

BUSINESS BUY LOANS ARE GETTING EASIER!

It is expected that on or about October 1st, 2009, that the United States Small Business Administration (SBA) will lift “*Goodwill Financing*” from \$250,000 to \$500,000. This comes from a huge backlash from banks, business appraisers and loan applicants who objected to the March, 2009 rule that SBA guarantees for goodwill financing would be capped at \$250,000 or 50% of the loan amount, whichever was lower. Some termed this move as being “anti-stimulus.”

Allow me to explain what this means:

Suppose you want to buy a Dunkin Donuts in a leased facility. The maximum size of this type of loan is generally derived at through analysis of two years of IRS 1120 tax filings and a current profit and loss statement, not more than 60 days old. Often, this number is between 2 and 3 times adjusted net profit. (See my earlier reports on Adjusted Net and Business Valuation). 2 is for a business that has flat sales, approaching 3 means limited or no competition and continuing business growth.

“*Goodwill*” is computed by subtracting the businesses hard assets from the purchase price and includes intangible assets such as the businesses name, phone number and customer base.

Under the probable October 1st, 2009 change if a Dunkin Donuts is up for sale for 680,000 and the “*Goodwill*” comes in at \$500,000 or under, all will go well if the buyer has:

Management experience

High credit score

A 20% or more down payment

Q: Can loans be provided where “*Goodwill*” is above \$500,000?

A: These requests are treated on a case-by-case basis and banks will want to see 25% down.

The official SBA Standard Operating Procedure (SOP) now requires that if the purchase of the business acquisition includes intangible assets in excess of \$500,000 (including, but not limited to, goodwill, client/customer lists, patents, copyrights, trademarks and non-compete agreements), the borrower and/or seller must provide an

equity injection of at least 25% of the purchase price. For example, the borrower may provide 15% and the seller may provide 10%.

SBA Type 7a business loans are generally for 10 years.

What about business purchase loans that include real estate, meaning land and a structure or structures?

The lending limit is \$2,000,000 and the term of the loan is determined by a formula where we have “*Goodwill*” at 10 years, and real estate at 25 years. Let say that “*Goodwill*” loan portion comes in at \$400,000 and real estate (after a bank ordered appraisal, that the applicant has to pay for) loan need comes in at \$1,200,000.

The arithmetic is as follows:

$$\frac{\text{Total Loan Amount}}{\text{Years}} = \frac{\$400,000}{10 \text{ years}} + \frac{\$1,200,000}{25 \text{ Years}} =$$

$$\frac{\$1,600,000}{\text{Years}} = \$40,000 + \$48,000 =$$

$$\text{Years} = 18.18$$

This is called a blend loan. The longer the term of the loan, the lower the monthly payments are.

The other type of highly popular SBA loan is the 504. It is for real estate and equipment buy by businesses that need to expand. Interest rates are extremely low. Ask for my 504 report if you do not have it. Applicant puts in 10%, a bank comes in with 50% and a Certified Development Corporation provides a loan for 40% of the project cost. This program is increasing in popularity each day, lots of paperwork, but makes sense!

Please see www.sbafacts.com.

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