
A GUIDE TO

Financing Restaurants



An introductory guide to financing
your restaurant purchase



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Introduction

Restaurant Loans

There are multiple ways to obtain restaurant financing. When a restaurant is well established, has good books and records and provable income, there are many sources of funding. Even when you are acquiring an “asset sale” which does not have books and records that you plan to reopen as your own new and improved concept, there are lending options.

We Sell Restaurants sells more restaurants than anyone else. Period. That’s why the Restaurant Brokers put together this introductory guide to help you decide on the best course for funding your restaurant purchase. From traditional bank loans to crowd funding, there are multiple options for financing at your fingertips.

Read through this guide and explore some of your options for financing a restaurant purchase. We’re always available by phone or on email to answer additional questions and provide expert advice. While we don’t go into the full detail of every financing situation available on the marketplace, we will point you in the right direction and provide you with links to several helpful sources.



CHAPTER

1

Seller Financing



Seller Financing

The Bank of the Seller

“Seller Financing Available for Qualified Buyers” - What does this mean? This chapter will help answer all of your questions surrounding Owner Financing and explain the benefits!

What is Seller Financing?

Seller financing occurs when the restaurant or bar owner agrees to “carry a note” or personally finance a portion of the transaction. Instead of paying for the entire purchase price up front, the Seller allows for some amount (typically 25%-50%) to be paid over time. Generally speaking, we see terms of three to five years for repayment. You will find that interest rates are higher than residential lending rates but lower than SBA lending rates.

Benefits to Seller Financing:

- **Low Upfront Costs and Free of Lending Fees**

Unlike conventional financing, owner financing is typically free of many or all of the fees associated with bank loans, equipment loans or even unsecured financing options. It's not unusual on a traditional bank closing to see the same type of costs you would see on a house loan including: origination fees (ranging from 1/2 percent to 1% of the loan amount), application fees (\$100 to \$500), credit check fees (\$75-\$150) and documents fees (\$75-\$150). These costs, added on by conventional lenders are part of their income stream and can increase your costs by thousands or even tens of thousands of dollars to the amount of the loan. When you finance a restaurant purchase directly with the owner, these costs are all avoided.



Seller Financing

The Bank of the Seller

Benefits to Seller Financing (continued)

- **Favorable Interest Rates**

Owners typically (though not always), offer more competitive interest rates on owner financing a restaurant than traditional lenders. SBA secured loans are often offered at rates known as Prime Plus (the Prime Interest rate Plus an additional percentage). Owners can afford to spread their risk over a lower rate and depending on where interest rates land, this can result in significant savings over time.

- **No Early Payoff Penalties**

Unless the seller is quite sophisticated, it is very rare to see a penalty for paying the loan off early when financing a restaurant purchase with the seller. Most restaurant owners simply want their money and are happy when you pay it off. This is not the case with conventional lenders who routinely charge a prepayment penalty as their earnings are based on the full amortization of the loan.

- **The Seller Wants to See You Succeed**

As restaurant brokers, this is our favorite benefit for buyers who take advantage of owner financing. A seller who offers financing has a vested interest (his payment!) in your long term success. For that reason, we see a strong level of engagement, training and transition in the purchase. Since his future money flow is dependent on the proper training of you as a replacement, the job is done right. This is called “skin in the game” and is a benefit for buyers.



Seller Financing

The Bank of the Seller

While the loan with a seller may be somewhat simpler and less costly when financing a restaurant with the seller, don't mistake that for a less stringent agreement. Owner financing is generally not done on a handshake but takes the form of a legal document with a fully execute promissory note and a UCC filing or lien on the assets of the business.

An attorney will draft the note between the parties and you may expect it will include all of the following:

- 1) Lien on the Assets. The furniture, fixtures and equipment in the restaurant will be "lien" by the seller. That means it cannot be resold without his note being paid off in full. That protection for the seller keeps you from buying his restaurant and then emptying out the equipment without paying him.
- 2) Personal guarantee. While you may purchase a business through a corporation, sellers fully expect you to guarantee the payments as an individual. This is known as a personal guarantee. This is their protection to collect if you take over the restaurant and then fail.
- 3) Specific remedies and a "right to cure" if you fail to make the payments. The seller financing documents will spell out what happens if you fail to make a payment and the restaurant owner's rights to recover his property. This will have the full force of the law.

While financing a restaurant with the seller can be simpler and less costly than working with a traditional lender, it is still very serious business.





Contact the Restaurant Brokers to draft an offer to buy a restaurant with Seller Financing at 1-888-814-8226

[See Current Restaurants for Sale Prequalified for Lending](#)



CHAPTER

2

SBA Lending Options



SBA Lending

The Bank

“SBA Pre-Approved”- What does that mean? This chapter will help answer questions about SBA Lending options.

What is SBA Lending?

SBA loans have the backing of the Small Business Administration or SBA. While the SBA does not ISSUE loans (a common misconception) they do GUARANTEE loans. That makes banks more willing to accept risk since the government is standing behind the deal and guaranteeing as much as 80% or 90% of their risk.

With terms as long as 25 years, low monthly payments and fixed rate options, SBA backed loans are the type of loans that work in large restaurant acquisitions. The only caveat- the restaurant for sale must have a track history of results and multiple years of tax returns to qualify.

Anything advertised by the restaurant brokers as “Pre-Qualified for SBA lending” or stating “Excellent Books and Records” is a candidate for financing a restaurant with a bank.

Some Benefits to SBA Financing:

- **Low, fixed monthly payments**

Payments are fixed and fully amortized meaning there are no balloon arrangements. That’s a benefit over owner financing where it is more typical to see balloon payments (a large single payment at the end of a series of smaller monthly payments). The restaurant brokers also typically see lower monthly payments that are easily reached through the cash flow of the business since this is part of the lender’s analysis before granting the loan.

SBA Lending

The Bank

- **Down payments of 10-30%**

Down payments range from 10 – 30% according to many lenders. It is rare however, that the restaurant brokers see any down payment lower than 20% and that's an improvement we've observed in the past year or so. In '08,'09 and '10 on the heels of the recession, it was typical to see banks request as much as 35% down.

- **Terms as long as 25 years**

Terms can be as long as 25 years though it's much more typical to see them at 10 years. In general, the term of the loan must match to the length of the franchise and the length of the lease. You can't have a loan on a business for 10 years with a lease that's for 8 years or a franchise for five years. The good news on a ten year term is that there are no prepayment penalties on loans under 15 years which means you can pay off early with no additional costs.

- **Fixed Rates**

Fixed rate options are the standard on an SBA backed loan. That gives you security as a buyer of what your payments will be over the term of the loan unlike a variable rate.

Disadvantages of SBA Financing:

- **High upfront costs in the form of bank and loan fees**

High upfront costs in the form of origination and other bank fees. This is one area restaurant buyers should carefully check. Be sure to compare fees since they will vary dramatically from lender to lender.



SBA Lending

The Bank

- **Lots of paperwork**

Another drawback on an SBA loan can be the sheer amount of paperwork. If you aren't good at keeping up with your tax records, financial statements and filling out forms, this might not be the right course for financing a restaurant.

- **Strict lending requirements**

Lastly, the government is very inflexible on certain key points. If the loan exceeds \$350,000, they will not budge on a requirement that your personal residence serve as additional collateral on the loan. That can be off-putting if you're financing a restaurant purchase and want to leave your personal residence off the table. They also require that your spouse be part of the personal guarantee on the loan.

If you're doing a franchise start up, SBA lenders are also ready to lend, particularly if the franchise has been listed on the Franchise Registry. This is the program for lenders where franchises submit their financials up front for their open and operating stores making the construction loan a simple process.

The Small Business Administration is a great resource for financing a restaurant as long as you are aware of the work and costs associated with this path. Here are a number of lenders that the restaurant brokers have worked with in the past along with their contact information.





Contact the Restaurant Brokers to buy a restaurant that qualifies for SBA Lending

[See Current Restaurants for Sale Prequalified for Lending](#)

Obtain a list of SBA Lenders that finance restaurant purchases on the *resource* page of this guide.



CHAPTER

3

Converting Your 401K



401K Conversion

The Bank of You

So you are leaving Corporate America to start your Endeavor as a Restaurateur- What Can You Do With Your 401K? Convert it to Start-up Capital!

What is a 401K Conversion?

The Bank of You is also known as your own 401K savings. Restaurant buyers often overlook these funds as a source of capital for financing a restaurant purchase without realizing there are multiple ways to use 401K funds without facing a large tax bill from your Uncle Sam.

The easiest approach is to borrow against your 401K. In this option, you are able to simply use your own money as the security or collateral for a loan. The advantages of this option are:

Quick and Easy Credit Scores can be marginal as long as appropriate security is in place.

The second and most frequent approach the restaurant brokers see used by restaurant buyers is the 401K conversion method. In this option, your 401K is actually converted to capital for the investment using the Internal Revenue Service guidelines and is tax free. In this case, your new 401K is made up of your restaurant purchase.



401K Conversion

The Bank of You

Some Benefits to 401K Conversion:

- **Short time frame- in a few as 30 days**

Short Time Frame. A 401K conversion can be completed in as few as 30 days, a standard amount of time in a closing of a restaurant for sale.

- **Simple to execute- always use a knowledgeable group like [Guidant Financial](#) to make your part easy**

Simple to execute. As long as you use a knowledgeable group like Guidant Financial, the effort on your part is minimal. A top class firm like Guidant will process all of the paperwork, do the legal and accounting effort to keep you in compliance with the IRS and transfer the money in time for you to buy a restaurant.

- **No tax consequences**

No Tax Consequences Since you are only borrowing against the securities in your 401K account, there is no “cash out” that would trigger a tax event with the Internal Revenue Service.

Some Disadvantages to 401K Conversion:

- **Setup fees and interest costs over term of loan**

No matter how you cut it; this option is still a loan and will cost you setup fees along with interest costs over the term of the loan.

- **Your securities and collateral are at risk**

Your 401K securities are the collateral and if you default on the loan, they would be subject to takeover by the lender and that would or could trigger a tax event in addition to the loss of capital.



401K Conversion

The Bank of You

- **You could lose your investment**

Like the loan against your 401K, it is possible for you to lose your investment if you take over a restaurant and it ultimately fails. That means you should be confident in your ability and the books and records of the restaurant you are buying. The great thing about using your 401K funds is that you are never taking a taxable distribution. Instead you are you are buying stock, as an investment, in your new company. Better yet, there's no loan since you're using your own money, interest-free.





Contact the Restaurant Brokers to buy a restaurant that qualifies for 401K Conversion at 404 800 6700

[See Current Restaurants for Sale Prequalified for Lending](#)

[Visit Guidant for Pre-approval on your 401K Conversion](#)



CHAPTER

4

Crowd Funding



Crowd Funding

The Bank of Peers

Crowd sourcing or crowd funding is the new kid on the block. It allows family, friends, customers or anyone else support your business in an online community-funding platform.

What is Crowd Funding?

Crowd sourcing or crowd funding is the newest kid on the block when it comes to financing a restaurant purchase. It's the idea that your friends, family and customers all support your business in an online community-funding platform.

Depending on the how the middle man (the crowd funding website designs the program), friends, family, customers - anyone - can back your business in small increments (i.e. \$50 or \$1,000) until you get the dollars you need for your concept. You create a "campaign" with a goal of \$50,000 or \$25,000 or whatever you need.

The great thing about the food industry is that unlike investing in real estate (can you say BORING!?), backers get great perks and rewards for their investments. The restaurant seeking funding offers discounts, free desserts, menu items that might be named after investors, Chef's table seating or even behind-the-scenes tours. The "pay off" if whatever the restaurant owner decides and hopefully, long term, the backer gets their capital back as well.



Crowd Funding

The Bank of Peers

How do you find the crowd and fund your project? Don't worry, the internet solves this issue with a technique known as Crowd Funding.

You begin by making sure you have a viable idea that others want to invest in. This may be an extension of an existing location – adding a food truck or second location for example. Once that's in place, you develop a "pitch." A pitch is what you say about why you need the money and how great it will be for your audience to. Then you pick what you're going to give in return for the money. This is where you "pick the perks" like a free dessert or call ahead seating or whatever you want to give to people backing your idea.

Lastly, you build a buzz around the idea by reaching out to your customers. This is where it's very important that you have a database of customers who also have lots of people in their social network so the idea goes viral and lots of people kick in. Finally, you collect the money and roll with your idea.

Some Benefits to Crowd Funding:

- Existing concepts have a customer database to market to

The benefit to this type of funding for restaurant owners with existing concepts is that you already have a customer database to market to. If you've been in business for any period of time, your database of potential investors is eating dinner every night. The other benefits drive from the social media aspect and community engagement elements of the campaign.



Crowd Funding

The Bank of Peers

People like to promote and help their local businesses. This is not a concept for franchises - it's definitely all about the independent restaurant owner

- Seed Match- Free!

[Foodstart](#) will seed your business with \$500 - just raise at least \$5k from at least 20 different people.

- Physical Backer Cards— Free!

[Foodstart](#) will send every backer a card they can use to redeem rewards.

- Low Fees

Foodstart charges just 5% plus they pass along a 2.9% credit card processing fee - the lowest in community-funded finance!

Disadvantages of Crowd Funding:

- Not ideal for large purchases
- Raising the necessary capital can be time consuming
- It's critical to have an existing database of customers.





Contact the Restaurant Brokers to buy a restaurant that qualifies for Crowd Funding at 404 800 6700

[See Current Restaurants for Sale Prequalified for Lending](#)

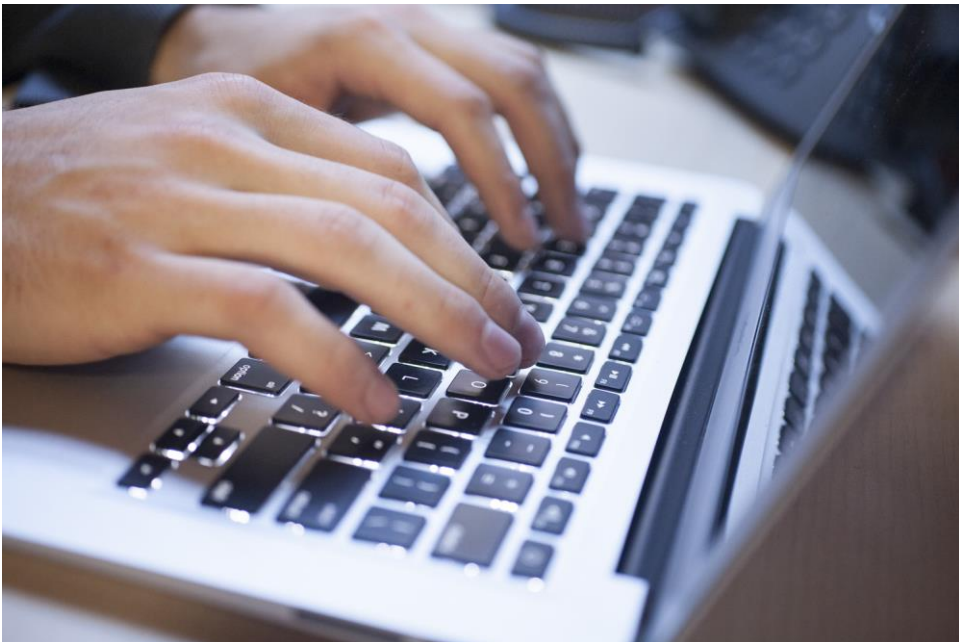
Visit www.foodstart.com for more Crowd Funding Information



CHAPTER

5

Online Lending Sources



Online Lending

The Internet Bank

Some Benefits to Online Lending:

- You expand the base of lenders for your concept from a few in the surrounding area to hundreds of online lenders. A bank in Chicago could fund a project in Florida
- Easy way to apply to many lenders at one time. You upload your information once and it is securely visible to multiple lenders so you don't have to carry your paperwork door to door or email to multiple lenders.

Disadvantages of Online Lending

- This concept is best suited for larger transactions (over \$100,000).
- The lending requirements will be stringent as you're dealing with a bank so you will need perfect books and records to accompany the request.
- Less personal than dealing with a bank down the street.
- Fees range from \$249 to \$1499 for the service



Online Lending

The Internet Bank

Online lending is another new way of lending that is driven by the Internet. Just like relationship websites (e-harmony) or retail websites (amazon), the Internet is a proven ground for bringing parties together. It's no wonder that lending platforms have sprung from this as well.

What is Online Lending?

Online lending can work in two ways. The first is simply to be a clearinghouse for all the lenders out there. Restaurant buyers go online, pay a fee (ranging from \$249 to \$1499) and fill out a standardized application. The online website then “shops” the loan to up to 1500 lenders at the same time.

Who is the Market Leader in Online Lending?

www.boefly.com has over 3600 participating lenders at any given time. You create an online account and then (either on your own or with one of their tools), prepare a request for lending. Once the request is complete, lenders compete for the “match” to you. You then review the matches and get approved for the loan.



Online Lending

The Internet Bank

Some Benefits to Online Lending:

- You expand the base of lenders for your concept from a few in the surrounding area to hundreds of online lenders. A bank in Chicago could fund a project in Florida
- Easy way to apply to many lenders at one time. You upload your information once and it is securely visible to multiple lenders so you don't have to carry your paperwork door to door or email to multiple lenders.

Disadvantages of Online Lending

- This concept is best suited for larger transactions (over \$100,000).
- The lending requirements will be stringent as you're dealing with a bank so you will need perfect books and records to accompany the request.
- This is much less personal than dealing with a bank down the street.
- Fees range from \$249 to \$1499 for the service





Contact the Restaurant Brokers to buy a restaurant that qualifies for Online Lending at 404 800 6700

[See Current Restaurants for Sale Prequalified for Lending](#)

Visit www.boefly.com for more online lending Information



“ I would borrow money all day long, if the cost of borrowing is less than the expected return. ”

-Brad Schneider



Conclusion

Restaurant Loans

As you can see there are many options in financing a restaurant. This guide to restaurant financing was put together by the restaurant brokers to help get you started down your dream of owning a restaurant. With many options available today, it is important that you have reliable sources that will guide you along the way.

Ready to get started? Be sure to contact our Restaurant brokers today!



Resource List

Restaurant Loans

Seller Financing

[We Sell Restaurants Website](#)

[We Sell Restaurants Blog](#)

SBA Funding

Mark Bryant - Keyworth Bank: 770-418-2762

Carolyn Caywood-Stearns Bank: 706-253-7037

Travis Beazley - Oak Star Bank: 417-877-2020

Rick Lindley – Regions Bank: 512-226-0226

Using Your 401K

[Guidant Financial](#)



Crowd Funding

[Foodstart](#)



Online

www.boefly.com



Book on Buying a Restaurant

[Appetite for Acquisition](#)



Learn More about Financing a Restaurant

Visit www.wesellrestaurants.com

For dozens of articles and the latest information on how to sell a restaurant, visit our website. You'll find articles, news, videos, listings and more.

Register as a Restaurant Buyer on <http://www.wesellrestaurants.com/sign-up.php>

WeSellRestaurants.com is the nation's most sophisticated website for restaurant buyers and restaurant sellers. We deliver an online confidentiality agreement, 24 hour access to restaurant listing information, photographs, the address, and even videos via our state of the art platform. Register as a buyer today for access to the latest restaurant listings first.



[Buy Our Book](#)

[Appetite for Acquisition](#) has been described in the business as the "definitive guide for anyone looking to enter the restaurant industry." Nominated for the 2012 Small Business Book Awards, it is full of tips, ideas, worksheets and more on how acquire a restaurant in a way that is less painful, more profitable and delivers a better return on your investment



[Listen to Our Radio Show](#)

The Restaurant Brokers host the nation's only national restaurant radio show that will **"We Satisfy Your Appetite for Acquisition, Feed the Need for Restaurant Reality and Serve Up a Recipe for Business Success."** Available for instant download on iTunes or view on our YouTube Channel.

[Read our Blog-Advice for Buying a Restaurant and Selling a Restaurant](#)

Our blog is updated every few days with more articles and information on the process of buying a restaurant. For the latest information on line, visit www.blog.wesellrestaurants.com

Call Us Toll Free: 1-888-814-8226

Our agents are available to assist you in your search to find a restaurant and answer your questions.

Email Us | info@wesellrestaurants.com

