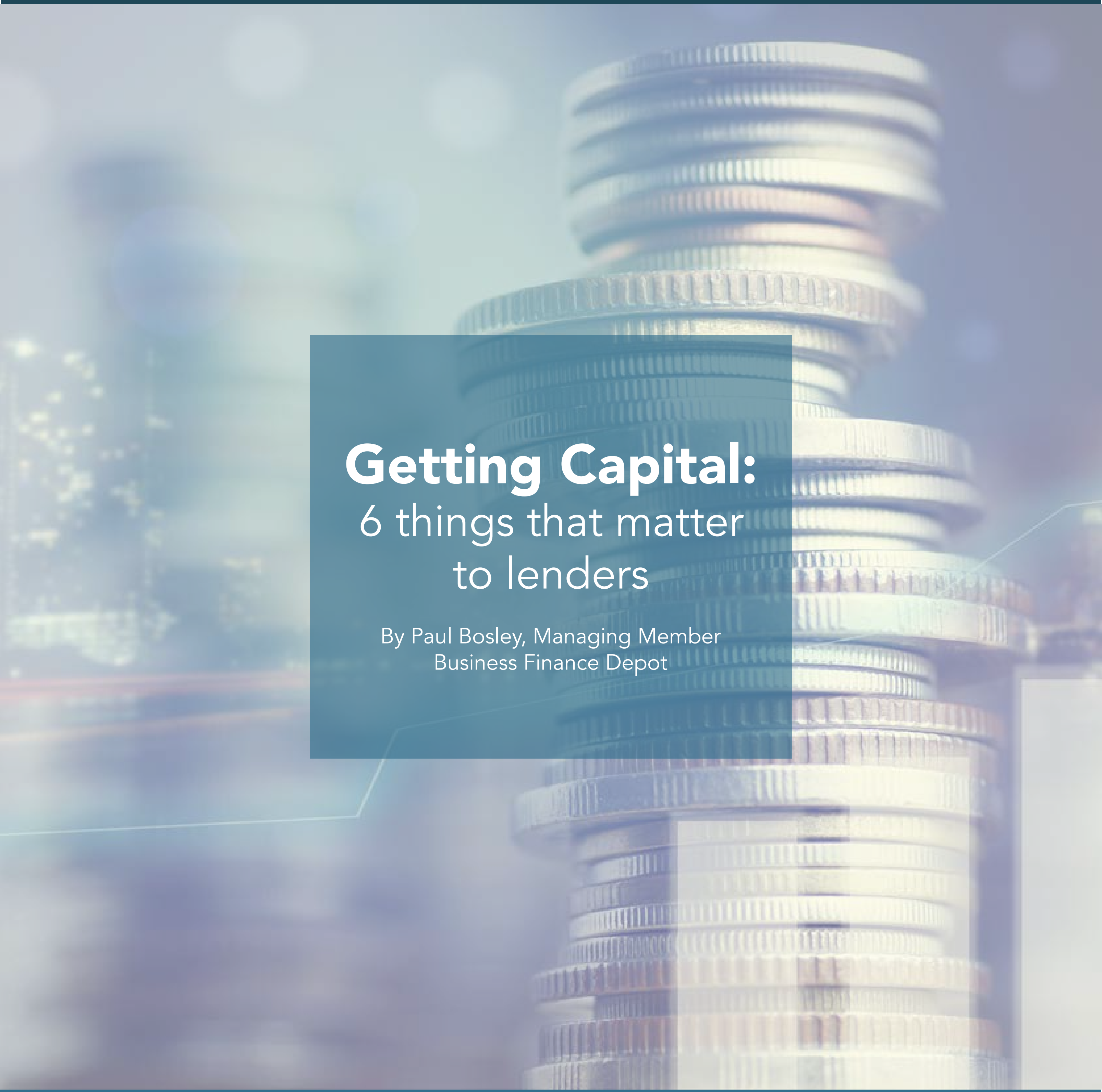

Getting Capital:
6 things that matter to lenders

By Paul Bosley, Managing Member
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BUSINESS® FINANCE DEPOT
Financing Fitness, Franchises and RV Parks & Campgrounds

The process of underwriting SBA loans, equipment leases and equipment financing agreements has evolved significantly since the pandemic began a year ago. The purpose of this article is to share our observations of the 6 key factors considered by analysts in the underwriting process. It is a rare occurrence that applicants are strong in all areas, so the process is subjective in many respects, weighing the following key considerations.

1. WHAT IS YOUR PERSONAL CREDIT SCORE?

A 700+ credit score is a safe minimum standard. By looking closely at your credit report, lenders can gauge how well you pay your bills and if you have comparable credit. If an applicant is a homeowner with a house mortgage that is current, an analyst can determine if the applicant is or has serviced comparable credit. Lenders also consider your available credit compared to your current level of debt which is used to calculate your debt-to-income ratio. This ratio is calculated by comparing your annual family income to your current annual debt payments. Some lenders calculate a global debt-to-income ratio which adds the estimated annual debt payment of the loan or lease to your current annual debt payments.

2. WHAT IN YOUR BACKGROUND WILL LEAD TO YOUR FUTURE SUCCESS?

Underwriters first look for work experience and/or education in the industry you are applying to secure financing. Previous or current ownership and/or management experience within the industry is especially highly valued. Next, portable skills learned from positions outside the industry including finance, sales, marketing, and management are then considered if you have not previously worked in the industry. Finally, educational degrees in the field or a related field are also considered. In short, creating a résumé to highlight and customize your strengths is an important element in securing a loan approval.

Norma Shipp
Fitness 1440 Franchisee

Norma loves fitness, but did not have prior experience working in or managing a gym.

"The lender saw that I had customer service, management and operations experience in my background," she said. "I had to get the lender to understand that background, and that it would be consistent with what I was getting ready to do with my gym." Along with an excellent credit score, Norma was able to secure her SBA loan. She plans on expanding her business in the future.

3. HOW MUCH IS YOUR EQUITY INJECTION SO YOU WILL HAVE "SKIN IN THE GAME"?

Typically, SBA loan applicants must invest at least 10% of the project total cost and rarely are applicants required to invest more than 30% of the total project cost. The total project cost of SBA loans typically includes all monies needed to successfully launch any business including three months of working capital. With equipment finance agreements and equipment leases, the equity injection for a new business is typically 20% of the total equipment and soft costs of the total dollar amount being requested. The deposit requested for an existing business can be as little as one lease payment in advance.

4. DO YOU HAVE A SECONDARY SOURCE OF INCOME?

Are you keeping your job? Are you married and will your spouse continue to work? These are critical concerns when the underwriter is calculating the debt-coverage ratio. In the best case, your family income can support your current personal debt and the ratio exceeds 1.25. If the lender is using a global debt, the estimated repayment of the loan or lease is added to the denominator. As a result, many applicants applying to launch a new business opt to keep their current employment and hire management until the business becomes profitable and can replace the owner's income. In the worst case, the owner's only income will be the projected annual income from the new business which makes securing an approval difficult unless the applicant has significant liquid assets listed on their personal financial statement.

Vik Panchal
Venture X Franchisee

"The lender is going to grill you on everything," said Vik. "They will look at your financial background and your résumé in excruciating detail."

He says knowing how to tell your own financial story is paramount. "One of the things that helped me was knowing my business plan and knowing the numbers backwards and forwards. The lenders can see you've really thought about it, and you can address risks in an intelligent way."

Vik added that "having an appropriate handler," like a Business Finance Depot, also helps. "If you are coming into this new, you have to leverage other people's relationships" with lenders.

5. WHAT INDUSTRY IS YOUR BUSINESS IN? IS IT A FRANCHISE?

In today's post-COVID environment, securing financing for RV parks and campgrounds are more easily approved while fitness centers and restaurants face an uphill challenge. Established franchisors offer the best chance for applicants to secure financing because the franchisor has established a track record of success which is reported in their annual franchise disclosure document (FDD). Launching a new, non-franchise business is difficult, but not impossible, to secure financing unless the owners have a very strong industry-related background. For example, our company recently arranged the financing of a climbing studio owned by a climbing instructor currently working in our Armed Services.

6. WHAT IS YOUR COLLATERAL?

SBA loans more than $350,000 require the owners to use the business and their personal and/or commercial real estate as collateral up to the loan amount, which is discounted on a liquidated collateral basis. Collateral is required at the option of lender for all SBA loans under $350,000. The equipment used to operate any business is highly discounted when valuing collateral for an SBA loan. Alternatively, the equipment being financed using an equipment lease and equipment finance agreement serve as the collateral for the transaction. It is important to point out that collateral is a second form of repayment, so it is rarely the main consideration of any lender because they are focused on approving applicants they believe will be successful in repaying the loan or lease.

Jerrod Summers
F45 Franchisee

Jerrod and his business partner, Keith Lessman, had prior backgrounds in the fitness industry, managing gyms, with Keith even being a regional manager for a time.

In obtaining their equipment lease for their fitness franchise, "the lender asked for our résumé," said Jerrod. Jerrod currently has a job in financial services and Keith is in the nutrition business. "They wanted to understand our business background and employment, and they wanted to know a lot about our credit. Our credit score mattered."

Paul Bosley is known for his expertise in financing for franchises, and has partnered with several national brands to assist new franchise partners acquire the capital they need to launch their new businesses. He is also keen on helping existing business owners find the finances to expand their current business. He is a regular speaker and writer for many industry conferences and online magazines. Paul has been a volunteer counselor for SCORE, a division of the SBA, for over a decade which is where he learned the value of SBA loans for funding new and existing businesses.

Business Finance Depot (BFD) specializes in providing financing for new and existing franchisees, helping them to acquire the capital they need to launch or grow their business. They are experts in packaging SBA-guaranteed loans with their network of active lenders, and helping franchisees get that financing quickly so they can open their stores faster. Above all, BFD's attention to customer service takes the stress out of the process for all of their borrowers.

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