



# Revisiting Your Candidate

## Financial Requirements in Today's SBA World

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**SUPPLIER FORUM**

Tuesday, February 15, 2022; 1:00pm - 1:30pm

# Today's Presenters



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# Today's Topics

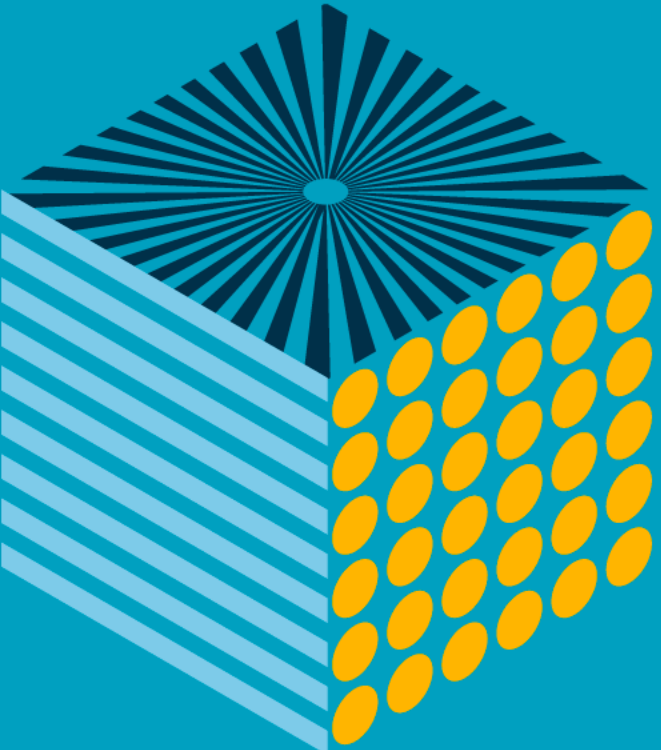
## Updates on SBA Lending

What impact is the lending environment having on franchise development?

How should you “re-set” or “re-think” your financial qualifications for candidates?

The impact of multi-unit deals

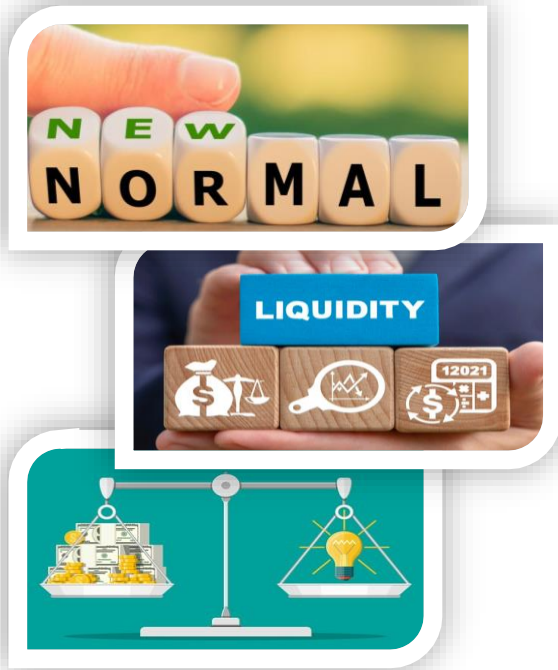




# UPDATE ON SBA

# SBA Lending

## Update on the Current Environment



It is not 2017-2019 anymore...this is NEW-NORMAL. Especially when it comes to the rising prime interest rate. The average prime interest rate over from May of 2000 to March 2022 has been in the 5-5.5 range...that's 20 plus years of data. Prime has not been 6 or higher since Jan 2008. Prime isn't going up – it is returning to the norm.

### Also consider to “real” impact: (example)

300k loan – at 6% interest rate = estimated monthly payments of \$3,300 per month

300k loan at 7.75% interest rate (5 + 2.75) = estimated monthly payments of \$3,600 per month

It is not as complicated as you think...it is about balance between the business and the borrower

Liquidity, liquidity, liquidity (Post closing liquidity !!!). This is very important when working on multi-unit deals.

# Revisiting Your Candidate's Financial Requirements

FRANCHISE FEE

LIQUID CAPITAL REQUIRED

NET WORTH REQUIRED

TOTAL INVESTMENT

TOTAL ROYALTY

Reported Net Profit:  
\$173,192\*\*

Investment Range:  
\$347,250 - \$568,700

Liquid Capital Required:  
\$150,000

Franchise Fee:  
\$45,000

Net Worth Required:  
\$300,000

Reported Gross Sales:  
\$847,710\*



# Revisiting Your Candidate's Financial Requirements

## Liquid Capital & Net Worth: Why These Metrics Matter

**Liquid** is viewed as assets that either are cash, or can be quickly and reliably converted into cash within about 30 days

**Net Worth** includes the value of all your assets, liquid or illiquid, less the balance of all your liabilities. If you own it, it's part of your net worth. On the flip side, everything you owe is also included, so it is possible to have a negative net worth if an individual has debt greater than their assets.

**\$450k Project**

**Assume loan of 75% = \$337,500**

**Leaving Borrowers Injection = \$112,500 (can include franchise fee)**

**\$150k liquid - \$112,500 = \$37,500 left over in liquid**

**How does that look? What do the lenders think? How does debt service get looked at?**



Liquid Capital Required:  
**\$150,000**

Net Worth Required:  
**\$300,000**

Investment Range:  
**\$347,250 - \$568,700**

Franchise Fee:  
**\$45,000**

# Revisiting Your Candidate's Financial Requirements

## \$450k Project

Assume loan of 75% = \$337,500

Leaving Borrowers Injection = \$112,500 (can include franchise fee)

So need to inject an additional \$67,500

\$150k liquid - \$112,500 = \$37,500 left over in liquid

Liquid Capital Required:  
\$150,000

Net Worth Required:  
\$300,000

Investment Range:  
\$347,250 - \$568,700

Franchise Fee:  
\$45,000

*What if it is someone looking to do multiple licenses?*

*Should your requirements change?*

*Say 2 licenses cost \$80,000*

They have \$150k – they spend \$80k on the franchise fees

On the 1<sup>st</sup> loan, the above remains the same, they can ONLY count the FIRST franchise fee for the FIRST loan

So now...

150k – 80k = 70k left

Injection needed is \$112k – (45k of FF can count) – inject an additional \$67,500

150k – 80k – 67,500k = **\$2,500 left in liquid**



# Revisiting Your Candidate's Financial Requirements

## My quick math “rules” on liquid for SBA candidates...

**Single unit deal** = whatever total project cost is...candidate should have at least **40% liquid**.

- For example, Candidate buying a business for \$250k. 40% is 100k. Loan would likely cover 190k.
- Meaning candidate injection would be 60k. Leaving them 40k left over in “post closing liquid”.

**Multi-Unit deal** = whatever total cost of franchise fees are...candidate should have **x2 of the total franchise fees in liquid**.

- For example, candidate buying 3 licenses totaling franchise fees to 130k. Candidate should have 260k in liquid.
- Initial location project is 300k. Loan would likely cover 225k.
- Meaning candidate injection would be 75k.
- So if they paid 130k in fees. Bank could use the first franchise fee for the first loan. The other franchise fees are irrelevant on the loan.
- Say license fee for 1st is 60k, so the candidate has to inject another 15k. So between the 130k in franchise fees + the additional 15k...the candidate is out of pocket 145k.
- It leaves them with 115k in liquid leftover.
- While that may sound like a lot...keep in mind, if/when they want to do an SBA loan for location #2...this process repeats...so they want to have some liquid in reserves so it is there when doing loan for location #2

*\*\*Liquid assets refers to cash, savings accounts, CDs, stocks, bonds, or other similar assets*



# Strategies to support funding

## Establish Funding Partnerships

Identify lenders/banks that already have shown an appetite for your concept or like concepts

Create a prequalification process for your development team and tools for your websites

Work to create a templated business plan that will appeal to lenders and make it easier on your candidates

Having up to date data on your brand and the industry space (FranData reports)

Training and support for your teams and coordinated updates so the sales process doesn't stall

**What is Your "Fundability"?**

Pre-Qualify for funding to determine how much and what sources of options are available to you. Plus, you'll have faster access to funding, allowing you to open your new business sooner.

Total Cash Amount In All Your Accounts <small>(checking, savings, money market, CDs, etc.)</small>	First Name
<input type="text"/>	<input type="text"/>
Total Value Of Retirement Funds <small>(401(k), IRA, and other retirement accounts)</small>	Last Name
<input type="text"/>	<input type="text"/>
Total Value Of Non-Retirement Investments <small>(stocks, bonds, etc.)</small>	Email Address
<input type="text"/>	<input type="text"/>
Credit Score <small>(If you are not sure of your current credit score, visit freecreditreport.com or CreditKarma.com)</small>	Phone Number
<input type="text"/>	<input type="text"/>

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