

Business Financing Network

Financing Timing Issues in Business Sales

by Alan Kenyon

The amount of time required to obtain financing often frustrates parties involved in existing business sales. The buyer wants to get started in the business ASAP. The seller wants his money now! The business broker wants the deal signed, sealed, and delivered. The lender wants a “can’t miss—low risk” loan. The one thing everyone wants is for the loan to close rapidly. Frustration often occurs when one or more of the parties think the process is taking too long.

That is a natural impulse. Sometimes the frustration can become so great that one of the parties will derail the whole deal. Awareness of the steps and potential obstacles in the funding process can relieve some of the frustration and help minimize delays.

Coordinating the Involved Parties

Multiple parties other than the seller and buyer usually are involved in business sales. They include the buyers’ and sellers’ accountants and attorneys, loan officers and underwriting departments, SBA officers, business brokers, building and environmental inspectors, and appraisers, etc.

The roles of all the involved parties are important—but the mix complicates and slows down the loan process. One uncooperative or slow player can bog down the whole project, since their actions often must occur in sequence.

Compiling and Assembling the Loan Documents

Loan applications generate substantial paperwork, and there is no way to avoid it. Loan applications include purchase offers, loan requests, credit reports, environmental statements, appraisals, buyer and seller income tax returns, profit and loss statements, monthly and annual projections, rent rolls, leases, photographs, work bids, debt schedules, accounts receivable and payable aging reports, and Uniform Offering Circulars, etc.

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The materials need to be assembled into credible loan request packages to improve financing chances. Packages missing a key document not provided by one of the players can delay the whole package. Lenders invariably discover and request such missing documents.

Submitting Packages to Appropriate Lenders

Submitting the package to inappropriate lenders can cause considerable delays. Without professional guidance, the average buyer usually takes the loan request to his personal banker. That quite often results in substantial delays.

Most banks have definite “footprints” and criteria that determine what kind of projects they will and will not finance. For example, some banks will consider only projects with substantial real estate for security. Some will not fund start-up ventures. Others do not deal with certain types of businesses, such as bars and restaurants. Many institutions only make small business loans backed by SBA guarantees.

Unfortunately, bankers generally are reluctant to tell their customers “NO” immediately—even if they rarely handle certain types of loans. That means eager borrowers often are left “hanging, but hopeful,” for a couple of weeks before being told the project doesn’t meet the lender’s criteria. Then the hopeful borrower must start the whole process over again, without really knowing the probability of success with the next bank approached.

BFN submits loan applications only to several lenders that actively deal in the industry or the type of business for sale. The submissions are made simultaneously to increase funding probabilities and to obtain better rates and terms for clients.

Normal Processing Times with Lenders

Each institution’s criteria must be fulfilled. The operative word for most loan officers is “CAUTION.” Even strong applications to favorable institutions typically need one or more additional documents requested by different lenders. Obtaining that documentation involves going back to the main players and waiting for them to provide the information, resulting in further delays.

Once the documentation is in place with lenders, it almost always is passed on to loan committees or underwriting departments. Those officials may not meet for a couple of weeks, creating an immediate delay. Then, one of the committee members may request clarification on an issue or additional documentation, further delaying the case.

SBA-loan guarantees typically involve more paperwork than conventional loans, and they create more time issues—especially when banks are not “preferred” SBA lenders. Only a minority of banks are registered as such institutions that can turn SBA-backed loans around more quickly than can other lenders.

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Final Delays

Additional work and documents, such as property inspections and appraisals, inventory verifications, and environmental reports, etc. are required after lenders make conditional loan commitments. Those requirements add even more parties to the process. Their efforts must be coordinated, the right paperwork secured, and final touches added to the lending package.

Understanding—and Expediting—the Process

BFN excels at putting together thorough loan packages and submitting them to appropriate and probable lenders. We constantly monitor the status of each project. Nevertheless, every project is different, and for each pleasant surprise there often is an offsetting delay.

The most simple and smooth transactions typically take at least a month from the time clients engage us and begin the compilation and application processes, to actual loan closings. Add a mix of players, varying criteria, and other contingencies, and the process can require 60-90 days.

Those who minimize the time required to obtain loans for business sales and imply they can obtain funding in a couple of weeks rarely are telling the whole story. That often creates unreal expectations for both the sellers and buyers. Quite often, it also results in prospective borrowers paying up to several thousand dollars of fees—in advance, of course—only to find that the supposed lenders who “wanted their deals” have vanished.

BFN does not minimize the time and effort required to win financing. We know it is time consuming—even when done properly. Forearmed with knowledge about the various steps and cooperative attitudes, however, the various parties can expedite the process.

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