

# Professional Carwashing & Detailing®

March 2013

SERVING CAR CARE BUSINESS OWNERS AND OPERATORS  
Volume 37 • Issue 3 • www.carwash.com

## Need more money?

We tell you where to find it and how to get it



**36** What does “mechanical action” have to do with wash quality?

**52** This father and son team are setting their sights on franchising

#BXNSRXH\*\*\*\*\*CAR-RT LOT\*\*C-070  
#8087680149# WR 100  
ROGER PENCEK, OWNER  
CAR WASH BROKERS  
11408 N BLACKHEATH RD  
SCOTTSDALE AZ 85254-4821  
0871

0871  
P015  
709  
259



# Need more m

We tell you where to find it and how to get it



# Why Lender?

BY ROGER A. PENCEK | CONTRIBUTING WRITER

Carwash buyers applying for a loan to close their ESCROW and existing carwash owners applying for a loan for refinancing, all 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 into today's popular express or flex operations.

Banks and borrowers unanimously have a "love-hate" relationship. Banks "love" to talk about lending money but "hate" to give it up easily, and they are even more "relentless" to collect. To make the process easier, borrowers need to be prepared with what lenders require. The "perfect" information that a banker wants is commonly accumulated in what is called a "package."

## Institutional (bank) financing

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, organizing the books and records in preparation of marketing their business for sale. To maintain the attention of buyers for lenders, 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 up front for multiple lenders to review. The buyer's accountants and lenders can then immediately start mustering the seller's books and records and simultaneously appraisers can begin their study since all the facts are available. The obvious delay factor is time, which is the common deal breaker and is avoided when a proper package is prepared and then a deal can commence.

Each package will include the items on the partial list. 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 both have to be financially strong and history clean.

## LIST OF ITEMS NEEDED

PURCHASE AND SALE AGREEMENT (WITH ASSET ALLOCATION BREAKDOWN)

### From the seller:

- Year-to-date business financials (Income statement & balance sheet)
- Seller's last three years of IRS tax returns
- Seller's last three years P&Ls with balance sheets
- Last 12 month's of rolling P&Ls
- DRB or comparable monthly report for the last rolling 12 months
- All leases (including but not limited to a landlord lease, if applicable)
- Complete list of all equipment
- Complete list of personal property
- Complete list of all employees with payroll records (DRB)
- Copy of current appraisal (if available)
- Current surveys, if available
- Current Phase I, if available
- Current plot map, if available

### From the buyer:

- First year sales and expense projection after purchase
- Business profile to support projections
- Personal financial statement
- Source and documentation of buyer's cash injection
- Bank statements, gift letters, brokerage house statements, etc.
- Last three years of the buyer's individual tax returns
- Management resume on buyers and existing management
- FORM 4506 - Request for transcript of tax form (Page 9) Signed and dated only. Lender will complete information.
- Authorization to pull credit

*Note: Once the information is gathered, call the lender to pick up the information. Prequalification or 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.* (Continued on next page)

(Continued from prior page)

This well prepared list will allow the lender to expedite their decision. Most likely any borrower will shop two to three lenders, so 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 it's considered more risky for lenders. Targeting banks that specialize in that market are to your benefit. CarWash Brokers Inc. website [www.carwashbrokers.com](http://www.carwashbrokers.com) has a REFERENCE list of qualified lenders for your perusal.

The previous information is a fast track model to obtain a decision from a lender for a sale, a conversion to express and or remodel. However, the following equation is a basic formula that will self qualify a borrower for an institutional loan:

- 25 percent down payment (75 percent of the purchase price to be banked).
- Excellent borrower credit.

- Experience in the carwash business.
- Carwash business includes the land in a "nutshell."

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

**Seller carry back**

This form of financing is when the carwash owner (the seller) is the "bank." As an example, the buyer will put typically 25-35 percent cash down and the seller will take a promissory note for the

- \$1,000,000 Sales price
- \$250,000 Down
- \$750,000 Promissory Note from the seller to the buyer including 8 percent interest amortized over 10 years payable in equal amortized payments of \$\_\_\_\_\_ (no prepayment penalty) commencing 30 days from the 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 waiting game**

Institutional (bank) financing is a process that may take as long as three to four months to complete. The bank will have to order appraisals, environmental reports, surveys and title policies which all consume valuable time. There are very strict guidelines for both conventional and government SBA (Small Business Administration) loans. Today the bank lending rates are very desirable (½; points over prime 4.5 percent) 6-7 percent total. Therefore, the exhausting process of using bank financing is very unpopular. The challenge of course is qualifying both the borrower and the carwash business to the satisfaction of the bank to lend.

"Show me the money" is easier said than done. Carry back financing is the easiest financing to obtain. Often, sellers' tax implications of taking all the money from a sale at

**XpresSystems RFID**

- ◆ Low Cost Upgrade to your Existing Entry System
- ◆ Quick and Easy Install
- ◆ Single or Multi lane Systems
- ◆ Network Multiple Sites
- ◆ Remote Management Control
- ◆ Online Sign Up
- ◆ Sign Up Kiosk

**ICA Booth #539**

**Unlimited Programs ◆ Monthly or Annual Payment Plan ◆ Prepaid Loyalty ◆ Pay Per Use**

952-758-4399

[www.xpreswash.com](http://www.xpreswash.com)



FREE INFO: Reader Service 248 or [Carwash.com/freeinfo](http://Carwash.com/freeinfo)

## TRADITIONAL BANK LOAN VS. LEASE FINANCING

	SBA LOAN	LEASE
Down payment required?	Yes, often 20% or greater	No, but does require first/last payment
Secured with collateral?	Yes	Yes, but against equipment only
Tax Deductible	You may be able to claim deductions for depreciation and interest (check with your tax advisor)	The entire lease payment can be claimed under most types of leases (check with your tax advisor)
Impact on your balance sheet	Appears as asset and liability	With a properly structured lease, the equipment does not appear as an asset or liability (check with your tax advisor)
Impact on cash flow	Down payment can strain cash flow	Typically spread out over time
Impact on a line of credit	Impairs ability to use line of credit	No impact on line of credit
Impact on personal credit bureau report	Loan appears on credit report	Lease does not appear on credit report

closing is ultimately not favorable. Therefore, both the buyer and seller can speed up the sales process with a carry-back promissory note from the seller to the buyer. In this type

of financing 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.

Both types of loans have their benefits. However, the borrower should be aware that legal representation is recommended due to

*(Continued on next page)*

## Come Meet the New Zep Vehicle Care Inc.



**Zep Inc**

www.zepvehiclecare.com | 1-877-ECOWASH



*Bigger. Stronger. Better.*



FREE INFO: Reader Service 232 or Carwash.com/freeinfo

www.carwash.com 47

(Continued from prior page)  
 an array of issues:

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

For further information, visit [www.carwashbrokers.com](http://www.carwashbrokers.com)

to view the referral section. In addition, the packaging section provides buyer and seller information and shows how to prepare a package to lenders for a quick decision. □

*Editor's Note: CarWash Brokers, Inc. is not MAI Certified or in any way claims to be Certified Appraisers, nor 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 Car Wash Brokers Inc., and has been selling and brokering carwashes since 1985 is now licensed in nine states with 14 offices within the USA.*

## Credit, loans and capital

A Q&A with Jim Phelps, the president and owner of Capital Equipment Leasing Inc.

**Q: What are some of the worst ways to go about getting an SBA loan?**

**A:** A lot of people think they increase their chances of success by submitting multiple applications at the same time. This is untrue! Putting out applications to two to three SBA lenders will only hurt your chances. Each inquiry will show up on your credit bureau, and lower your credit score. Right now a good credit score is the most important thing

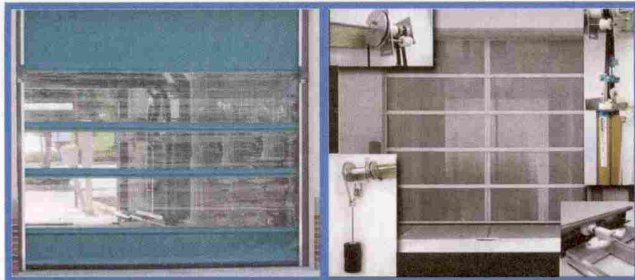
in getting a loan or equipment lease.

Another pitfall borrowers fall into is that prior to their application for an SBA loan being approved, they borrow money from their friends or family to tide them over. They all think it will be a short-term loan. In reality, the process takes a lot longer, up to eight weeks. It can put a lot of pressure on the small business owner when their friends and family become impatient and demand

repayment. It seems counter-intuitive, but they should secure their SBA loan first, before seeking a secondary source of funds.

**Q: What is considered a good credit score?**

**A:** A good credit score is 700 or higher. For equipment leasing, we can go down as low as 630, but we prefer them to be closer to 700, the closer the better. The higher your credit score and the longer your time in business,



Ultimate Products, Inc manufactures the **Illuminator Polycarbonate Car Wash Doors**, **Easy Maintenance Air Operators**, and **Electraflex High Speed Curtain Doors** featuring our New EM1 Motors, Stainless Steel Infrared Heaters and our Illuminator Car Wash Building.



Come visit with us at booth 2925  
[ultimate-products.com](http://ultimate-products.com)



FREE INFO: Reader Service 253 or [Carwash.com/freeinfo](http://Carwash.com/freeinfo)

### Quiet Simplicity



**Aerodry Systems, LLC**

*"The Lowest Noise Levels in the Industry"*

Reliable air dryers for energy conscious operators

Efficient, versatile designs for all types of washes

Outstanding reputation with long industry history

Personalized service, dedication to quality



Contact: 303-438-0120 [www.aerodrysystems.com](http://www.aerodrysystems.com)

FREE INFO: Reader Service 227 or [Carwash.com/freeinfo](http://Carwash.com/freeinfo)