October 2024 Franchise Funding Training for Brokers

AL LESKO

FUND MY FRANCHISE

541 831 0071

Introduction

I am a funding strategist. My background in business is as an operation specialist. My experience in the franchise industry is as a franchise owner, trainer, consultant and in finance. My hope is that this presentation will extend your knowledge and understanding of the funding process. By better understanding the process you will be able to prepare your clients about the SBA Loan process. This ultimately will lead to more franchise sales and quicker closes.

Questions Addressed

Why are seemingly good deals lost?

Why are SBA applications rejected by banks after a pre-qual? Is a pre-qual of any value?

My role as a broker in this part of the process? What is the franchise role?

Timing is everything with funding. Why is that?

Types of funding. What do I need to know?

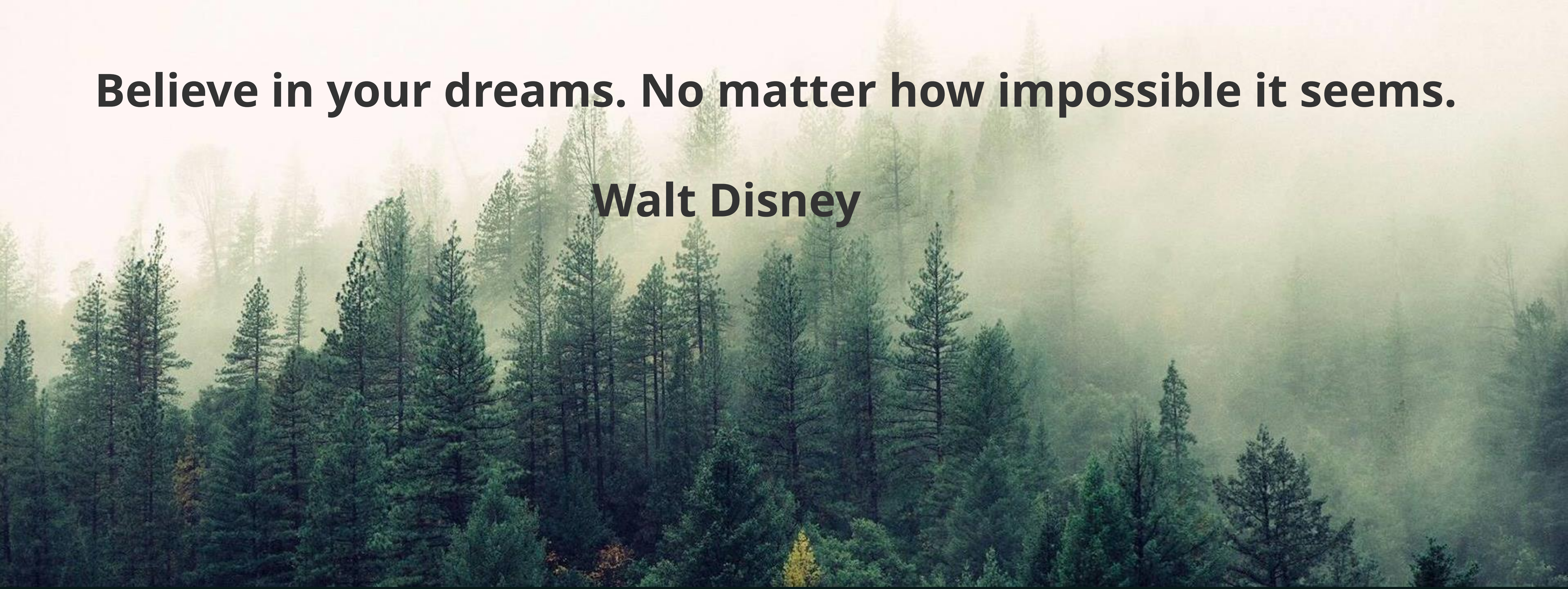
Rising interest rates and how to minimize a client's concerns.

Economic conditions will dictate what funding sources people will need to consider

Why is it in my best interest to understand funding qualifiers and the process to obtain funding?

Believe in your dreams. No matter how impossible it seems.

Walt Disney



SBA Loans

Most often requested by prospects

SBA Express Loan

- Complete Credit Report & Score of 680 or better.
- Liquidity = 40K to 45k in total, must use 11.1% of the requested loan of cash to inject into the business and the remainder is the reserve liquidity. (Cash, Stocks & Bonds, IRA/401K)
- SBA backs the loan 50%
- Debt to Income (loan payment can't leave the client with little or no cash left for monthly expenses)
- Total Household Income (can and should include spouse or significant other)
- Assets (Liquidity) too much or too little can be a disqualifier
- 3 years of Credit Longevity & Depth in credit history (bank rule)
- Payment history of the applicant
- Any Derogatory issue on the clients
- Generally, for Start-ups (no build outs).
- Resume (Managerial Experience)
- Personal Financial Statement
- 3 years Tax Returns (Biz & Personal)
- 2 years of Projections (pro-forma) Bank Provides Template in most cases. Simple Business plan on bank template
- No Felony convictions or Judgements in applicant's history
- Entity documentation, Articles of Information must match application and the industry on the loan application. Also, FDD & Agreement

SBA 7A Loan

Complete Credit Report & Score of 680 or better.

Generally, 20% cash injected in the business, 20% in liquid reserves. Some Industries require less.

SBA backs the loan up to 75%

Debt to Income ratio

Total Household Income

Assets (Liquidity) too much or too little can be a disqualifier

3 years of Credit Longevity & Depth in the credit history

Payment history of the applicant

Any Derogatory issues with the client?

Used for Resales, Startups, Expansions, and build outs

Resume (Managerial Experience)

Personal Financial Statement

3 years Tax Returns (Biz & Personal)

3 years of Projections (pro-forma), client must produce & Solid Business Plan including franchise history, vision, specific detail for their territory demographics

No Felony convictions or Judgements in applicant’s history

Entity documentation, Articles of Information must match application and the industry on the loan application. Also, the FDD and Agreement

There is no standard Modus operandi

There is no set standard for banks or the SBA. Only minimum qualification terms
SBA rules can and so change often. Bank policies change often.
Special SBA incentives happen (we have this going on right now).
Banks are the ultimate decision maker on granting the loan.
Banks worry about their lending status with the SBA. The banks portfolio of loans performance is a determining factor for the bank to be allowed to fund SBA loans directly.
Supply and demand dictates changes for the bank and SBA. 2024 Banks are looking at depth and history more closely.
The Federal Reserve plays a huge role in the interest rate.
What funded last week by X terms may not apply tomorrow to the exact X terms.

Importance of Validation for SBA Loans

Applicants will be required to submit 2 years of projections for SBA Express loans and 3 Years of projections for SBA 7A Loans.

Applicants will need to submit a business plan for an SBA 7A loan and some banks are now requiring this for Express loans.

Applicants need to base both the projections and the business plan on factual data. They must coincide with each other.

It will help a client realize the effort needed to reach their income expectations and when, what the business can achieve, and what they can sell it for.

Because it is a CYA for you!

Aggressive FSO & Franchise Rep.
You need to be in control of the process

Is this how it typically works for new franchise owners? They keep telling me that my territories are being looked at seriously by another person, so I'd hate to go through this process and then be too late to purchase my territories 6 weeks later.

Neither you , the FSO or franchise rep should ever call the bank when a loan is in process. This needs to be the role of the Funding Source. They have the relationship with the bank. Loan docs and pre-screening approvals are structured so that the bank will move forward as such. Changing the plan or outside involvement can cost you the deal and your clients loan to be rejected.

IRA/401K Rollover
ROBS

R = Roll
O = Over
B = Business
S = Startup

Simply put in layman's terms it is the diversification of a retirement account that allows an individual to not only invest in stocks, bonds, mutual funds, gold, silver, or real estate but also into a business they own without incurring a tax penalty.

The process involves the creation of a qualified plan & setting up a C-CORP. This must be created by a Certified and 3rd party administrator, and the plan approved by the IRS. This plan must be managed by a 3rd party who is responsible for periodic testing for compliance and up to date with any tax laws that are applicable.

Who Qualifies?

1. We recommend a client has 35k or more in a non-Roth IRA.
2. A 401k with a current employer is not eligible unless the employer plan allows for withholding directed to an employees, own qualified plan.
3. Must be set up as C-CORP. Yes, there are some companies promoting Single Payer S-Corps and Roth S-Corp plans. Another conversation to discuss why I don’t recommend them.
4. It must be created, managed, and maintained by a 3rd party administrator throughout the existence of the company.
5. Requires an initial stock valuation, and one done every year thereafter.

Benefits: Tell me why I should consider it?

1. Can be used to start a business in combination with an SBA, Personal loan, or to solely fund a loan. Prospect will have less of a debt burden.
2. Allows a person to have more control of their retirement portfolio.
3. A business owner has a retirement plan that allows them to save up to $23,000 toward their retirement. With match and Profit sharing a single owner operator could save up to 66k toward retirement
4. A business owner can match the employee’s contributions up to 100% (including themselves) out of the company earnings
5. A business owner can contribute an additional profit-sharing money to employees 401k accounts from the company earnings.
6. C-CORPS can carry over a loss for 3 years and has more tax deductions than the other entity option.
7. The amount of stock owned by the 401k is except from capital gains tax at the time of sale, so long as the money is diverted back into the 401k for other investments. This includes another or a future

Personal & Business Loans (Non-SBA)

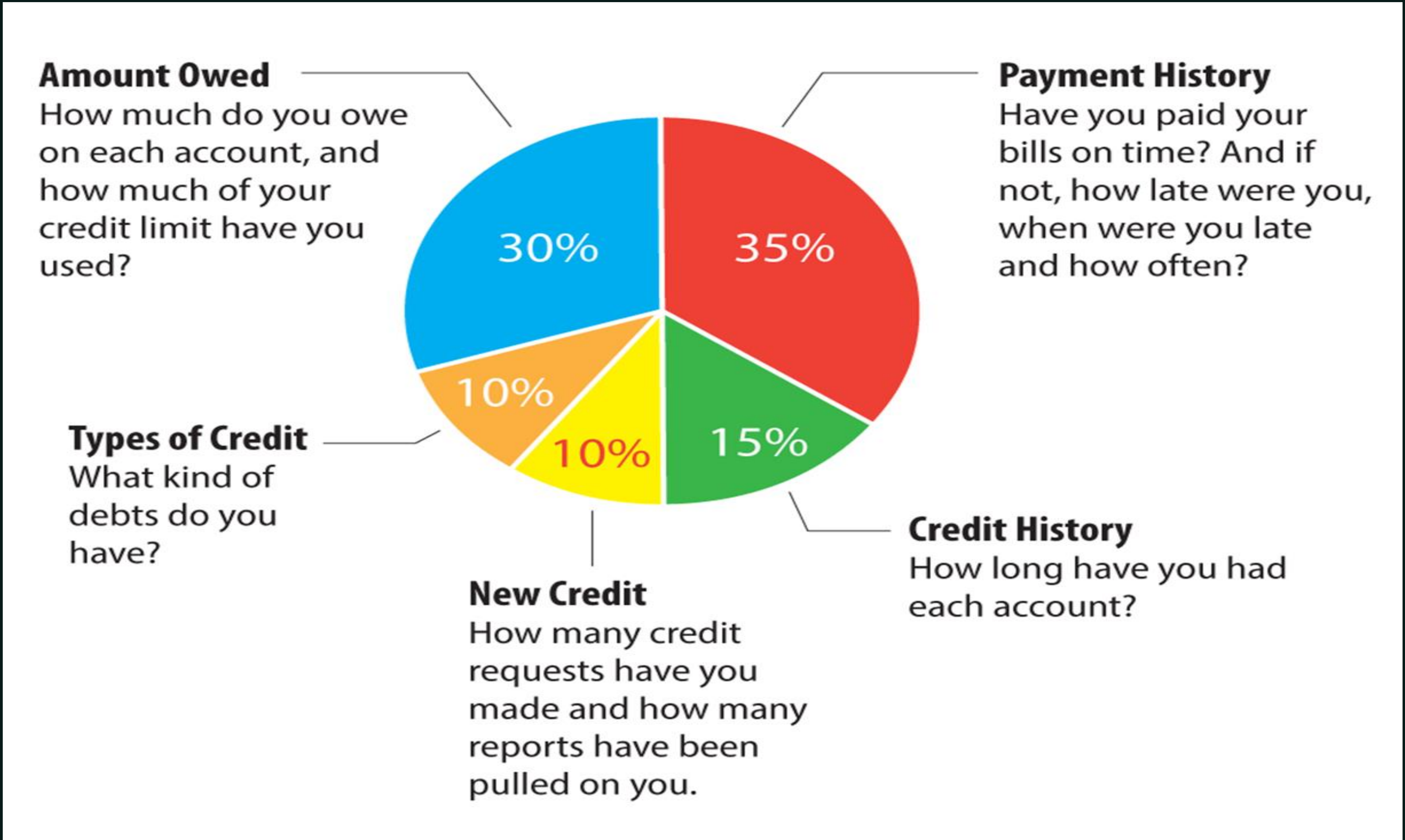
Personal loans are just that, a loan to an individual based upon similar criteria as the SBA loans. The difference is they are shorter fixed rate term loans. Typically, 3 to 7 years, with 5 years the most common.

They do not require any money out of pocket (other than a 1500 non- refundable deposit).

The rates usually are between 8.5% to 12%. Depending on the Strength of the borrower's financial profile.

The funds usually take between 3 weeks to fully fund. They may require 1 or more applications to achieve the amount of funding a person needs.

Business loans require at least 2 years in business with strong financials. The goal is to start with a personal loan and migrate to a business loan.


Amount Owed
How much do you owe on each account, and how much of your credit limit have you used?
30%
Payment History
Have you paid your bills on time? And if not, how late were you, when were you late and how often?
35%
Types of Credit
What kind of debts do you have?
10%
New Credit
How many credit requests have you made and how many reports have been pulled on you.
10%
Credit History
How long have you had each account?
15%

Case Study

Client is not employed.

Client's spouse does work but does not want to be part of the business or on a loan with her husband.

Homeowner, the house is appraised at 1 million with 700k in cash out equity.

Client has 250k in savings, 300k in Non-Roth IRA.

Client is interested in a Home Improvement Franchise that has over 100 locations

Client desires to buy 4 territories and open 2 immediately and 2 more 1 year later. Total Project 625K

Client seeks a loan for 500k, 120k is earmarked for the franchise fee. The remainder for payroll, 2 vehicles, marketing, equipment, inventory, commercial warehouse and signage.

What would you recommend? What will this client need to do and prepare for a bank loan?

Are you comfortable putting this in front of any funding source? How can a broker help?

Summary

It is crucial that you understand the basics of funding. Further be involved in the process, don't just pass your client off and expect your client will get funded. Have your client consult with a funding specialist (not a loan broker, or the franchises source) early in the process will increase your client's confidence and result in more successful placements.

Thank you

Al Lesko

Al@fundmyfranchise.com

www.fundmyfranchise.com

Office 541 831 0071