

Interest rates AND SBA fees increase

Addressing these increases and effects with buyers and sellers

Building success through the sharing of information

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With interest rates rising almost monthly these days, we are finding some buyers getting very nervous and even backing out of transactions. To add fuel to the fire, SBA just approved a spread increase for lenders (as of August 1st), which now allows them to price loans over \$350M to Prime plus 3% (up from prime plus 2.75%). See the new allowable rates below.

Variable Maximum Interest Rates for SBA 7(a) Loans

\$50,000 and Less – Prime + 6.5

\$50,001 to \$250,000 — Prime + 6.0

\$250,001 to \$350,000 — Prime + 4.5

Over \$350,000 — Prime + 3.0

Today's larger goodwill transactions are now at 8.5% with many larger, goodwill lenders. How do we explain these increases and the effects to our clients to keep them focused and on track? There are basically 2 levels of borrowers that we work with daily and our approach to each differs slightly. We'll begin with how we address our high-net-worth entrepreneurs and end with the first-time, smaller transaction buyers.

Larger transactions (over 2.5MM) are typically purchased by more experienced operators that have usually owned another business or been involved in a multimillion-dollar transaction prior to this purchase consideration. These entrepreneurs are less emotion based and more factual based when considering any acquisition. We see these buyers approach the interest rates and fees all as part of the project. Yes, they do consider the expense, but only as a cost of doing business as would be the rent or staff wages, etc. The few thousand dollar increases in annual debt service does not discourage this buyer from completing a \$4 million dollar deal. They understand the cost of funds and the secured collateral relationship between them and recognize this loan is severely under collateralized and interest rates could be much higher, yet still be cost effective. This is our educated buyer that understands the true SDE, or cash flow, of this acquisition and the benefits of getting to the closing.

When first meeting our higher net worth buyer and exploring a 3- or 4-million-dollar acquisition, the many optional rules available through SBA that can benefit this buyer is always what the focus

turns to. During our first conversations with each potential client we meet, we explain how we will always provide the best financing options available, and if the best option does not include our firm, then so be it. The bottom line is that the larger, goodwill transactions are typically considered by more experienced buyers that understand and accept the current market conditions and can still capitalize on it utilizing every available SBA advantage.

The buyer of a \$400,000 business has a different mindset, and the fees can greatly affect the cash flow to a bigger extent. Addressing this concern with buyers that have never financed anything but a house previously, can be a tough battle. They believe that having great credit automatically commands a low, fixed interest rate on “under collateralized” loans. Each increase in interest rate causes sleepless nights for many of these buyers and begins the process of creating “cold feet”. They start to question more and more items of no regard and begin looking for ways to either leave the transaction or renegotiate the selling price lower. That said, we also do see smaller transactions buyers that understand the cost of doing business and are just getting started in their own ventures and are ready to move forward. This is where the broker value truly is in determining the quality and commitment of your buyer and their wiliness to complete the transaction. We walk each buyer through the actual cash flow and debt service ramifications, showing the effects of the increased rates. These effects typically have no bearing on the final outcome of the financing request as they are typically insignificant globally.

We are seeing an increase in applications this month, and many more transactions being signed nationwide. It appears to us that the determined buyer may have paused for a month or 2 but are coming back and submitting offers. We’ve received more executed contracts over the last 2 weeks than the full month of July, a great sign for our industry. Our broker affiliates all agree that interest in listings and serious offers have increased this month along with seller listing calls. Again, all great signs for our industry.

Higher fees, along with increasing interest rates, are not going to stop our industry. The methodology remains the same, work hard (or harder), stay focused and keep working your plan. Keep your client focused on the goal and always understand the effects of these increases before they do, no surprises.

To increase your success, direct your buyers to one of our highly trained experts for their pre-qualification letter (at NO COST) 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.

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