FINANCING

How does an SBA loan work when you buy a business?

By Ayodele Olasiji, Optimax Commercial · Updated October 18, 2026 · 2 min read · Online at optimaxdeals.com/guides/sba-loan-to-buy-a-business

SHORT ANSWER

An SBA 7(a) loan is a bank loan that the U.S. Small Business Administration partly guarantees, which lets lenders finance business purchases they would otherwise pass on. Loans go up to $5 million, with terms up to 10 years for the business and up to 25 years for real estate. On a purchase, expect to put in at least 10% of the project cost and to sign a personal guarantee.

How to, at a glance

1. Check your credit and gather personal tax returns
2. Talk to two or three SBA lenders early
3. Save at least 10% of the project cost
4. Find a business whose cash flow covers the loan with room to spare
5. Order third party reports early; they are often the slow step

Questions buyers ask

How long does an SBA loan take to close?

It depends on the lender and the deal. Have your documents ready and order third party reports early, because they are often the slowest step.

Can I use an SBA loan for a gas station or hotel?

Yes, both are commonly financed with SBA loans. Gas stations add environmental review, and hotels often need franchisor approval of the new owner.

Do I need experience in the industry?

It helps, and lenders ask. Strong management experience in another field, or keeping trained staff on, can make up for it.

The basics

Item	What to expect
Loan size	Up to $5 million
Term	Up to 10 years for the business, equipment and working capital; up to 25 years for real estate
Your cash in	At least 10% of the total project cost on a change of ownership
Seller note	Counts toward your cash in only on full standby, and for no more than half of it
Cash flow test	Since October 1, 2026, first time acquisitions are reported to need past cash flow covering loan payments at least 1.25 times
Guarantee	Owners of 20% or more personally guarantee the loan
Rate	Set by the lender within SBA maximums, usually tied to the prime rate

From the SBA and the law firm sources below. Lenders can ask for more than the SBA minimum.

What the lender looks at

1. **Cash flow.** Can the business pay the loan from its own earnings, with room to spare? Lenders read three years of tax returns and a current profit and loss statement.
2. **You.** Credit, relevant experience, and whether you will run the business yourself.
3. **Your cash in.** Where it comes from, documented.
4. **The price.** Whether the price is supported by the earnings. A business valuation is common.

How to prepare before you find the business

- Pull your credit and fix errors early.
- Gather two to three years of personal tax returns and a personal financial statement.
- Write a one page summary of your experience. Managing people, cash or a similar business all help.
- Talk to two or three SBA lenders. They differ a lot on which industries they like.

Where SBA does not fit

Some deals do not meet SBA rules: a seller who will not provide clean tax returns, a business that earns too little to carry the loan, or a buyer who will not run it. In those cases conventional bank loans, seller financing, or all cash are the usual paths.

Sources

- SBA: 7(a) loans www.sba.gov/funding-programs/loans/7a-loans
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