Welcome to 2024 and the new world!

The current market conditions for acquisitions.

Building success through the sharing of information

By Steve Mariani
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If financing your transactions is an integral part of your closings, this is a must read as I go through the effects and challenges we're seeing currently for lending on main street transactions. As we're all aware, lending for larger goodwill deals has never been a walk in the park, but today it's more than just a chore, it can be a battle. As lenders are trying to determine which industries will have concerns in the future, your transactions may be paying the price today. Sometimes it seems like a battle each day to determine where each lender stands on specific industries, coverage ratios and buyer qualifications. It's like the underwriting criteria is a moving target on these loan requests and what complied yesterday does not today.

A little history and background about our firm's approach, before I describe exactly what we're dealing with in 2024.We are a loyal company that chooses a group of no more than 6 lenders at any given time to be included by our team for consideration. Our database of 6 is designed and derived from our specific volume levels that demand attention from the top people at each source we consider, we need to matter to them. That said, this year we're replacing 2 of our previously top performing lenders for specific reasons that I'm about to share, so you can recognize the handwriting on the wall and know when to say when and move on to another lending solution.

We don't take replacing lenders lightly, it's the opposite, and we typically do everything possible to continue the relationship and find ways to work within their changing guidelines. Once we determine that this is not in the best interest of the buyer, or overall transaction, then depending upon the timing, this could prove to be detrimental to the lender's continued relationship with our group.

The tightening begins in the back office and slowly comes to the surface while your transaction is being considered by credit. This is when underwriters determine the transaction now needs a higher level of seller financing, a larger downpayment or additional cash flow to secure an approval. One of the biggest issues we encounter is when credit conditions adjust, and we're not made aware until we see it firsthand. No lender will ever announce or admit that credit criteria are becoming stricter. Many don't even inform internal staff of these changes as that would reduce applications for review, and they don't want that to happen.

There is talk, and even distribution, of some lenders "Blacklisted" industries. These are industries that a lender deems to be of concern under current market conditions and for the near future. This list is created by the lender, and many times has no factual basis or relationship to the actual market conditions and then becomes "perceived industries" of concern. This is one of the first signs that this lender is adjusting their credit underwriting criteria. It begins with increasing the required credit coverage ratios and can go all the way to affecting the required down payment amounts or collateral demands for approval. Let's be honest, if a buyer brings enough collateral to fully secure their loan request, chances are they'll be approved under almost any conditions.

Recognizing lender turbulence quickly is critically important in our industry and to each of your listings. As we all know, time kills deals and changing lenders 4 or 5 weeks into the process usually raises many flags from both sides. The way to stay on top of your lenders is to A) Rely on your lender relationship manager or BDO. If they are experienced producers, they will inform you upfront of any expected adjustments to credit and will protect your transactions at any cost. This, unfortunately, is not always the case and there are many in the industry that will continue to push that square peg into the round hole no matter the cost to your buyer, seller or transaction. B) Monitor the response times and results of any loan submission and watch for changes which typically start with additional or higher seller notes requirements. One of our lenders is now requiring a full 1.5% debt service coverage ratio (up from 1.25%) and another has lowered the amount of allowable goodwill to be included in their loans.

Lender changes are happening, don't get caught with the wrong lender and don't let it cost you a closing, these days we all need every deal to close.

We hope today's letter was informative and please feel free to share with anyone that you believe can benefit from it. We are dedicated to the success of the intermediary.

Diamond Financial is always here to answer any SBA questions you might have on any transaction in your pipeline. Many industry experts around the country count on our advice and guidance for transaction financing options and structures. We're here for this industry and to help you increase your commissions. Reach out to us anytime and learn how our expertise can help you.

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