



Buyers and Sellers – Understanding your Financing Options when Buying or Selling a Practice

Insider Tips for Securing the Best Terms

WHAT WE'LL COVER TODAY

Typical SBA & Conventional Terms
What can you use a loan for?
How long does it take to get a loan?
What type of collateral is required?
Insider tips for the best terms
How to prepare for financing



Introducing Salt Creek & FSBN

- Lending division of First State Bank Nebraska, a full-service community bank in headquartered in Lincoln, Nebraska
- First branch opened in 1912.
- 16 branches and \$600M in Assets
- Bank fueled growth through acquisition



Background of Salt Creek Development

- Salt Creek was developed to fuel bank growth through a strategic lending division.
- Financial Advisor lending identified as the core industry to fuel loan growth for FSBN.
- Bank has invested in personnel and technology to build out a lending division with industry experts and tools.
- First Financial Advisor loan closed in 2016



Salt Creek Differentiator

SBA and Conventional Lending Options



Benefits of SBA Lending

- **Government Guarantee of 75%**
- Reduces credit risk – better access and lower cost to funds
- Longer term and amortization than most owner financing and B/D options
- Reduces cash flow needs
- No balloon payments

Cons of SBA Lending

- Additional Paperwork
- Eligibility Restrictions



What can you get a loan for?

- Practice Acquisition
- Partner Buyout
- Debt Refinance
- Commercial Real Estate
- Working Capital
- Leasehold Improvements and FF&E (companion only)



Typical SBA Rates & Terms

- Loans up to \$5,000,000 (\$5MM Maximum SBA Exposure Total)
- Variable Interest Rate – based on WSJ prime with a quarterly adjustment
- Typical base rate of 2% over WSJ prime (+/- .25% depending on credit)
- 10-year term and amortization
- No prepayment penalty (typical on conventional lending)
- SBA Guarantee Fee - based on guaranteed portion (typically ranges from 2.25%-2.7% of total loan amount). Paid directly to SBA to fund 7(a) loan program.



Typical Salt Creek Conventional Terms

- Maximum loan amount of \$750,000
- 5-year fixed interest rates available
- 7-year term and amortization
- Pre-payment penalty of 3-2-1
- 2% origination fee based on loan amount
- Personal guarantee required
- No seller retention limits



How long does it take to get a loan?

- Loan packaging timeline is dependent on **BORROWER**
- Initial pre-qualification within 48 hours of completed loan application
- 2 weeks for underwriting and approval process (complete loan package)
- Closing timeline dependent on type of collateral and loan proceeds.
- Transactions that include real estate can extend closing time table.
- Typical 45-60 days start to close.



What type of collateral is required?

Always Need:

- Personal guarantee (required for owners 20% or greater)
- 1st Lien on All Business Assets
- Life insurance collateral assignment in amount of the loan

May Need:

- SBA requires lender to “collateralize the loan to the maximum extent possible”.
- May include commercial or personal real estate (Over 25% available equity of FMV) *** Texas Homestead Exemption
- Marketable Securities (Non-qualified Accounts)



Typical SBA Financing Structure For Acquisitions

- Borrower equity injection of 10% of Total Project (not purchase price)
Note: Seller can provide half of equity injection (5%) through a seller-note on full stand-by (no payments) until SBA loan paid-in-full.
- The typical seller note is about 10-20% of purchase price with an average term of 5 years. (NOT required to be on full stand-by if NOT considered equity injection)
- Seller receives 70-90% of purchase price at closing.
- Most transactions include Client Retention “Claw-back” Agreement



Common Speedbumps With SBA Lending

- Seller Retention – With SBA cannot exceed one-year transition.
- Claw-back Agreements – Need to be on seller-note or escrowed
- Purchase Agreements not finalized
- Broker/Dealer not on SBA Franchise Directory
- Lack of Entity/Corporate Documentation
- Proper Insurances not in place



Case Study #1 – Houston, TX Ameriprise Practice Partner Buyout for \$1.9MM

- Multi-year transition plan between buyer and seller
- Buyer paid 2.6X T12 GDC
- 85% Financing – 15% on a Seller-note
- Strong Business Debt Coverage Ratios of 3X
- Claw-back agreement on seller note. Only a 5% attrition trigger.



Insider Tips – What Does a Lender Analyze?



Credit Analysis

- Management Analysis
- Practice & Book of Business Review – 3rd Party Valuations
- Multiples – 2.5-2.6X Recurring / .9-1.0X Transactional (averages)
- **Guarantor Strength (additional scrutiny on conventional)**
- Personal Financial Statement
- Personal Credit History
- FINRA Report



Cash Flow Analysis

- Business Cash Flow Analysis (combined on acquisitions)
- Global Cash Flow – Includes business and personal debt (Minimum 1.5X)
- **Projected Cash Flow – Acquisitions or Start-ups**
- Affiliated Businesses “OBA” – 50% or more ownership or control

What do we look at:

- 3 Years of Tax Returns – Personal, Sch C, and/or Corporate
- **Personal Cash Flow – Household Expenses**
- Year-to-date “Interim Business Financials”
 - Profit and Loss Statement
 - Balance Sheet
 - Business Debt Schedule



How to Prepare for Financing



Get your historical business financials organized

- Three years of tax returns. Both personal and business
- Create an interim profit & loss statement (dated within 90 days)
- Create a balance sheet (dated within 90 days)
- A debt schedule listing all long-term debt obligations
- Organize your broker dealer reports on the book of business for the past 3 years and YTD



Put effort into preparing current personal financials prepared

- Personal Financial Statement listing personal assets and liabilities
- Personal Cash Flow Statement listing monthly income and obligations



Structure the purchase agreement with bank financing in mind

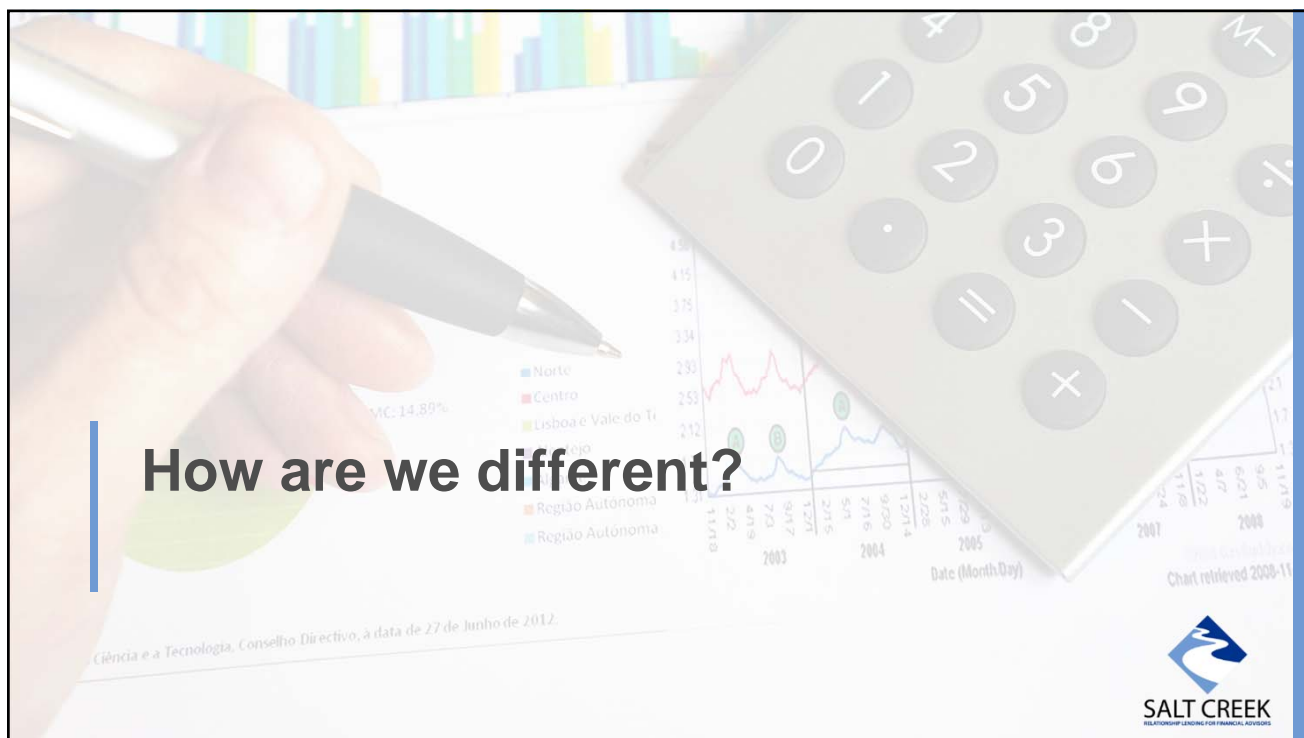
- Seller notes to reduce loan to value (LTV)
- Claw-back Agreements to protect against client attrition (on seller-note or in escrow account)
- Do not use a earn-out scenario. Fixed price for bank portion
- Seller must exit practice within 12 months



Case Study #2 – RIA “Distressed” Practice Purchase with a companion SBA Line of Credit

- \$500MM RIA purchasing a \$75MM Practice from widow of advisor
- Conventional loan for acquisition due to an “earn-out” structure.
- Three tranche payout over 2-year period
- Lending relationship includes a \$100K working capital line of credit.





Value Proposition – “Relationship Lending for Financial Advisors”

Salt Creek offers financial advisors a holistic, relationship lending experience that provides advisors capital at competitive rates and terms.

- Managed loan volume for quality client experience
- Dedicated Lending to Advisors – We understand your business model
- Long-term lending partner
- Responsive to client requests and needs
- Clients are not just a transaction
- Industry experts
- Leveraging technology for faster processing



How to Learn More

Visit www.saltcreek.1fsb.com

- Schedule a 15 Minute Phone Call
- Easy Online Pre-qualification Process
- Start Gathering Your Documents Online

Don Hauk

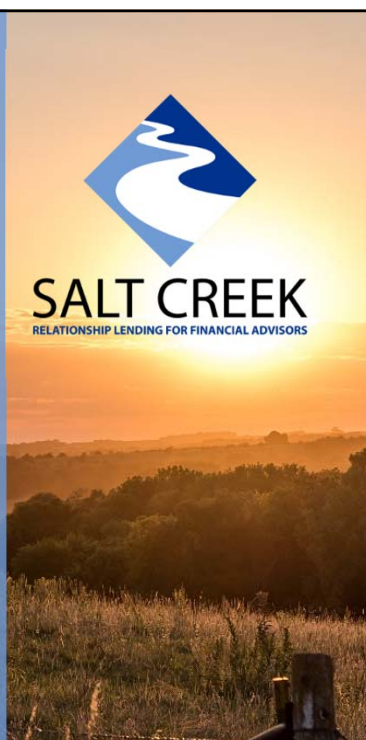
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Questions?

