# Behind the curtains with Diamond Financial

## 94% closure rate, this is how we do it!

Building success through the sharing of information

By Steve Mariani

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What makes us different? How can we have a 94% closure rate when many direct lenders are at 21%? These questions are typically asked before creating any type of relationship with our firm. Today I want to answer these and more on our success and methods in the hopes of helping your office close more transactions.

Let's begin with what sets us apart from all direct lenders and how we approach acquisition transactions. We commit to a 3 day yes or no decision and here's how we do it. First is by requesting all the pertinent business information upfront, including tax returns. We only pre-qualify businesses and move forward with actual, verifiable financial information. Let's be honest, how many times have you seen financial statements that look totally different from filed tax returns. We also require interims to be as current and accurate as possible to truly understand the operation and current cash flow trends. Once this financial information is entered into our internal system, it produces all coverage ratios and formulas needed to allow us to truly evaluate the transaction. Once we've determined the overall cash flow of the business, and whether it can support the proposed new debt and buyer's salary, we then move on to any remaining concerning factors. These will be items such as licensing, customer concentration, aggressive growth in revenues, etc. Once the business operations are examined and fully understood, our attention turns to the buyer's qualifications.

After our initial conversation with the buyer, one of our managers will immediately forward our "buyer pre-qual forms" to be completed and returned. Our request will always include their PFS (personal financial statement), full credit report and resume', along with actual bank statements showing their equity going into the project. If an LOI or purchase contract is in place prior to our call, we will then request all appropriate personal tax returns and any required affiliate information. If this buyer was previously "pre-qualified" through our firm, then much of this information is already included in their personal file. If not, we will begin the process at this time.

We do not accept any documents or information that we cannot verify or confirm. If an outside investor is being used for the equity portion of the transaction, then we must receive their bank statements showing the minimum down payment amount or more to continue the process. If the buyer hesitates or delays sending us this information, then it generally raises concerns as most are pro-active in moving the deal forward. If any creative structuring is to be considered, then it will be determined and agreed to by all parties at this point. Examples of this would be any seller financing contributing toward down-payment (or otherwise), employment contracts, licensing considerations, or any other structure change requested. On larger transactions we will typically review the PFS of the buyer as we confirm and explain many of the SBA rules that will apply and are specific to this borrower. Examples would be excessive cash positions post-closing, and how to address these prior to lenders exposure. Any properties of the buyer that will have to be taken as collateral for the loan, and any spousal guaranties that may be required. It is at this point we expose the buyer to a few of the “SBA Optional rules” that can greatly be of benefit to them. Whenever possible we do not include a spousal guaranty and explain specific future advantages. If this spouse is not key to the operation of the business and will hold no ownership in the future corporation, we encourage not including them in the loan request. Another optional rule we quote almost daily in our shop is the 25% equity rule. This rule allows lenders to exclude any property from use as collateral if that property holds less than 25% equity. The actual rules states that if the buyer has greater than 25% equity in any property they own, then it MUST be taken as collateral, less than 25%, it can be excluded from the transaction.

The above exercises are all completed by us within the initial 3-day period and allows us to continue without any additional concerns. By addressing these items upfront, we can now move to lenders credit group for confirmation and receive specific feedback within hours. We do not issue term sheets or proposal letters without our credit teams review as they must be included prior to our client’s letter acceptance and execution. These initial days of work are key to our closure rates and can save countless hours of questions moving forward.

Don’t fall for the bait and switch. We see many lender salespeople produce and distribute terms sheets with no credit review whatsoever. This leaves all parties surprised after credit restructures the financing or declines the transaction completely. We are consistently handling transactions that have fallen victim elsewhere.  The frustration comes after spending many weeks in credit knowing this could have been avoided, restructured, or presented differently to secure an approval.

Our initial buyer conversation always begins with the same statement. We will ALWAYS do what is in the best interest of our borrower, whether the solution includes our firm or NOT. If the borrower does NOT belong in an SBA product and has more cost-effective avenues, we will explain it and advise them of their options. Let’s face it, not every borrower belongs with SBA, and it benefits us all if we learn that sooner rather than later. Spending 30 or 45 days on a transaction to then have surprises doesn’t benefit anyone and usually cost you a closing.

To increase your success, direct your buyers to one of our highly trained experts for pre-qualification 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 lending sources can make.


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