



SBA/3RD PARTY LENDER

SELLER'S CHECKLIST FOR SBA FINANCING

This document is designed to help package a business for sale and expedite the SBA loan guarantee process.

As a seller, you possess approximately 80% of the needed documentation to get the loan processed. The speed and comprehensibility with which you provide your information directly affects how quickly your loan gets approved. To take the first step in this process, please review the following list of information that will be needed from you to begin:

- 1) A detailed list of the assets being purchased and the market value of those assets.
- 2) A list of all employees. We will need the names, job duties and hours worked per week
- 3) for these employees. In addition, we will also need a copy of their W-2's for the last three years and their year-to-date W-2's, as of the same date as #4 below. Please indicate which employees will not or cannot be kept on with the new ownership.
- 4) Last 3 years of complete Federal Business Tax Returns. All schedules and attachments must be included.
- 5) The most current year-to-date month ending income statement and balance sheet.
- 6) The accounts receivable and accounts payable aging, as of the same date as #4 below.
- 7) A list of the expenses that can be eliminated with the transfer of ownership (also known as "add backs"). We will need the amount(s) to be added back for each of the last three years as well as year-to-date of add backs (this does not need to be as of the same date as #4). We need to know what line item they were deducted from on the tax return, and for most add backs we will need copies of checks and invoices that we can tie back to the general ledger and tax return.
- 8) SBA form 4506 - This is the authorization for the lender to verify that the tax returns you provide are the same returns that were filed with the IRS. Form 4506 can be found at the SBA web site: <http://www.sba.gov/sbaforms/f4506.pdf>.

It is very important to understand that ALL lenders base their loan approval decision on FEDERAL TAX RETURNS. If there is not enough documentation of profit to support the buyers personal expenses AND the new debt, the loan will not be approved. It is critical that you gather as much documentation for all the proposed add backs as soon as possible.

Basic Requirements for SBA 7(A) and LowDoc Loan Guarantee Programs as they pertain to Change of Ownership loans:

- 1) The business must benefit from the change of ownership. In most cases, this benefit should be seen in promoting the sound further development of the business or, in preserving its existence.
- 2) Must be for purchase of the entire ownership of the business.

- 3) Change of ownership loans for members of the same family are discouraged.
- 4) Must be a small business, independently owned and operated and not dominant in its field of operations. (the SBA definition of "small" in all cases covers businesses larger than those with sales of \$1,000,000 or less per year which are the businesses we are focusing on in this book).
- 5) Must operate for a profit.
- 6) Must do business in the United States or its possessions.
- 7) Must have reasonable owner equity to invest.
- 8) Must use alternative financial resources first, including personal assets.
- 9) Owner's of 20% or more of the business must personally guarantee the loan.

CERTIFIED LENDERS

Certified Lenders are lenders who have been heavily involved in SBA loan guarantee process and have met other criteria established by the SBA. Certified Lenders have a partial delegation of loan authority and are given a three-day turnaround by the SBA on their applications. According to the SBA, Certified Lenders account for nearly one-third of all SBA loan guarantees.

PREFERRED LENDERS

Preferred Lenders are among the SBA's best lenders and enjoy full delegation of lending authority in exchange for a lower rate of SBA loan guarantee. The lending authority of Preferred Lenders is reviewed and renewed at least every two years and the lender's loan portfolio is periodically examined by the SBA.

Preferred Lenders account for approximately 10% of SBA loan guarantees. You can obtain a list of Certified Lenders and Preferred Lenders from your local SBA district office. Further information on the SBA can be found on the Internet at <http://www.sba.gov>, or at your local library.