Remembering transactions lost!

What could have been done to save them?

Building success through the sharing of information

By Steve Mariani

June 2022

Nothing hurts more than a transaction that's just days away from closing, falling apart. Today I go through the most popular reasons we see deals die closer to the closing.

Remember losing sleep over that one deal last year that you knew should have closed but didn't? Our office tracks every transaction that does not move forward to closing and our staff is required to explain the cause in writing. Not only are we required to write up the reason in detail, but we also meet at the end of each month to discuss specifically what we could have done to keep the deal alive. We consistently review ways to improve our process and increase our succession rates by analyzing each transaction. Today I will share the most common reasons that we see deals fall apart and offer a few suggestions to possibly keeping them on track.

Let's begin with the easy concerns such as exposure. Did the buyer and seller spend too much time together over the last few weeks? This mostly happens when they are either acquainted with each other prior to the sale, or the broker allows communication without their presence. As the buyer talks about the many changes they will make just after closing, many times the sellers don't agree, and emotions enter the equation. Although this situation does happen, it is less common in today's market. Keeping them apart and on a professional level is important to any successful transaction closing.

Maybe the buyer has just gotten cold feet, or possibly their spouse has now woken up to the reality of the purchase and decided to share their input and concerns. We don't typically see this in our larger transactions but is more common on deals under $1 million. This alone, is one of the main reasons that Diamond Financial does NOT accept applications or transactions that do not include a broker or intermediary.

Then you have, what we call, "the brother-in-law" effect. This is where the buyer's brother-in-law (or someone close to the buyer) is made aware of the acquisition and chooses to offer his or her personal opinions. Most times these people are anti-transaction and looking for reasons to have a buyer reconsider the deal. They typically speak, having no experience at all, and feel obligated to share thoughts, price adjustments and overall structuring advice. Not helpful.

The number one reason we see transactions implode during the closing process is the closing list details and interpretation. Seller notes being put on stand-by for no reason as the lender then reviews the actual note itself and makes a change. The most common broker question that I receive in any given year, is if a seller note is required by SBA to be on full stand by for the life of the loan or not? Many times, we see borrowers try to portray that it must be placed on stand-by when the lender themselves never required it to be, always blaming the SBA. For the record, seller notes do NOT have to be on stand-by at all provided they are not contributing toward the down payment amount and the business cash flow can support the note payment moving forward. Other checklist items causing concern can be life insurance requirements on the buyer and avenues to securing this quickly, as we all know, time kills all deals.

Let's talk 12th hour lender games with examples. One of our latest loan requests was for $3.6 million and we did receive a lender term sheet within our required 3 days. Borrower signed it and we moved into credit, as is typical. After 3 weeks of underwriting, and many questions, the loan request was approved, but at $2.1 million. This was a new lender that had been communicating with us for over a year before receiving this initial loan application. Not only did they decide not to honor their term sheet, but they also greatly increased the buyers down-payment and increased the sellers note by four times. The good news was that we had time and were able to have another lender drop everything to correctly structure and approve the transaction within days. This first lender cost us over 3 weeks, but we were able to secure the $3.6 million required loan and produced the correct solution that benefited all parties at the closing. This common lender behavior is not acceptable, and this lender cannot be considered in the future.

Underwriting criteria is changing every day in this economy and the lender your deal was pre-approved with may not be the lender you choose moving forward. We are seeing credit boxes changing and without an arsenal of experienced lenders, you could have concerns financing your transactions in the remaining 2022 and into 2023. The biggest issue we see as credit criteria adjustments happen, is that these changes are not being conveyed to the DBO or lender rep and brokers are finding out during the process, which delays your transaction from the start.

Larger transactions require additional lender expertise; hence, this is our top reason on transactions over $1 million. You're dealing with another level of buyer on a $3.5 million transaction as opposed to a $450 thousand deal and the reasons change as well. Now the concern turns to structuring, lending and transition plans. Reaching an agreeable structure can sometimes take weeks of negotiation depending upon the overall complexity of the deal. We're all aware of the negotiating pieces on a deal of this size and once all parties agree, they begin exploring financing. If your lending partner has been involved in the initial structuring of the project, then you should have many less concerns upfront. The issues come in when the buyer is left to explore lending options on their own or is working with a less experienced lender. Shopping for interest rates and not best overall structure typically brings less experience lenders and big issues moving forward. Portfolio lenders promote fixed rates to win initial consideration on loan applications but then they truly decide if they want the loan or not, which can waste weeks. We are seeing more lender “Bait and Switch” these days than average, and this directly relates back to underwriting changes or surprises as described above.

When juggling so many different pieces, personalities, and buyer “experts” all along the way, no wonder we lose a transaction here or there. Not shocking at all, but costly non the less. We all need to keep these to a minimum and not waste weeks or even months of our valuable time.

Stop losing transactions due to lender games and start sending your larger deals to the single source that can get them done. Put Diamond Financials’ 27 years of acquisition experience to work for your transactions and experience the Diamond Difference.

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 screening and closing of your transaction. Try us and see the difference that personalized service along with top level advice and lending sources can make.

Steve Mariani
Owner, Diamond Financial Services
(888) 238-0952