



FIRST TIME BUYERS

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This month we begin our new series — Financing the First Time Business Buyer. We'll take you step by step through the key areas that you should pay attention to as you work with these clients. Many of our most rewarding and enjoyable transactions involve first time buyers, as they usually are co-operative and open to our advice. And it's especially rewarding for us, as we're helping them transform their lives by providing them the opportunity to realize the dream of owning their own business. We hope you feel the same way as you work with first time business purchasers as well.

Let's start off by creating a picture of a theoretically perfect first time business buyer and purchase acquisition transaction from a financing standpoint. Once we understand that, every element that doesn't match up is something you'll need to address at some point during the application and approval process.

A theoretically perfect first time business buying and financing candidate could have the following characteristics:

- School and real life experience in the industry. Even better, he or she has been successfully managing the business they wish to buy or one just like it, with the current owner pretty much absentee and now ready to retire. The business under our candidate's management has performed like a champ, growing both sales and profits each year;
- A history of saving money, with enough cash for the down payment with some but not too much cash (ideally in a retirement account) left over for personal reserves;
- Perfect credit, with a credit score over 720; and
- Rent where they live. If they do own their home, they don't have much equity.

Let's start with the first bullet point. At its very core, what makes a business acquisition loan work is having a knowledgeable, experienced, and able operator running a successful business that generates sufficient cash flow to cover the monthly debt payments, while leaving money after that for reserves, capital replacements, and to provide an acceptable living for the owner.

And here's what we frequently see in first time buyers... motivated people who have been employees for all or most of their working lives, often in industries having nothing to do with the business they wish to buy, with job responsibilities that seem to have little to do with the nuts and bolts of day-to-day running a business. Perhaps they've just received an inheritance, been offered the necessary funds from a family member, been laid off from a job, or experienced an otherwise life-changing circumstance that now makes self-employment possible, desirable, or perhaps the only viable alternative.

Clearly there's a mis-match between a buyer that fits this description and our ideal buyer identified in the first bullet point above. Let's assume that your buyer/client recognizes the issue and is still comfortable going forward. We still have to get the loan underwriter on board. Unless we can somehow bridge this gap, the loan application can die even before an underwriter finishes reading the borrower's resume. How can you help your buyer clients get there?

First, work with your clients and identify all of the core skills, aptitudes, experiences, and knowledge that it will take to successfully run the business they are hoping to buy. Then have them prepare a resume that brings out the experiences and successes that line up with the needs of running the new business. Resumes written by those seeking employment are typically dry, job title and line responsibility focused, and offer little information about what the person actually did day to day. Instead, encourage your clients to be more conversational, and write about the everyday things they did that by their nature are applicable to the new business. They should include hiring and firing employees, working with customers, engaging with vendors, having budgeting or financial management responsibilities, doing marketing and/or advertising (including social media) and anything else they ever did in any of their jobs. If they ever had a small side business or part-time job where they did these types of things, include that on their resume as well.

The next big area to focus on is the business plan. This is really where your buyer clients can shine, and abundantly demonstrate that they've done their homework and understand the new business and the industry and what it will take to be successful. Well researched and thought out business plans have a value far beyond helping get financing approved. They can serve as a roadmap that the new business owner can refer to on a regular basis to make sure that he or she is staying on target with the things they need to do to succeed. Your encouraging them to do all the research and work necessary to complete a bang-up business plan, and then coaching them along the way, will be one of the most valuable things you ever do with and for your buyer clients.

But let's for the moment stay with the subject at hand, i.e. using the business plan to demonstrate to the lender the buyer's understanding of the new business and preparedness to take it on. And that's where we'll leave things for now. Our next article in the series will focus on writing business plans that will help your clients get their financing approved so that they (and you) can successfully close on their business purchases.