses are optimistic about their financial trajectory in 2025, and 78% have plans to grow.**
- **53% of small businesses are using AI-powered chatbots and virtual assistants.**



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## **THE AGENDA**

- **SBA loan examples**
- **Introducing the SBA loan types & subtypes**
- **How is it different from conventional loans**
- **Highlights on the updates to the SBA program**
- **A deal breakdown and next steps**





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# WHAT IS SBA?

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## DEAL STORIES



### Deal Story: Distribution Business

- **Location:** Irvine, CA
- **Purchase Price:** \$850,000
- **Buyer Down Payment:** \$850 (10%)
- **SBA 7(a) Loan:** \$765,000 over 10 yrs
- **Monthly Loan:** \$10,600
- **Annual SDE:** \$265,000 ~137,300
- **Net Income After Debt:** ~107,300
- **Time to Close:** 54 days
- **Seller Role:** Stayed for 60-day trans



### Deal Story: Frozen Food Manufacturer

- **Location:** California
- **Purchase Price:** \$1,680,000
- **Buyer Down Payment:** \$135,000
- **Monthly Loan Payment:** \$14,500
- **Annual SDE:** \$380,000
- **Net Income After Debt:** ~206,000
- **Time to Close:** 71 days
- **Seller Role:** Handoff + Consult
- **Notes:** Buyer was biz's sales mgr



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## SBA LOAN TYPES



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## SBA 7(a) Loan Subtypes

### **Standard 7(a)**

up to \$5 million

### **7(a) Small Loan**

up to \$500,000,  
streamlined process

### **SBA Express –**

up to \$500,000, faster  
turnaround, 50% SBA  
guarantee

### **Export Express & Export Working Capital**

- for exporters

**CAPLines – lines of  
credit for** seasonal or  
contract-based needs

**Veteran Advantage –**  
reduced fees for  
veteran-owned businesses



## SBA 504 Loan Program Overview








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## **SBA loan 7(a) details (1 of 2)**

 **Purpose:** (1) Working capital (2) Equipment purchases (3) Business acquisition (4) Partner buyouts (5) Real estate (owner-occupied) (6) Startup funding  
(7) Refinancing business debt

 **Eligible Uses:** (1) furniture, or fixtures (2) Leasehold improvements (3) Construction or renovation (4) Real estate purchase (must be 51% owner-occupied)

 **Eligibility:** (1) Operate for profit in the U.S. (2) Qualify as a small business (3) Demonstrate repayment ability (4) No delinquency on federal debt (5) Reasonable personal investment or equity



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## **SBA loan 7(a) details (2 of 2)**

 **Loan Amounts: Maximum loan size: \$5 million**

 **Collateral & Guarantees: Loans > \$50,000 typically require collateral**

 **Terms: Working capital & equipment: Up to 10 years. Real estate: Up to 25 years**

 **Interest Rates: Negotiated between borrower and lender, but capped by SBA**

 **Fees: SBA Guarantee Fee: 0% on loans  $\leq$  \$1 million (as of 2024–2025 update)  
Varies above \$1 million (~1.5%–3.5%)**



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## **HIGHLIGHTS OF LATEST STANDARD OPERATING PROCEDURES (SOP 50 10 8) UPDATES**



**Reinstates stricter  
underwriting standards**



**Reintroduces the SBA  
Franchise Directory.**



**Mandates a minimum  
10% equity injection for  
startups and complete  
ownership changes.**



**Prohibits refinancing of  
Merchant Cash  
Advances (MCAs) and  
factoring  
arrangements.**





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## SBA EQUITY INJECTION SOURCES



- Cash (personal savings)
- 401(k) rollover
- Gifted funds
- Seller note (on standby)
- Investor funds

Source	Eligible?
Cash (personal savings)	✓
401(k) rollover	✓
Gifted funds	✓
Seller note (on standby)	✓
Investor funds	✓
Home equity loan	✗
Credit cards / lines	✗
Unsecured loan	✗



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## Business Acquisition: Step-by-Step



## **REAL DEAL SAMPLE BREAKDOWN**

### **Business Purchase Price**

**\$1,000,000**

### **Equity Injection (10%)**

**\$100,000**

- \$60.000 personal funds
- \$40.000 seller note on full standby

### **SBA 7(a) Loan (90%)**

**\$900,000**

- 10-year term
- Approx, 11% interest (variable)
- Monthly payment: ~\$12,400

### **Seller's Discretionary Earnings (SDE)**

**\$300,000**

After debt service:  
~\$150.000 net to buyer

### **Structure Notes**

- Asset purchase
- Seller stayed for 6-month transition
- No real estate (leased location)
- Inventory included in price

## **WHY CHOOSE SBA LOANS OVER CONVENTIONAL LOANS?**

<b>SBA Loans</b>	<b>Conventional Loans</b>
<ul style="list-style-type: none"><li>✓ Lower down payments</li><li>✓ Longer repayment terms</li><li>✓ Competitive interest rates</li><li>✓ Easier qualification</li></ul>	<ul style="list-style-type: none"><li>Higher down payments</li><li>Shorter repayment terms</li><li>Higher interest rates</li><li>More difficult to qualify</li></ul>



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