

# Professional Carwashing & Detailing®

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SERVING CAR CARE BUSINESS OWNERS AND OPERATORS  
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## FINANCIAL ADVICE...

*You **can't**  
afford to ignore*

**22** Presenting  
new information on the  
Affordable Care Act

**44** One California  
carwash owner  
offers up tips for success

# FINANCIAL ADVICE...

**You *can't*  
afford to ignore**

When it comes to running a business, money management and financial planning is more than just dollars and cents. It takes keen organization, knowledge, expert advice and an arsenal of other tools. To help car care owners better equip themselves with their financial disposition, we turned to three experts: Roger A. Pencek, president and founder of Carwash Brokers Inc., who has been brokering and consulting carwashes since 1985; Reuven Birnkrant, president of PetroCal Associates, a commercial mortgage brokerage firm; and Jim Phelps, president and owner of Capital Equipment Leasing.

## Financing for a carwash in 2014

A lot has changed in a year.

By Roger A. Pencek

Back in 2013, I authored an article for *PC&D* entitled, "Financing for a carwash." Here are the "revised and unleaded" facts for what owners and buyers have to digest in the financial world for 2014, specifically in buying or selling a carwash.

Buyers applying for a loan to close their ESCROW, and existing carwash owners applying for a loan for refinancing, have the same challenge: How do we get the money? This loan dilemma is the same challenge for existing wash owners who choose to convert antiquated full-service washes to today's popular express or flex operations. In 2014, the biggest obstacle for sellers is the fact that the last three years of Profit & Losses (P&Ls) are generally in a "declining to steady income" trend. Lenders are putting *more* credence in the past three years' performance than ever before. Small Business Administration (SBA) government lending is the most popular borrowing vehicle (20-30 percent down) for buyers and has tightened their already tough lending requirements for 2014. Alternatively, con-

ventional lenders like, Wells Fargo and Bank of America, require (35-40 percent down) and specifically shy away from funding gas stations and carwashes due to their "single purpose" real estate profile.

So, the good news is seller carry back is the "new bank" which can be a win-win situation assuming the buyers and sellers have luck on their side.

### Institutional (bank) financing

Banks and borrowers unanimously have a love-hate relationship. Banks love to talk lending money, but hate to give money up, and they're relentless when it comes to debt collecting. To make the process easier, borrowers need to be prepared with what lenders require. The specific information that a bank wants is commonly accumulated in what is called "a package." When a carwash is typically listed for sale, the seller transfers bit-by-bit information relating to the business to a broker for a potential buyer. The big problem is planning, pricing and organizing books and records in prepara-

tion of marketing their business for sale. To maintain the attention of the lenders' consideration, pertinent information must be assembled at the beginning to avoid buyers and lenders losing interest.

Paramount to the sales/financing process is getting all of the complete information upfront for multiple lenders to review. The buyer's accountants and lenders can then immediately start mustering the seller's books and records; simultaneously appraisers can then begin their review. The obvious delay factor of time, which is the common deal breaker, is avoided when a proper package is prepared and a deal can commence. Each package will include the items on the partial list below. Any lender will require these items to do an "acid test" on the borrower as well as the strength of the carwash as collateral. Remember, the borrower and carwash business are *both* under the bank's microscope, and have to be financially strong and clean.

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**List of items needed:**

**From the seller:**

1. Purchase and sale agreement, with asset allocation breakdown
2. Year-to-date business financials (income statement and balance sheet)

3. Seller's last three years of IRS tax returns
4. Seller's last three years P&Ls with balance sheets
5. Last 12 month rolling P&Ls
6. Daily record book (DRB) or comparable monthly report for last rolling 12 months

7. All leases (including, but not limited to, landlord lease, if applicable)
8. Complete list of all equipment
9. Complete list of personal property
10. Complete list of all employees with payroll records (DRB)
11. Copy of current appraisal (if available)
12. Current surveys (if available)
13. Current Phase I (if available)
14. Current plot map (if available)

**From the buyer:**

1. Purchase and sale agreement, with asset allocation and breakdown
2. First-year sales and expense projection after purchase
3. Business profile (to support projections)
4. Personal financial statement
5. Source and documentation of buyer's cash injection (bank statements, gift letters, brokerage house statements, etc.)
6. Last three years of buyer's individual tax returns
7. Management resume on buyer's and existing management
8. FORM 4506 — Request for transcript of tax form signed and dated only. Lender will complete information.
9. Authorization to do a credit check

*Note: Once the information is gathered call the lender to pick up information. Prequalification or a decline notice typically will be provided within 48 hours by the lender. A prequalification letter will be delivered to the buyer directly by the lender and an initial interview will be set. The selling broker and borrower should attend.*

A well-prepared list will allow the lender to expedite their decision. Most likely the borrower will "shop" two to three lenders, speed up the process, and give the borrower a negotiating position. Keep in mind, a full-service carwash is a "single use business" and therefore, more risky for lenders. Targeting banks that specialize in that market is to your benefit. Visit [www.carwashbrokers.com](http://www.carwashbrokers.com) for a reference list of qualified lenders. The information above is a fast track model to obtain a decision from a lender.

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## The process:

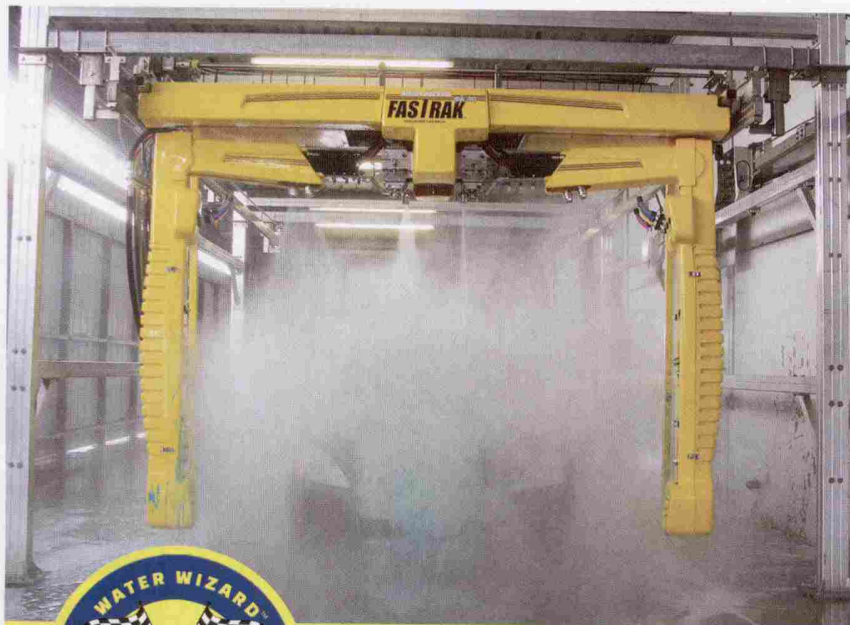
The initial goal is to be approved by the lender within the first 10 days of the loan application with a Letter of Interest (LOI), describing the terms of the loan and approval notes. During the next 45 days, after accumulating the lender contingency

data, a Letter of Commitment (LOC) is ultimately issued. A loan is then approved and the buyer is ready to sign for 20-30 years, closing 10-20 working days thereafter. The whole due diligence loan approval takes about 75-90 days. The following equation is a basic "acid test" formula that will save everyone a lot of time and generally qualify

a borrower for an institutional loan:

- 2014 (25-40 percent) down payment (balance of the purchase price to be banked);
- Excellent borrower credit (see page XX);
- Experience in the carwash business;
- Carwash business includes the land; and
- Three years and year-to-date carwash P&Ls plus tax returns, minimum of
- 30-35 percent Earnings Before Interest, Taxes, Depreciation and Amortization (EBIDTA).

These five items can assure most borrowers that a loan will be approved



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## Seller carry back

This form of carry back financing is when the carwash owner (the seller) is the "bank." As an example, the buyer will typically put 20-35 percent cash down and the seller will take a promissory note for the:

\$1 million Sales Price

\$250,000 down (25 percent)

\$750,000 Promissory Note from Seller to Buyer including 8 percent interest amortized over 10 years payable in equal amortized payments of \$6,273.30 (no prepayment penalty) commencing 30 days from Close of Escrow.

The buyer will give a personal guarantee note with a Due on Sale clause. This type of financing is typically designed when the carwash is on leased land or if there is soil contamination. The caveat here is that the sellers must have a long and desirable lease on the property.

## To review

Institutional (banks and insurance companies) and SBA financing is a process that may typically take four months or more to complete. SBA is generally more expensive to obtain a loan (fees \$15,000-\$45,000), but requires 25-30 percent down versus conventional lenders who require 35-40 percent down. All lenders will have to order current appraisals, environmental reports, surveys and title policies which all consume valuable time. There are very strict guidelines for both conventional and government SBA loans. Currently, bank commercial lending rates are very desirable; therefore, the con-

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ventional and SBA bank financing can be unpopular. The challenge, of course, is in proving your business to the lender.

Borrowers have to qualify, the business has to show 30 percent or more EBIDTA, and impeccable records, to confidently qualify.

Carry back financing, commonly referred to as a "land contract" since the 2008 financial meltdown, is becoming more popular and by far the easiest financing to obtain. Depending on the comfort level of the buyer and seller, due diligence from the time of opening ESCROW to closing, can take 15-30 days. Often, in a typical sale, the seller's tax implications, take all the money from a sale at closing, which is ultimately not tax favorable (capital gains tax). The synergy of this type of lending is generally beneficial to both parties. Both buyer and seller can speed up the sales process with a carry back promissory note, a lower down payment for the buyer (20-25 percent), and a balloon pay off can be struc-

tured structured, and the seller can do some tax planning. Buyers do not have to muster the strenuous red tape loan requirements and sellers know their collateral is valuable. *Disclaimer: Each U.S. state is different as some are mortgage or deeds of trust states; Check with your CPA or attorney as the crafting and repercussions of this type of carry back financing; generally the seller retains ownership to all the assets (as collateral via a recorded lien, known as a chattel security agreement and UUC filing) until the note is paid in full.* The traditional lending criteria and restrictions are forcing most sellers who have no debt on real property to consider being the "bank" since they can take the down payment and use the carry back note, which is a recorded first lien on the property; and then use the payments as an annuity backed by collateral. They can then go in and resell in the event of a default or hypothecate if they need to borrow against the equity of the property. The borrower (payer) and carry back lender (payee) should be aware that legal

representation is highly recommended due to an array of issues:

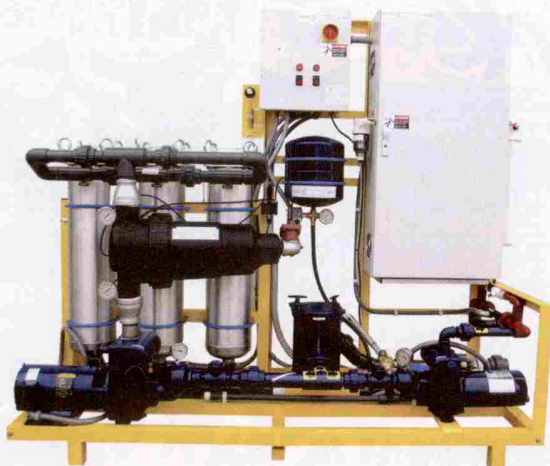
- Prepayment penalties
- Due on sales clause
- Personal guarantees
- Balloon payments
- Interest increases
- Note assignment clause
- Acceleration clause

Carwash Brokers, Inc. is not MAI Certified or in any way claims to be certified appraisers, and does not purport to be experts in appraisals. CWB's "acid tests," opinions of value or market value analysis are estimates and purely based on real estate expertise in listing and selling carwashes. For purposes of bank financing, CWB Inc. recommends a Certified MAI that specializes in carwash appraisals. **Roger A. Pencek (Author)** is the president and founder of Carwash Brokers Inc., and has been brokering and consulting carwashes since 1985. Roger is licensed as a broker in nine states with 14 offices within the USA.

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