Declines Happen, Even to Us!

By Steve Mariani

It doesn't happen very often to our offices, but it does happen a few times a year and it is extremely frustrating when considering everything we disclose and explain upfront to avoid this exact situation. When we receive an actual decline it's typically due to an interpretation or misunderstanding of an approver. Lender's don't see surprises such as bankruptcies, short sales or horrible credit scores from our applications, that's our job to screen them and we're very good at it. It's also not going to be due to a lack of cash flow or debt service coverages or even the buyer's required salary draw. Each of the above are considered and fully explored prior to a lender ever being sent a file from our group. So, how do we still get declines you might ask. Although it's not a simple answer, it's one our industry must live with as in all of my 25 years in financing, it does still happen here.

Let me first explain our process to put this in perspective. Once our office receives a broker acquisition transaction, we begin by completing our full 3-year cash flow worksheets which includes all the acceptable add backs, new debt service, buyer's required salary along with a 25% coverage ratio at a minimum. If this shows our numbers are in line and the business trends are not showing a declining trend, the business side is then complete, then our attention turns to the buyer's documents. We review their credit in detail, explore down payment sources to show the monies and then consider the buyer's resume' or experience level in this particular industry. Again, if all these check out, we consider this a complete and acceptable file ready to begin our screening process.

After a few minutes call with a direct lender we either learn they have an interest in considering the loan request or for some reason decide to pass on the opportunity. Typically, when a lender passes on a transaction it is due to their internal considerations such as, they no longer will consider gas stations, or hotels or home based or whatever current underwriting criteria dictates they must conform to. Passing on a transaction is not a decline and we accept that with no concern, we understand every request is not for every SBA lender. That said, if they do pass on the loan it needs to be within the first 24 hours of file release as we must answer to all the parties involved. Still acceptable and usually business practices to this point.

Once we receive a green light from a lender, and they issue an actual term sheet for the transaction, we now consider them committed and hold them responsible from that day forward. It should also be mentioned that we do not accept term sheets from BDO's or salespeople UNLESS it has been fully vetted with whoever needs to ultimately sign off on the approval. Handing us a term sheet produced and solely reviewed by the BDO/salesperson is not acceptable here if this lender is truly looking to build a longstanding relationship in the future.

Once our buyer and seller agree to the terms this lender has outlined and we move into credit, we are expecting an approval and nothing less. Most times we get it.

Once it's completed in underwriting and supported by all who have reviewed it, it may go to "committee" for final approval. This is where the loan request is could be put in jeopardy. Depending on how many executives make up that committee, personalities and past experiences can stand in the way of the approval. As an example, one high volume lender we used recently had a committee member change and the committee was comprised of only 4 people total. The newer member came over from the conventional loan side and is extremely conservative, hence our recent decline. This member did not like or support the industry we presented and actually convinced other members of the committee to side with him. Our previous relationship and volume levels seem to not matter to him at all and he stood on his decline. At this point we are now 5 or 6 weeks into the process and switching lenders puts our deal at risk on so many levels. We must turn this around quickly and bring in another lender or explain why this transaction is not happening at all. We all know that time kills deals, so do lenders if not controlled properly and expectations set accordingly.

Although keeping declines to a minimum is the single most important factor in our broker industry, understanding that it can and will happen a time or 2 each year is equally as important. Our volume levels have dropped considerably with this lender as we slowly replace them in our portfolio. We maintain our lender portfolio at 6 lenders with a few more standing on the sidelines. We intentionally limit it to 6 for the specific reason of keeping our volume levels with each to a point that we matter to them. Once their policies change or we determine they are changing lending criteria, it's usually the beginning of the end. Today our firm works with 6 different lenders than we did just 2 short years ago, as markets, lending criteria and rules consistently change.

Based on our experience working with hundreds of brokers throughout the country we've uncovered some very interesting information that may help you increase profits moving forward. What we've found after all the conversations we've conducted on this topic is that most brokers are spending 30% to 40% of their time (on a single deal) securing the financing or assisting the buyer in securing the financing. We were extremely surprised as the feedback began coming in. Most brokers we spoke with had an average deal size of between 250M and 1.2MM and found more concerns and time spent hand holding their lender through the entire process.

What we found over our 22 years is that once a lender begins down a negative road (during initial screening) on a transaction then turning them around becomes a battle which rarely turns out positive but always takes too much time. We don't do this anymore and have learned that replacing a lender quickly is a much better use of our time. The difference here is that we have the ability to demand a quick screening of any deal with our preferred lenders based on our relationships and this actually saves time.

Again, what is the actual cost of time dedicated to financing in your office? I could never begin to guess, but what I can suggest is that it may be worth your time to explore and evaluate your true cost of time spent with lenders on a per deal basis.

2019 has begun with lender adjustments everywhere from what we've witnessed. Lender staff keeps changing as they jump from lender to lender and guidelines to guidelines, each with their own specific criteria and policies. With all the lending options available in today's markets, I'm sure picking the right lender for the right deal sometimes becomes a challenge. Most times you probably find the most appropriate one quickly, say within a week or so. If all goes well you'll provide answers to initial underwriting questions and then in more detail as the loan request moves through the system. Eventually you secure an approval and move to close, which you also should stay involved in as this cannot be left to the buyer without guidance.

The concern comes when the lender requires more and more information showing no true level of interest, just trying to fit this transaction into their new specific "lender guidelines". Now your 2 or 3 weeks (I'm being conservative here as many times it's 5 and 6 weeks) into the financing aspect of the transaction but a concern of one type or another keeps popping up, be it a license, a landlord, the buyers resume' or just a numbers concern from the lender or (and I bite my tongue here) a flat out decline. Now we must start the process over but are many weeks into the LOI and the seller begins to be concerned. Adding to the list of time wasters, calming down the seller and keeping him on board with the transaction is another full time job that we understand. Your compensation is lowered yet again with each decline as your investment of time increases yet again.

Here's the bottom line. Hold your lenders to a set timeframe, be it a day, week or more but have them commit to providing an answer by a predetermined date. No exceptions!

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