

FREE GUIDE

SBA Loans for Franchise Resales: Step by Step

How to qualify, what lenders look for, and how to pair SBA financing with seller financing to close the gap

The SBA 7(a) loan is the most common financing tool for franchise resale buyers. This guide covers the full process from pre-qualification through closing — including how to combine SBA financing with seller financing to minimize your cash outlay.

The Small Business Administration does not lend money directly. Instead, the SBA guarantees a portion of loans made by approved lenders — banks, credit unions, and non-bank lenders — reducing the lender's risk and making credit more accessible to business buyers who might not otherwise qualify for conventional financing.

For franchise resale buyers, SBA 7(a) loans are the most relevant program. They can fund up to \$5 million, cover goodwill (the intangible value of the business) as well as tangible assets, and offer repayment terms of up to 10 years for working capital and goodwill — longer than almost any conventional small business loan.

Part 1: The Two Main SBA Programs

SBA 7(a) — The Standard Loan

The SBA 7(a) is the workhorse of franchise financing. Key features:

Feature	Details
Maximum loan amount	\$5 million
Typical use	Purchase price (goodwill + assets), working capital, fees
Term — working capital / goodwill	Up to 10 years
Term — real estate	Up to 25 years
Interest rate	Prime + 2.75% to 4.75% (variable, or fixed options available)
Down payment	Typically 10%–20% of total project cost
Collateral	Business assets; personal guarantee required; home equity if needed
SBA guarantee fee	0% on loans under \$150K; 2%–3.5% on larger loans (often financed in)

SBA 504 — Real Estate and Equipment

If the franchise resale includes significant real estate or major equipment, the SBA 504 program may be more advantageous. It offers lower fixed rates for the long-term portion of the debt and can fund up to \$5.5 million for equipment or real estate. However, 504 loans cannot be used to finance goodwill or working capital, so they are typically paired with a conventional first mortgage.

The SBA Franchise Registry

If the franchise brand is on the SBA Franchise Registry, lenders can skip the franchisor document review — significantly speeding up the approval process. Ask any franchise broker or the franchisor directly whether their brand is on the Registry. If it is, tell your lender immediately.

Part 2: What Lenders Look For

SBA lenders evaluate franchise resale deals on several dimensions. Understanding their criteria lets you prepare a stronger application and anticipate questions before they are asked.

Your credit score

680+ is the typical minimum; 700+ puts you in a stronger position. Pull your own credit report before applying and address any errors.

Liquidity (cash on hand)

Lenders want to see enough liquid assets to cover the down payment plus at least 3–6 months of operating expenses. For a \$300K deal, plan on showing \$80K–\$120K in liquid assets.

Business cash flow (DSCR)

The Debt Service Coverage Ratio measures whether the business generates enough cash to repay the loan. Most SBA lenders require a DSCR of at least 1.25× — meaning the business earns \$1.25 for every \$1.00 of annual debt service.

Your relevant experience

Management or industry experience in the franchise's sector strengthens your application. The franchisor's required training program also counts in your favor.

The business's financial history

Lenders want 2–3 years of tax returns showing consistent profitability. A business with declining revenue or a recent bad year will face more scrutiny.

Collateral

SBA loans require a personal guarantee from all owners with 20%+ stake. If the loan exceeds the business's collateral value, the lender may require a lien on personal real estate.

Part 3: The Application Process, Step by Step

Step 1: Get pre-qualified before you shop

Before you make an offer on any business, speak with 2–3 SBA-preferred lenders and get a sense of how much you can borrow based on your personal financial profile. This saves time and tells you your real budget.

Step 2: Sign the LOI and begin the formal application

Once you have a signed Letter of Intent with the seller, begin the formal SBA loan application. Your lender will send you a document checklist — gather everything quickly, as lender processing time is often the bottleneck.

Step 3: Assemble your document package

Typical documents required: 3 years of business tax returns (seller's), 3 years of personal tax returns (yours), personal financial statement, business plan or acquisition summary, franchise agreement, lease, and the purchase agreement.

Step 4: Lender underwrites the deal

The lender reviews the business financials, orders an appraisal if real estate is involved, verifies the franchise brand (or confirms it's on the SBA Franchise Registry), and submits to the SBA for guarantee approval. Timeline: 3–8 weeks.

Step 5: SBA approval and commitment letter

Once the SBA issues its guarantee, the lender issues a commitment letter with final loan terms. Review every condition carefully — some require additional documentation or steps before closing.

Step 6: Closing

Loan documents are signed, funds are wired to escrow, and the business transfers to you. The entire process from application to close typically takes 45–90 days.

Part 4: Combining SBA Financing with Seller Financing

One of the most powerful strategies in franchise resale financing is combining an SBA loan with a seller note. Here's why it works so well:

Deal Component	\$250K Deal (20% down)	\$400K Deal (20% down)
Buyer down payment (20%)	\$50,000	\$80,000
SBA 7(a) loan (65%)	\$162,500	\$260,000
Seller note (15%)	\$37,500	\$60,000
Seller note rate / term	6.5% / 5 years	6.5% / 5 years
Monthly SBA payment (est.)	\$1,890	\$3,025
Monthly seller note payment	\$730	\$1,169
Total monthly debt service	\$2,620	\$4,194

Why Sellers Accept Notes

A seller who carries a note gets: (1) more total proceeds than a discounted cash sale, (2) their tax liability spread over multiple years, and (3) confidence that the buyer is motivated to succeed since the seller only gets paid if the business stays healthy. Frame the seller note as a benefit to them, not a concession from you.

Part 5: ROBS — Using Retirement Funds

A Rollover for Business Startups (ROBS) allows you to use 401(k) or IRA funds to finance a business acquisition without triggering early withdrawal taxes or penalties. The structure involves forming a C-corporation, creating a new 401(k) plan for it, rolling your existing retirement funds into the new plan, and having the plan purchase shares of the corporation — which then buys the business.

ROBS is legitimate and widely used. However, it requires a qualified provider to set up and administer correctly. Setup fees typically run \$5,000, with ongoing monthly administration of \$150–\$200. The IRS scrutinizes ROBS arrangements, so compliance is non-negotiable. Use only established, IRS-experienced providers.

Browse franchise resale listings and use the free ROI calculator at ThirdWaveFranchises.com