CLAYTON CAPITAL PARTNERS

Exit Planning NAVIGATOR

Exit Planning Strategies for the Entrepreneur

Issue 40

Your Banker: The Forgotten Advisor Team Member

Fellow business owners, let's be honest. We fear our bankers.

On a daily basis, we give them little thought. When time comes to tell them we're planning to exit our businesses, or when we need money, however, we experience feelings ranging from mild anxiety to outright panic.

Why? We've been conditioned to believe that bankers say "no" far more often than they say yes. That may or may not be true, but bankers *make* money by saying yes. When they turn down a loan, they just don't *lose* money.

While bankers may be cautious by nature, they do need to make money. In fact, like all other business people, bankers are eager to continue *profitable* relationships. If the sale or transfer of your business is unlikely to disturb that profitable relationship, your banker is vested in helping your execute that transfer. It should come as no surprise that banks value the profitable relationship even if **you** are not part of it.

Let's look at two sale scenarios. The first is a cash sale to a third party. In this scenario, your banker is an excellent source of financing for your buyer. If loans are hard to come by, you may wish to help out the buyer by introducing him/her to your banker. Be sure the buyer has at least these attributes:

- A "normal" amount of assets (either personal to the buyer or to be acquired in the transaction) that the bank can use as collateral;
- Good credit;
- Management experience in creating cash flow; and
- A down payment—usually of at least 25 percent.

Of course, your business should have a solid cash flow history.

As always, banks will likely apply certain restrictions and additional qualifications to your buyer. The point is that banks want to make money. They do so by maintaining existing, profitable relationships through business transitions, including providing the funding necessary to make those transitions possible.

In the second scenario, you are transferring your company to insiders (children or employees) or to an outsider with little cash. None of these parties has much money so there's a real need to recruit your banker for your team. For more information on how to execute this type of transfer, please read Issue 10 of **The Exit Planning Navigator®**, "***Transfers to Insiders***."

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(continued)

Minimizing Risk

In all scenarios, banks strive to minimize their risk. One way to do so is for buyers to take advantage of the Small Business Administration's loan guarantee programs that can protect the lender bank against loss in case of default.

The SBA's 7A program is designed to facilitate the sale of a business interest by guaranteeing the loan repayment. While subject to restrictions on size and type of companies that qualify and on percentages and types of collateral allowed, as well as limits on the personal liquidity of the borrowers, these loans are favorable in a number of ways. First, the interest rates are limited to between 2.25 percent and 2.75 percent above the New York prime rate depending on the length of the loan. Second, the maximum loan maturity dates are quite generous (in some cases as long as ten years). Even so, the maturity of the loan is based on the borrower's ability to repay rather than the stated maximum maturity date. Third, the maximum amount subject to financing under 7A is $2 million.

Conclusion

Develop and use your banking relationship. It can be a valuable tool as you begin to plan and to implement your exit. Consider taking your bankers to lunch to explore how they can help you reach your exit objectives. If they accept your invitation, their input will be well worth the cost of the meal.

Subsequent issues of **The Exit Planning Navigator®** *discuss all aspects of Exit Planning.*

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