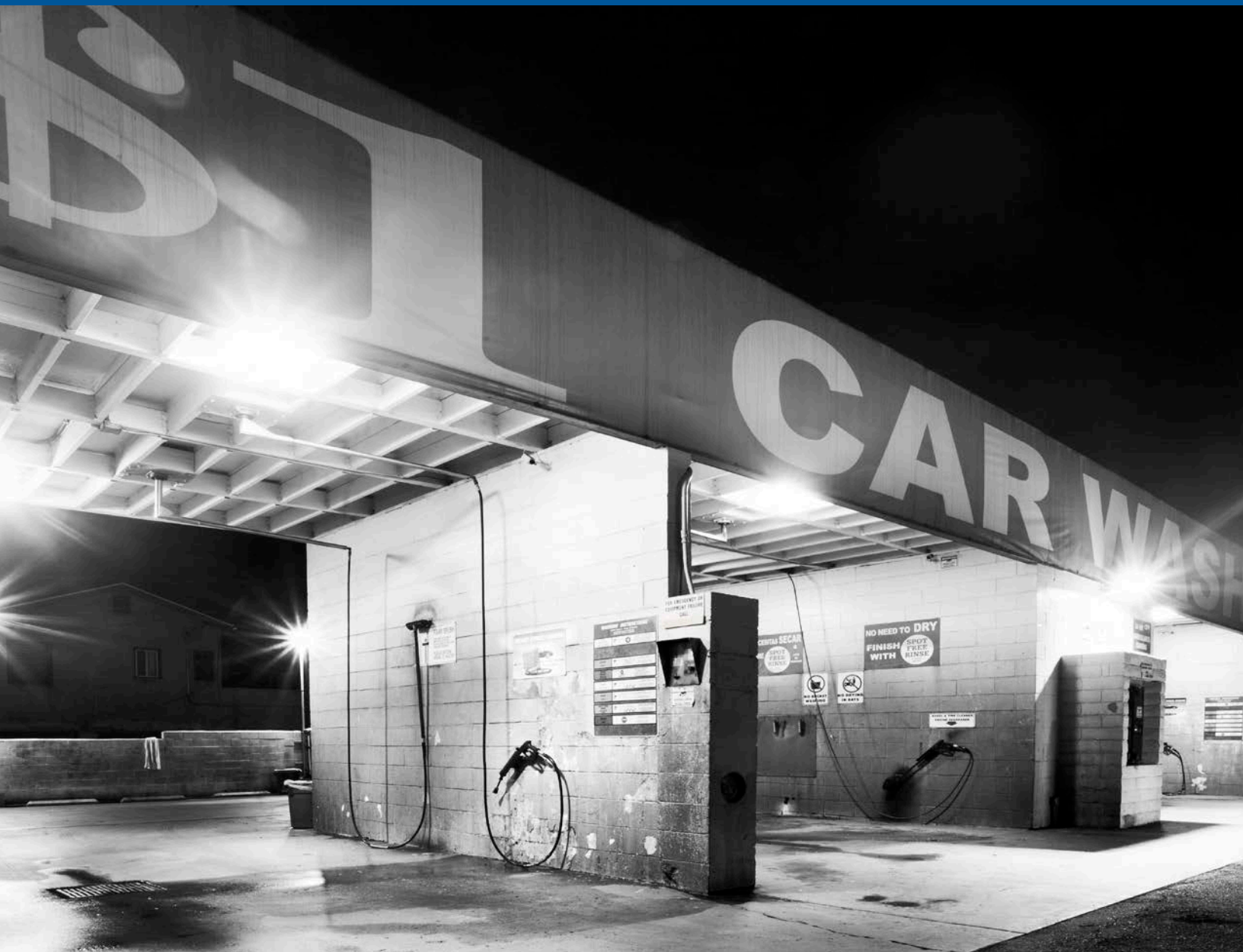




Financing for the Car Wash Industry

WHITE PAPER: An Overview of SBA 7(a) Financing

Member
FDIC

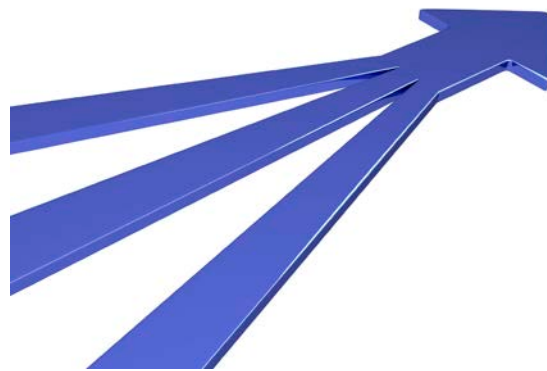


INTRODUCTION

If you are looking to purchase, build, upgrade, or refinance a car wash you already own, you may be surprised at how eager banks are to work with you.

The Great Recession of 2007-2009 was a tough time for small businesses, and the car wash industry was no exception. Business slowed as consumers began to hoard their cash and refused to spend money on things as simple as keeping their automobiles clean and well-maintained. Lenders tightened their belts, leaving many car wash owners without the necessary financing to keep their business going. Poor sales and the lack of adequate resources forced many car wash owners to close their doors.

Thankfully, the Great Recession is now over, and banks that survived are vigorously competing for business, especially for borrowers who are a good fit for Small Business Administration (SBA) programs. Lending sources are more prominent, leverage is up, and construction financing is more widely available. All in all, it is a solid time for car wash owners and operators to seek financing they may not have been able to get just a few years ago.



Car Wash Financing Options

The three main programs to consider when financing a car wash business are: (1) traditional bank financing; (2) SBA 504 loan; or (3) SBA 7(a) loan. Of the three programs, SBA 7(a) loans remain the most popular. SBA 7(a) loans offer the most flexible underwriting, and allow loan proceeds to be used for a wide range of uses (real estate, equipment, working capital, partner buyouts, etc.)



Understanding the SBA 7(a) Loan Program

SBA 7(a) loans are funded by banks, not the SBA. The SBA essentially acts as an insurance company to the lender. When a SBA lender structures a loan to meet SBA requirements, the SBA guarantees a certain portion of the loan will be repaid, thus reducing the lender's risk. However, not every SBA lender is the same. Every bank establishes its own credit criteria, risk appetite, loan structure, and eagerness to lend. For example, some SBA lenders are okay lending to borrowers who have had personal credit issues, while others are not. A borrower can be declined by one SBA lender but get a loan approved by a different SBA lender.

Benefits of an SBA 7(a) Loan

Loan-To-Value

- **Purchase:** For the purchase of an existing car wash, you may be able to get up to 90% financing, assuming the car wash has decent income and cash flows. High loan-to-value ratios are perhaps the biggest benefit of the SBA 7(a) program.
- **Construction:** For new construction, you may be able to get your project done with only 15%-20% down. The down payment can be a combination of cash and equity in the land if you already own it. This level of leverage is rare as most banks want to be in the 65-70% range for new construction.
- **Refinance:** For a refinance, 90% loan-to-value financing is widely available. With a refinance, you can roll in new equipment, working capital, renovation costs, a partner buyout, etc. Flexible use of proceeds is another big benefit of a SBA 7(a) that is not typically available with a SBA 504 or traditional bank loan.

Terms

- Nearly all SBA 7(a) loans are structured on a 25-year amortization schedule. By comparison, most traditional bank loans for car washes require a shorter repayment period (such as 20 years) to reduce lender risk. A five year reduction in the amortization schedule can mean a monthly payment increase of 15%-20% to the borrower. For many car wash owners, cash flow is more important than paying down debt, especially during the early stages of growth.

Sample Monthly Loan Payment Comparison 20-Year vs. 25-Year Term

Loan Type	Loan Amount	Interest Rate	Amortization Term	Monthly Payment
SBA 7(a) Loan	\$1,500,000.00	6.00%	25 Years	\$9,664.52
Traditional Bank Loan	\$1,500,000.00	6.00%	20 Years	\$10,746.47

- With an SBA 7(a) loan, there is no balloon payment whereas traditional bank loans often have a 5 or 7 year balloon payment. At the end of a 5 or 7 year balloon payment loan, the borrower must: (1) pay off the entire balance of the loan; (2) apply and be approved for a new loan with the same lender; or (3) go back into the marketplace to shop for a new lender. In the last two scenarios, the borrower is likely to incur new closing costs.



- Most SBA 7(a) lenders tie their interest rates to Wall Street Prime Rate. Per SBA rules, the maximum margin that lenders can charge on 7(a) loans is 2.75%. As of July 17, 2014, the Wall Street Prime Rate is 3.25%, so the maximum interest rate a lender could charge as of that date is 6%. Being able to finance up to 90% at a rate of 6% or less is one of the reasons an SBA 7(a) loan is ideal for financing a car wash.
- The pre-payment penalty during year one is 5%, year two is 3%, and year three is 1%. After year three, there is no pre-payment penalty.

Drawbacks of an SBA 7(a) Loan

As with any financing program, there are inherent drawbacks that car wash owners should be aware of and consider before making a financing decision.

- All partners with 20% or more ownership in the business must be underwritten. This includes providing three years of personal tax returns and three years of business tax returns on any other business where the partner(s) own 20% or more. SBA 7(a) loans involving partners are commonplace, but the underwriting process can become daunting if your business has five partners and each partner has 20% or more ownership interest in three or four businesses. With a traditional bank loan, you may be able to avoid this requirement
- SBA loan programs are intended for small business owners actively involved in running their business. This means that passive investors may have a difficult time getting an SBA loan approved. This can be an issue for car wash owners that live far from the subject property.



- Borrowers who have defaulted on government loans or student loans are ineligible.
- The SBA Guarantee Fee is more expensive than a typical bank origination fee. The SBA Guarantee Fee is typically 3% to 3.75% of the total loan amount versus a typical 1% origination fee charged by banks. Because the fees are higher, many borrowers opt to add the guarantee fee to the loan amount.

Summary

If your car wash financing needs were sidelined during the Great Recession, now is a great time to revisit your plans and make a move! SBA lenders have some of the most flexible underwriting standards in the business. Banks are looking for more transactions and are competing more aggressively. While an SBA 7(a) loan may not be the right fit for every situation, it is a great option for car wash owners who are looking for a lower interest rate and extended repayment period.

Jeff Rauth, VP

Celtic Bank

(248) 885-8797

jrauth@celticbank.com



Contact Us

Celtic Bank
Corporate Headquarters
268 S. State Street, Suite 300
Salt Lake City, Utah 84111
1-800-509-6191
info@celticbank.com
www.celticbank.com

About Celtic Bank

Celtic Bank is a nationwide small business lender specializing in SBA 7(a), SBA 504, USDA, and conventional business loans. Loan proceeds can be used for working capital, commercial real estate, commercial ground-up construction, equipment, inventory, business acquisition and refinance. We are a Preferred Lender under the SBA Preferred Lender Program and the eighth largest SBA lender in the nation FY 2014. For more information, please visit www.CelticBank.com.