Working with high net buyers and their concerns

Building success through the sharing of information

By Steve Mariani

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Although I have written many articles surrounding the high net worth individual, lending views have changed over the years. Today I'll discuss the current market conditions for these potential buyers and it's all good news.

We start by reviewing the actual rule of eligibility/liquidity for these buyers. Basically (without posting the rule here) it states that the buyer must inject any funds they have that is over and above the loan requested amount. For example, they cannot have $1.5M after down-payment on a loan of a lesser amount without increasing the down payment by the excess. Note that the SBA uses the term "liquidity" as any available cash account or equivalent that's accessible without incurring taxes or penalties, IRA and 401k's are exempt as they both carry penalties for withdrawal. This is very straight forward and one of the first items our team addresses. Should this buyer have more than the requested loan amount in liquid funds, then we explain the actual ramifications in detail. Once this is understood and structured, we can move on to most buyer's real concern, the pledging of collateral.

First, we explain the little-known rule of 25% equity and review their PFS in detail. This rule states that any property owned by the buyer with less than 25% equity does NOT have to be taken for collateral purposes via SBA. Let me be clear here, this rule does NOT exclude this property for use as collateral but does allow the lender to exclude it as it becomes a lender discretion. Be aware that many SBA lenders do have internal policies in place that demand all property owned by a buyer be secured by liens, again this is lender discretion or internal policy and not SBA required.

Once we've explained each of the above to our clients, we turn to what we consider the most important item, their excess cash and cash equivalents. Prior to a major rule change in 2013 (don't quote me on the year) lenders were required to "Secure all available assets of the buyer" which then included liquid cash. In 2013 the revised rule states that the lender "should secure all available real estate collateral" and although it doesn't exclude liquid cash, it does leave room for additional lender discretion. The rule adjustment came just after the financial crash of 2009 and 2010 so I presume the change came as many small businesses ran short of operating capital and the SBA recognized that fact and reacted.

Where the rubber meets the road is when an underwriter is considering a larger, goodwill transaction and the buyer is well stocked with cash or cash equivalents after down-payment. Approving a multimillion-dollar transaction and avoiding the buyer's excess liquidity is where the difference in lenders appears. All lenders must operate under "Prudent Lending Guidelines" as described by SBA but allows much lender consideration. Lenders are NOT required, under any SBA rule, to secure liquid assets as collateral. A lender may choose to secure cash or stock accounts as collateral but let it be known that this is their internal decision and/or policy.

What truly matters to your transaction is the consistency and upfront commitment by the lender to move forward AFTER understanding and explaining the considerations stated above in writing. If the lender agrees and produces a lender term sheet or proposal letter stating no cash equivalents as collateral, changing it upon underwriting now becomes relationship threatening and we don't allow it. Our company policies demand consistent and reliable terms sheets with no room for change unless pertinent, negative information is discovered. Changing the terms after proposal is a sure way to be removed from our lender list and puts our future relationship in jeopardy. Side note, we demand all lender proposals be reviewed and approved by the underwriter and/or whomever has the final sign off on loan approval prior to client review, receipt, and acceptance. With over 40 loans in process at any given time, we should not be expected to revisit each request as lenders change terms weeks into the process, and neither should you.

The Diamond Financial team remains committed to the success of the business broker industry and the higher net worth borrower to be sure the financing structure best benefits all parties involved.

To increase your success, just direct your buyers to one of our highly trained experts and we will be happy to assist in the closing of your transaction. Try us and see the difference that personalized service along with top level lenders can make.

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