

Overcoming the Bankers' Dreaded Dozen Objections in Business Acquisitions

By: First Home Bank

Tom Zernick

SBA President

727-399-5680

TomZ@FirstHomeBank.com



First Home Bank

Sherrie McGill

Vice President SBA Lending

727-399-5682

Sherrie@FirstHomeBank.com



#1 No Creative Addbacks

- ❖ Must be documented through IRS tax returns and/or interim financials.
- ❖ Allowable: nonworking friends and family on payroll if reported on W-2.
- ❖ Unusually high fees, legal or bad debt.
- ❖ Excessive owners compensation.
- ❖ Non-recurring expenses.
 - Moving costs.
 - Product development expenses.

#2 Seller Tax Return Verification

- ❖ Get a signed 4506T, from seller, on day 1.

#3 Comprehensive Business List of Insurance Requirements to Close

- ❖ Obtain list from seller.
- ❖ Provide contact information for the agent.
- ❖ Bank can work directly with buyer's insurance provider to obtain required insurance certificates with the appropriate SBA language.

#4 Collateral Shortfall will require Life Insurance

- ❖ Work with "quick close" insurance provider as soon as approved.
- ❖ Collect copies of existing life policies if assignable.
- ❖ Provide the Bank with contact information of the insurance provider so the Bank can obtain the policy with the appropriate assignment.

#5 Needing more Equity in the Deal

- ❖ If \$500,000 or greater in Goodwill, will need to come up with 25% equity.
 - Minimum 10% Buyer equity and remainder can come from seller note if on full standby for 2 years (no principal or interest payments allowed).
- ❖ Gift Letter with 2 months bank statements showing source of this gift equity.
- ❖ Minority investor <15% ownership.

#6 Seller Keeping AR and Cash at Close

- ❖ Must prove sufficient working capital.
- ❖ Should include 90 day capital supply in acquisition term loan.
- ❖ Document post-closing liquidity.

#7 Know Buyer's Personal Credit Score

- ❖ If under 700 get written explanation (no prior loss to US government).

#8 Personal History Concerns

- ❖ Buyer should complete SBA application package.
- ❖ Resume and Statement of personal history questions for each guarantor.
- ❖ Questions ask: Have you EVER? No limitations on how long ago.
 - If yes – get SBA form 912 completed and supporting documentation.
 - Knowing issues early allows Bank to get documentation needed to get cleared while underwriting which can avoid delays in closing.

#9 Citizenship of the Buyer

- ❖ Determine citizenship status of buyer.
 - Can do deal if they have a green card and are legal permanent residents of US.
- ❖ Get copy of documentation early.

#10 Leased Space and Landlord Subordination

- ❖ Lease must equal term of loan and renewal options can count towards term.
- ❖ Prepare seller to discuss subordination requirement with landlord.
- ❖ Assist with getting subordination executed by landlord and buyer.

#11 Complete Equipment List

- ❖ Use depreciation schedule in seller business tax return as starting point.
- ❖ Include serial numbers on all equipment over \$5,000.

#12 Relevant Management Experience

- ❖ Detailed resume that expands on transferable management skills.

You are in luck! We made it a Bakers Dozen as this is important not to overlook!

#13 Pledge of Personal Assets as Collateral

- ❖ If the business assets do not fully secure the loan, SBA requires that any personal real property with lendable equity be pledged as collateral.
- ❖ If there is no lendable equity, the pledge of the guarantor's personal residence may not be required.

The key is recognizing items that need to be addressed early in the process and discussing with your client and lender so there are no last minute delays for your closing!

