# The time for expertise is NOW!

## Partial ownerships purchase rule updates!

## (and SBA fees being waived)

Building success through the sharing of information

By Steve Mariani
September 2023

If you rely on SBA financing for your transaction closings, then by now you've most likely been the victim of the current lender confusion and credit tightening effects happening across the country. Over the last 6 months, we've all experienced lenders changing credit criteria either during the loan approval process or just before, but now it seems policies are changing daily at many lenders.

One of our top goodwill acquisition lenders has notified our firm that they will be putting a hold on any large goodwill transactions in the short term. It's anyone's guess how long this national lender will be off the grid based on current market conditions. We're seeing other lenders' credit boxes adjust as well. A few more common changes we're noticing are raising their debt service coverage ratios, adding a 2-point additional interest increase as a stress factor, and many are now demanding seller notes be included to lower their overall loan exposure. Changes that are not promoting transaction closings, and when considering our interest rates alone are at some of the highest in my 28 years, making deals more difficult to complete.

SBA has been slowly releasing lender clarifications surrounding the August 1st rule changes, and ways to interpret and implement them. Although many are still being evaluated and reconsidered by SBA, lenders are attempting to move forward under their current understandings of the changes. One of the latest updates we've been made aware of is relating to the controversial "Partial ownership change" rule. Once published, it was quickly recognized that this rule is in direct violation of another current rule demanding the ownership of the selling company be reviewed 6 months prior to determine who will guarantee the partial buyout loan. Basically, this rule states that the lender must look back 6 months on the seller's entity and anyone remaining that owned 20% or more 6 months ago, must guarantee the new loan along with the new majority owner. The rule that took effect on August 1st states that ownership levels can be considered on a post-closing basis for a partial buyout and any ownership level under 20% moving forward would NOT have to guarantee the loan. Today, both rules remain in effect and SBA has stated that they will rescind the "Post transaction" portion of the rule. What this means to you is that as of today, a partial buyout with no seller guarantee is possible and specific lenders we work with are allowing them. The unknown concern is when will the SBA release an actual memo removing this new clause, until then, this might be an avenue to consider for your possible partial ownership change transactions.

Our firm has always recommended keeping seller financing out of the transaction, or at least to an absolute minimum. I won't go through my reason here, but if you've heard me speak over the years you know my bullet points against seller notes, they don't benefit most buyers. We typically see much shorter terms on most seller notes. During the current lender market conditions, seller notes are now structured into almost every transaction. Compared this to just 2 years ago when less than 10% of our transactions included any portion of seller financing. In addition to these sellers note requirements, we're also seeing the amounts exceeding the average seller involvement of 10%. Don't be surprised if during these times you come across a lender demanding 15 or even 20% seller involvement. Lenders are reducing exposure nationwide as the economic uncertainty of the country grows.

For our industry to remain successful and growing, we must adjust quickly to the current market conditions and changes. Diamond Financials commitment to this industry has never been greater. After 27 years of providing direct broker acquisition financing, you can always count on us to provide the latest, and most current information to our broker communities. I personally speak with many of the top SBA loan producers in the country daily to provide you with the actual effects to be considered on any main street transaction. Items and rules that you need to be aware of when including SBA financing in your closings.

We're all seeing a tightening in lending criteria in 2023. With so many changes happening each week, the level of confidence in your lender, and their ability to keep you informed, has never been more important. Understanding current back-office lender policies as they change and keeping all options available has never been as critical as it is today.

On a positive note, SBA will be waiving borrower SBA fees on loans under $1million and reducing them on loans over $1 million. This is a big savings and incentive to assist with initial closing costs.

At Diamond Financial, our staff of SBA managers are always here to answer any questions you might have on any SBA transaction in your pipeline. We're here to help you close loans and increase your commissions, call us anytime and learn how our expertise and available help you.

Steve Mariani
Owner, Diamond Financial Services
(888) 238-0952
Home of the 94% closure rate!