LIVE OAK BANK ACQUISITION FINANCING

Frequently Asked Questions

What is a business acquisition loan?
In simplest terms, an acquisition loan is funding to purchase an existing business or a franchise. Buying a business often takes more capital than entrepreneurs have on hand, which is where banks like Live Oak can help. Lenders have varying requirements, so it's important to have a solid business plan, strong personal credit and a passionate, entrepreneurial spirit. A business acquisition loan would work if you want to:

- Bypass the start-up stage and buy a business that's established and successful
- Acquire competition to grow your existing business
- Open a franchise location of an established company
- Buy out your partner(s) in your current business

What is the term and rate on my acquisition loan?
This depends on which loan product works best for you and your business. SBA loan terms and interest rates vary based on the specific product. In general, SBA rates are some of the most competitive on the market. However, loan rates fluctuate so it's best to speak with one of Live Oak's lenders to determine what your interest rate will be. For an SBA 7(a) loan, interest rates are the prime rate which is determined by the Federal Reserve and adjusted on a quarterly basis, plus a lender percentage which is calculated depending on the loan amount and the loan term. Our lending team will gladly walk you through any questions you may have about specific interest rates, depending on the unique needs of your business.

How much of a down payment is required for my acquisition loan?
Similar to the specific terms and rates we discussed above, the exact down payment amount will vary depending on your loan. It's safe to assume that a minimum of 10% of the project amount will be required from the borrower but discuss the specifics with your lender.

How do I know if I'm overpaying for this business?
From start to finish, the acquisition process can be lengthy and involved. Live Oak takes pride in our efficiency across the entire bank. We work diligently to keep things moving forward and ensure transparency along the way. Preparation and organization on the part of the borrower can certainly make the process move more quickly. To learn more about how to close your loan faster, **read our blog post** about how to prepare all necessary closing documents.

What is the probability for loan approval?
During your initial conversation with a Live Oak lender, we'll gather documents and ask questions to help us better understand the deal and if we'll be able to approve this loan. Early on, we'll let you know if your acquisition loan won't qualify for Live Oak's credit standards.

What is the acquisition loan process?
There are multiple steps involved in purchasing a business. With Live Oak, you get a partner who believes in your success, and is willing to take the journey alongside you. Here's the process we'll take together:

1. Gather Your Team
   Before you embark on an acquisition, it's wise to have a team of trusted advisors, including a CPA and an attorney. It's advisable that they have prior experience in acquisition financing.
2. Explore Financing Options
   Lenders who understand the unique aspects of a business will be able to structure the loan to best benefit both the buyer and seller.

3. Determine the Purchase Price/Deal Structure
Agreeing on the purchase price is a fundamental step that should occur early in the process. The purchase price should be based on a combination of asset values, annual revenues, multiples of earnings and other intangible assets. The building, land, equipment and furniture will constitute the tangible assets.
4. Sign a Letter of Intent
Sellers often require the buyer to sign a letter of intent, which is an agreement that prohibits the seller from negotiating with other potential buyers. It also prohibits the buyer from discussing any details of the business to outsiders.
5. Secure Financing
A lender will look at the buyer's personal credit in addition to the financials of the business. How someone manages his or her personal credit is typically a strong indicator of how he or she will manage the business's credit. When preparing for financing, the buyer should take steps to protect personal credit and avoid making any purchases that will affect his or her credit score.
6. Financials
The lender will ask for a complete list of financial documents.
7. Due Diligence
As you navigate through the due diligence period, this is the time where the serious research and analysis is done. More information on the due diligence process is below
8. Close the Deal
At this point, the deal is done and there is no room for further negotiations. There's a fairly robust closing checklist that the buyer will need to complete before closing the sale. Once closed, it's now time for the buyer to focus on their comprehensive post-acquisition plan.

Which due diligence items I should be aware of?
Due diligence is a critical phase of the acquisition deal. Make observations and inquiries related to:
1. Historical financial statements
2. Business tax returns
3. Customer/client lists and applicable contracts
4. Supplier/vendor list and applicable contracts
5. Monthly sales breakdown to determine seasonality
6. Current pipeline
7. Inventory list
8. Employee handbook, organization chart and any employee contracts
9. Competition and market share
10. Competition and market share

Do I need a quality of earnings (QOE) report?
While not mandatory for all loans, it can be advisable to get a quality of earnings (QOE) report in certain scenarios. A QOE is essentially a deep dive into the seller's financials to uncover any potential underlying risks to the buyer. Some say that a QOE is similar to getting a home inspection before you buy a house – it may look sturdy on the outside, but you need a professional to look for things you may not realize are hidden within the walls. Your lender will let you know if this is necessary for your business acquisition loan.

How much working capital should I build into my loan?
It's common to build in working capital into an acquisition loan structure. When determining a purchase price, the buyer has been able to review prior income statements and balance sheets, which will inform how much working capital will be needed to keep the business operational. There are two solid options to consider: permanent working capital with an SBA 7(a) loan and short-term working capital with an SBA Express Line. Discuss this with your Live Oak lender, who will be able to steer you in the right direction.

What kind of terms should I be negotiating for seller financing?
Seller financing is common in business acquisition deals. When a seller has more "skin in the game," it's a more attractive deal for both the buyer and the lender. To determine specific seller financing terms, work with your lender who can help you settle on a fair, wise percentage.