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### What Is the SBA 7(a) Program?

The SBA 7(a) program is loan to purchase a business that is bank funded and government guaranteed. This means if the business fails the federal government will reimburse the bank for any lost funds up to 75%, for most loans. This guarantee reduces the lender's risk, enabling them to offer more favorable loan terms to borrowers.

### Using SBA 7(a) for Business Acquisitions

The 7(a) loan is highly flexible—it can fund working capital, refinance debt, purchase equipment or real estate, and most importantly for this topic, finance business acquisitions. Buyers can secure capital for acquisition with only a modest down payment, usually 10-20%.

Seller financing, often in the form of a 'seller note,' can cover part of the buyer's equity requirement—commonly around 5% of the purchase price.

### Key Terms and Pricing

Feature	Typical Range	Notes
Loan Amount	Up to \$5 million	Maximum for SBA 7(a) loan
Down Payment	10–20%	May include seller financing on standby
Interest Rate	Prime + 2.5–4.75%	Variable or fixed
Loan Term	Up to 10 years (25 with real estate)	Based on purpose of loan
SBA Guarantee Fee	2–3.5%	Varies with loan size
Broker Fee	1.5%	For Business Transactions
Bank Fee	1%	Bank origination fee



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### Pros and Cons

For buyers, SBA 7(a) loans offer longer repayment terms and lower down payments than a conventional loan. The downside is the loan is very expensive, but few alternatives exist for buying a business with non-tangible assets.

### Example Scenario

Suppose a buyer wants to purchase a small business valued at \$1 million. The buyer contributes \$100,000 (10%) in equity, and the lender provides a \$900,000 SBA 7(a) loan guaranteed by the SBA. The loan is amortized over 10 years at Prime + 3%. If the seller agrees to carry a 5% note (\$50,000) on standby, this structure satisfies SBA requirements and ensures the seller receives payment upon loan completion.

### Conclusion

The SBA 7(a) program continues to be a cornerstone of small business financing, making ownership transitions smoother for both buyers and sellers. With flexible terms, reasonable down payments, and government-backed security, it remains one of the most effective pathways for entrepreneurs to acquire existing businesses while enabling retiring owners to exit profitably.