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## **FINANCING FOR A CAR WASH**

By  
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**There are 2 basic forms of financing in the Car Wash business; Institutional (Bank) financing and Seller Carry Back**

### **Institutional (Bank) Financing**

Car Wash Buyers applying for a loan to close their ESCROW and existing car wash owners applying for a loan for refinancing, all have the same challenge "How Do We Get The Money"?

Banks and Borrowers unanimously have a "Love – Hate" relationship. Banks "love" to lend money but "hate" to give it up easily! 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"

Then a car wash 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 books and records in preparation of marketing their business for sale. To maintain the attention of buyer for lender, pertinent information must be assembled at once to avoid buyers and lenders losing interest. Paramount to the sales process is to get all 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 "*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 car wash as collateral. Remember, the borrower and car wash business are both under the Banks microscope, both have to be financially strong and history clean.

## **LIST OF ITEMS NEEDED:**

### **PRUCHASE AND SALE AGREEMENT (WITH AN ASET ALOCATION BREAKDOWN)**

#### **FROM SELLER:**

- **YEAR-TO-DATE BUSINESS FINANCIALS (INCOME STATEMENT & BALANCE SHEET)**
- **Sellers last 3 year IRS Tax Returns**
- **Sellers last 3 years P & L's with Balance sheets**
- **Last 12 month rolling P & L's**
- **DRB or comparable monthly report for last rolling 12 months**
- **All leases ( including but not limited to 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 BUYER**

- **FIRST YEAR SALES AND EXPENSE PROJECTION AFTER PURCHASE**
- **BUSINESS PROFILE TO SUPPORT PORJECTONS**
- **PERSONAL FINANCIAL STATEMENT**
- **SOURCE AND DOCUMENTATION OF BUYER'S CASH INJECTION**  
Bank statements, gift letters, brokerage house statements, etc.
- **LAST 3 YEARS 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 lender to pick up information. Prequalification or decline notice typically will be provided within 48 hours by lender. Prequalification letter a will be delivered to buyer directly by lender and initial interview will be set. Selling Broker & Borrower should attend.**

**The well prepared list will allow the Lender to expedite their decision. Most likely any borrower will “Shop” 2 to 3 Lenders, speed up the process and give the borrower a negotiating position.**

**Keep in mind, a Full Service Car Wash is “Single use Business” and therefore more” Risky” for Lenders. Targeting Banks that specialize in that market is to your benefit. Car Wash Brokers Inc. web site [www.carwashbrokers.com](http://www.carwashbrokers.com) has a REFERENCE list of qualified lenders for your perusal.**

The above previous information is a “Fast Tract” model to obtain a decision from a Lender. However, the following equation is a Basic Formula that will “Self Qualify” a borrower for an institutional loan:

- 25% down payment (75% of the Purchase Price to be banked).
- Excellent borrower credit
- Experience in the car wash business
- Car wash business includes the land in a “nut Shell” These 5 items can assure most borrowers that a loan will be approved

### SELLER CARRY BACK

This form of financing is when the car wash owner (Seller) is the “Bank”. As an example, the Buyer will put typically 25 – 35% 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 Seller to Buyer including 8% interest amortized over 10 years payable in equal amortized payments of \$\_\_\_\_\_ (no prepayment penalty) commencing 30 days from Close of Escrow. Buyer will give a personal guarantee note with a Due on Sale Clause.**

This type of financing is typically designed when the car wash is on leased land or if there is soil contamination.

### **SUMMARY:**

Institutional (Bank) financing is a process that may take as long as 3 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 loans. Today the Bank lending rates are very desirable (1 ½ points over prime 4.5%) 6 – 7 % total! Therefore, the “Exhausting Process” of using Bank financing is very popular. The challenge of course is “Qualifying” both the borrower and car wash business to the satisfaction of the Bank to lend.

“Show me the Money” is easier said than done, borrowers have to qualify to shout that phrase. Carry Back financing is the easiest financing to obtain. Often, Sellers tax implications of taking all the money from a sale at closing from a buyer is not favorable. Therefore, both Buyer and Seller can speed up the sales process with a 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) 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 an array of issues:**

- **Prepayment Penalties**
- **Due on Sales Clause**
- **Personal Guarantees**
- **Balloon Payments**
- **Interest Increases**
- **Note Assignment Clause**

**For further information our web site [www.carwashbrokers.com](http://www.carwashbrokers.com) has a REFERRAL section that can offer Lenders who specialize in financing car washes. In addition, our web site PACKAGING section will provide a Buyer and Seller specific information in preparing a Package to Lenders for a quick decision.**

**Car Wash Brokers, Inc. is not MAI Certified or in any way claim 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 car washes. 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 car washes since 1985 and now licensed in 9 states with 14 offices within the USA.**