

Are Business Only Loans Dead?

Many business people and investors are getting denied by local banks because they lack collateral. Even though they are buying an ongoing cash flowing business, the banks are still requiring them to show collateral equal to 50-100% of the value of the loan depending on the deal and the bank.



For example, John wants to buy an existing, cash flowing business for \$400,000. It is a business only transaction, this business is currently renting the building it's in and there is no real estate involved. The bank is willing to give him up to 80% of the purchase price on an SBA loan (\$320,000 loan amount in this example), but they want him to show collateral of \$300,000. Let's say the business has equipment/inventory worth \$100,000. They would discount that collateral based on what it is (10% value for restaurant equipment, 50-70% value for Medical, etc). Let's say this equipment was discounted to 40%. This means he has collateral coverage of \$40,000 as part of this purchase. Still, he is short \$260,000 from what he needs to show. This shortfall is most typically met by other real estate that John does own. Let's say John has a primary residence worth \$300,000 and he owes \$200,000 on it. The lender would look at 80% of the \$300,000, or \$240,000 and subtract what he owes of \$200K to give a collateral amount of \$40,000. So, they would lien his house for \$40,000 and credit John with \$40K of collateral but this would still leave John \$220,000 short on collateral (needs \$300K, gets \$40K from purchase and \$40K from house). If John has no other collateral, most banks would deny John's loan because he does not have enough collateral EVEN though the business appraises for \$400,000, cash flows to support the debt and John has experience, great credit and the \$80,000 to put down.

Surprised? Let me explain why this is happening. Banks have to loan money to make money BUT they are also being regulated hard by the Government. They are being graded now based on their outstanding debt compared to collateral. If the debt is in default or it is UNSECURED, it goes straight to the "bad" side of the ledger. If the scales tip too much to debt, the FDIC can come in and take over the bank. Many of the banks being taken over every week are actually paying all their bills, but their debt levels have gotten too high. So when a bank does an unsecured loan they have to want that deal a lot, because it will make them look BAD to the government. It is ironic isn't it? The government is hammering the banks telling them to lend but it is the fear of regulation from the government keeping the banks from lending- the ultimate Catch-22!

So are business only transactions dead? **NO!...WE HAVE LENDERS WHO WILL LOAN TO 85% ON AN SBA BUSINESS ONLY LOAN NATIONWIDE WITH NO COLLATERAL REQUIREMENTS!** You see, the SBA only requires the lender to take collateral IF it's available. But if there is none, then an approved SBA lender CAN write business only loans without collateral-there's just very few that will. Now, this is on existing businesses only, not a start-up. But this loan IS available.

So, next time you have a person wanting to buy a business, give me a call. I will pre-qualify the loan and I have the experience to quickly determine what can be done to get them closed. **Call me today at 410.893.1086 to get it done!**

Regards,

Mike Gartside

