

You are a experienced M&A investor with expert CPA skills. Attached are the financials of a 19 year old car repair business in Dallas, TX area. The business is valued at 500,000. I want to buy the business for 10% down, 13% APR SBA loan with a term of 10 years and a sellers note of 5%. What is the monthly and yearly payment for this loan if I want a DSCR of 2?

Let's break this down step by step based on the financials and your target deal structure.



Business Summary from Financials

- **Adjusted Net to Owner (SDE):** \$229,235
 - **Business Asking Price (Valuation):** \$500,000
 - **Desired DSCR (Debt Service Coverage Ratio):** 2.0
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Step 1: DSCR-Based Debt Service Budget

A **DSCR of 2** means:

Max Annual Debt Service = SDE / 2 = 229,235 / 2 = 114,617.50

So, the total annual debt payments (loan + seller note) **must not exceed \$114,617.50** to meet your target DSCR.



Step 2: Deal Structure Breakdown

Purchase Price = \$500,000

- **Buyer Down Payment (10%):** \$50,000
 - **SBA Loan (85%):** \$425,000 @ 13% APR, 10 years
 - **Seller Note (5%):** \$25,000 (assumed interest-only unless otherwise specified, but we'll amortize at same term to be conservative)
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Step 3: Calculate Annual and Monthly Debt Payments

SBA Loan (\$425,000 @ 13% APR, 10 years)

Using the standard amortization formula:

Monthly Payment = $P \cdot r(1+r)^n / (1+r)^n - 1$

Where:

- $P = 425,000$
- $r = 13\% / 12 = 0.010833$

- $n=120$ months

Monthly SBA Payment $\approx 425,000 \cdot 0.010833 \cdot (1+0.010833)^{120} / ((1+0.010833)^{120} - 1) \approx 6,313.11$

- **Annual SBA Payment:** $6,313.11 \times 12 = 75,757.32$

Seller Note (\$25,000 @ 5%, 10 years)


$R = 5\% / 12 = 0.004167$, $n=120$

Monthly Seller Note Payment $\approx 25,000 \cdot 0.004167 \cdot (1+0.004167)^{120} / ((1+0.004167)^{120} - 1) \approx 265.05$


- **Annual Seller Note Payment:** $265.05 \times 12 = 3,180.60$

Step 4: Total Debt Payments & DSCR Check

Source	Monthly	Annual
SBA Loan	\$6,313	\$75,757
Seller Note	\$265	\$3,181
Total	\$6,578	\$78,938

- **DSCR** = $229,235 / 78,938 \approx 2.91$  (above your target of 2.0)

Summary

Metric	Amount
Down Payment (10%)	\$50,000
SBA Loan (13%, 10yr)	\$425,000
Seller Note (5%, 10yr)	\$25,000
Monthly Payment (Total)	\$6,578
Annual Payment (Total)	\$78,938
SDE	\$229,235
DSCR	2.91 

The same business comes with real estate valued at 387,220. I'd like to buy this building with an SBA 504 loan. Suggest a loan structure with monthly and yearly payments.



Real Estate Purchase Details

- **Real Estate Value:** \$387,220
 - **Loan Program:** SBA 504
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SBA 504 Loan Structure Overview

SBA 504 loans are typically structured as follows:

Source	% of Purchase	Amount	Notes
Borrower Equity	10%	\$38,722	Your down payment
SBA 504 Debenture	40%	\$154,888	Fixed-rate 20- or 25-year loan
Bank Loan (1st lien)	50%	\$193,610	Conventional loan
Total	100%	\$387,220	



Loan Terms Assumptions

We'll assume:

- **SBA Debenture (40%)**
 - Rate: **6.5%** fixed
 - Term: **25 years**
 - **Bank 1st Lien (50%)**
 - Rate: **7.5%** (varies by lender)
 - Term: **25 years amortization**, possibly a 10-year balloon
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Monthly & Annual Payment Breakdown

1. SBA Debenture (\$154,888 @ 6.5%, 25 yrs)

$R = 6.5\% / 12 = 0.005417, n=300$

Monthly Payment $\approx 154,888 \cdot 0.005417 \cdot (1+0.005417)^{300} / ((1+0.005417)^{300} - 1) \approx 1,045.24$

- **Annual Payment:** $\approx \$12,542.91$
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2. Bank Loan (\$193,610 @ 7.5%, 25 yrs)

$$R = 7.5\% / 12 = 0.00625, n=300$$

$$\text{Monthly Payment} \approx 193,610 \cdot 0.00625 \cdot (1+0.00625)^{300} / (1+0.00625)^{300} - 1 \approx 1,414.80$$

- **Annual Payment:** $\approx \$16,977.60$
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Total Debt Service for Real Estate

Component	Monthly	Annual
SBA Debenture	\$1,045	\$12,543
Bank 1st Lien	\$1,415	\$16,978
Total	\$2,460	\$29,521



Optional DSCR Check (Real Estate Only)

Let's assume the **rent you would've paid (\$86,400/year)** can now be used to pay debt service.

$$\text{DSCR} = 86,400 / 29,521 \approx 2.93$$



Healthy DSCR for the real estate alone.



Summary of Real Estate Loan Structure (SBA 504)

Detail	Amount
Property Purchase Price	\$387,220
Borrower Equity (10%)	\$38,722
SBA Debenture (6.5%, 25y)	\$154,888
Bank Loan (7.5%, 25y)	\$193,610
Total Monthly Payment	\$2,460
Total Annual Payment	\$29,521
