Keeping your sellers on board through financing dilemmas!

Larger deals need much more attention!

Building success through the sharing of information

By Steve Mariani
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With interest rates on the rise and lenders out scrambling for transactions (which would normally be a great thing), we're seeing credit boxes changing and transactions being proposed on (by others) that aren't being approved in the end. Many are showing up here after weeks of being elsewhere and are now up against contract contingency timeframes. This month I will describe 2 different size transactions and how walking your seller through the financing process must adjust for each of them. The bottom line this month is to stop the buyers from risking their transactions and continue assisting them and the sellers to get to the closing table.

Once an initial offer (LOI) is executed on an $800K transaction, borrowers then begin shopping for their financing. Some brokers will direct them to lenders that have reviewed the transaction previously and are familiar with the financing request, while others will not. What we see very concerning with this process is that in many LOI's a buyer has up to 90 days to close with no milestone to secure financing, and a financing contingency that only releases the buyer. What we believe it should include is that if a buyer is relying upon financing to close this acquisition, then it should be produced within a limited number of days. Many of the broker offices we work with are moving to demanding a full and final lender commitment letter within 30 days of an executed LOI, with the closing date to follow. This makes much more sense to the seller as his/her business is currently off the market during the buyer's application. All parties understand that within 1 month they will know if this transaction is headed toward a closing or not. Learning that this buyer cannot secure financing after 2 months or longer, becomes a disservice to all parties involved. This may also put your listing at risk as we all know that time kills deals.

Once declined, the options to complete the transaction are now greatly reduced and you and your buyer need to switch to plan b, in a hurry. If this is your listing, it's at this point that many sellers begin to question your ability to sell their business and in what timeframe. Did you advise the seller to accept this LOI with this buyer, or recommend this lender? Most acquisitions under $1.5M have "somewhat" logical owners and typically you can address these concerns, keep your listing by extending the contract, and move forward toward a successful closing.

Where this gets more complicated is when your listing is $4.8M (for example) and you have 3 sellers calling your office daily for updates, while all talking to their individual "advisors". Risking a deal of this size is now extremely concerning and will cost your office a larger portion of your revenue, should this not be approved and closed. These acquisitions are too valuable to gamble with and leave to chance. Most brokers will begin by calling and suggesting the lender they have the highest confidence in, right up front. They've closed loans for you prior and their BDO always answers the phone. You connect the 2 parties and hope for the correct outcome.

Surprise, four weeks later you learn from the buyer that the lender now demands a seller note for $500K. Here is where the conversation with your 3 sellers begins and your needed to advise them on their next steps. Do you suggest to them to take this deal and hold this seller's note? What changed and why did the lender propose on this transaction and then change the terms once in credit? Is this a lender changing the terms issue?

During these desperate times, as lenders each bid on transactions and promise things they cannot produce on, the bait and switch mentality seems to be everywhere. We just witnessed a buyer requiring a $4.3M acquisition loan be promised and proposed on by a lender that we knew would never approve the request. Five weeks later he's back, and now we have 10 days to get him approved to remain within his purchase contract covenants, This is only one example of the many promises were seeing broken by lenders all over the country right now during these higher interest rate times.

On an $800K transaction, yes, you can keep that seller calm and most likely add additional time for your buyer to secure financing. On a larger acquisition, it can be your credibility that's truly at risk. My standard line to all our clients is that if every lender was able to commit or not to your loan within 3 days, apply everywhere. Knowing the answer comes after "Loan Committee Review" in 4 or 5 weeks, is just not an acceptable gamble for any transaction.

The solution, adjust all your offers to include a financing clause that demands a full and final commitment letter within 30 days of execution and if it's not produced by then, the seller will have to consider their options. Explain this clause to your seller and why this was added to their benefit and stop allowing 90 days for buyers to carelessly shop to underqualified lenders.

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. We guarantee a **YES** or **NO** answer within 3 days of file submission. Try us and see the difference that personalized service, along with top level advice and lending sources, can make. We don't pay fees; we increase commissions!

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