

# Financing a New Car Wash

Financing can be difficult or rather easy

by Carl Nuss

There are many steps involved in determining whether or not you should move forward with any new project. You need to research the feasibility of the project you are undertaking. This, of course, involves potential profitability, market potential, project cost and many other areas which will affect you in some way. One of these important areas is financing. What is available from banks or other lending institutions? Are there government assistance programs which will make it easier for you to obtain financing? I will try to touch on some of these areas and how you go about assessing different sources. Like so many things in life, your approach will determine how successful you will be. The more skillful you are, the more likely you will obtain satisfactory financing.

## Lending Partner

The financing step is crucial to complete almost any project. Few investors have all the liquid funds needed without bank financing. Even if they do it is

usually more prudent to take on the bank as a lending partner in order to minimize your cash injection and maximize return on investment. Assuming your project will produce at a higher rate than the cost of funds rate, your cash on cash return will be higher the lower your cash injection into the project.

## Comfort Zone

When you are comfortable with the project you are about to undertake from your point of view, you must look at your project from a bank's perspective. They want to make loans as bad as you want to receive a loan. You must make them comfortable with the specific issues that concern them. You have to understand that your banking partner relies on a certain level of trust of the borrower's character and ability to repay. They have no real control of how you will run your business; many good projects fail because of poor operation. You must give them a "warm and fuzzy" feeling that you have done your homework as to the feasibility of your investment



Atlantis Car Wash, Lakewood, Colo.

and that you are willing to fulfill your obligation of providing whatever effort is required to successfully undertake your new endeavor. If you are a first time operator, this in the mind of the banker, is a hurdle you must overcome. You may not have any successful projects to show them as proof that you know what you are doing. “First time operator” is a term that bankers fear; you must address this concern to get to second base. A second fear they have is the prospect of a “single use” property, which is a property that cannot be converted into another business should it fail at its original purpose. For example, a failed restaurant can usually be changed into another style of restaurant, but a car wash is always a car wash. The bank may feel that they have no fall-back position in this instance.

### Time to Lead & Time to Follow

Remember, the banker wants to make the loan as much as you need the loan from him. The process of interfacing with a banker is similar to learning how to dance with him or her. There are times when you have to lead and times when you must follow. Each banker and his institution is a little different. The more you know about his situation and vice versa, the more likely you will reach an agreeable conclusion. You must first show that you have done your homework on the basics of your proposed project, such as market studies, land values, etc. At the same time you are portraying to the lender your passion, determination and professionalism. You are selling him on yourself and giving him every good reason to believe in your undertaking.

### Financing Step

The financing step should not be taken too lightly. It should be worked as much as all other phases of the project. While there are only a few government programs available for new investors, there is a multitude of lending institutions eager and willing to get your business. You should research a number of banks before making your decision on where to make your application for a loan. I have also found it prudent to make more than one loan application. Banking is just like any other business; they will work harder for you if they know they are



**A Better Carwash, Golden, Colo.**

in competition with someone else. They can offer you a lower rate, lower fees, shorter approval times, less collateral required, etc.

### The Unknown

Remember also that banks are most afraid of the unknown. The more solid information that you can present in regards to your new project, along with giving them a good warm feeling about your ability to operate the business, the more likely they will want to work with you. Seek out those banks that have had good experiences with projects similar to yours in the past, and avoid those who might have had bad experiences or no experience with projects similar to yours. The potential lender will be asking you many questions to reduce the unknown. Not only must you be prepared to find answers to satisfy the potential lender, you must also ask questions of the lending institution to make sure you are not wasting your time with someone who already has a negative or preconceived opinion. Swimming upstream is not impossible, but unnecessary if the lender you really want is in the other direction.

### Proven Track Records

Another crucial step you can take that will shorten the loan process is to bring companies with credibility to the table who have proven track records of contributing to successful projects in the past. This will go a long way to removing the “unknown” from the minds of the lenders. When you work with a company, such as a reputable distributor, who has built a relationship with several banks or even just one bank, the whole process can be much easier. Many of the unknowns are erased. Both the bank and the distributor involved have already gone through the heavy lifting of the education process. When a bank is somewhat familiar with the type of car wash that a particular company builds, they will have similar car washes on the books to support your project feasibility.

They will know that the equipment performs well and that the distributor stands behind his equipment. If you can also bring in a reputable builder, architect and engineering group that this lender knows, the bank gets even more comfortable. Now the only unknown is whether the new owner/operator can fulfill their end of the bargain. I have seen many project loans almost “rubber stamped” if the lender has some knowledge of the other companies involved and their only remaining concern is to make sure the applicant



Mountain Spring Car Wash, Ft. Collins, Colo.

can measure up to their credit requirements. Lenders who are seasoned in this way will often give quick verbal approval subject to verification of what the applicant has given them. They will then follow with a written loan commitment, subject to a minimal number of conditions that must be met, which then gives you a firm basis to move forward with other phases of your project.

### Loan Options

Now that we've covered the general attitude that must be taken in regards to the loan process, you should also become more familiar with some specific loan options available to you. An invaluable tool available for "first time operators" is a government backed loan called an SBA504 loan or an SBA7A loan. A bank's comfort level is directly proportional to its risk level on any loan.

The lower the bank's exposure, the more comfortable they are. They will increase their comfort level or their exposure level as they gain confidence in you, the operator. The SBA program assists you and the bank to reach an agreement by taking a percentage of the risk away from the bank. The SBA504 product guarantees to the bank 30 percent of the project cost. The cash injection required starts at 10 percent with this type of loan, an additional 5 percent requirement is added for "first time operators", and an additional 5 percent is added for "single use properties"; this brings the total cash injection required for a new operator of a carwash to 20 percent. Rarely, while it is within their power to do so, will a bank deviate from these guidelines. With the SBA504 or the SBA7A product, the bank's true exposure is only 50 percent or

less of the project cost. The terms of the SBA portion of the loan are predetermined by the SBA. They are usually 20 to 25 year amortized loans, fixed or floating, depending on which loan you apply for.

The SBA504 is, I believe, the better of the two choices. It is amortized for 20 years with a fixed rate based on a federal index. It is around the mid to low six's at this time. It is an assumable loan but the only downside is the prepayment penalty. The penalty starts at 10 percent and reduces by 1 percent each year of the loan. Remember, this part of the loan represents only 30 percent of project cost and it is assumable, so if you were to sell your project, this may be an incentive to your new buyer because of the low fixed rate.

The 7A loan is floating and is subject to prime rate fluctuations on the entire loan. This can be a good loan if you can count on the prime rate being low for a long enough period. The prepayment penalty is lower on a 7A: 3 percent the first year, 2 percent the second year and 1 percent the third year. So you can refinance this loan conventionally after 24 months with only a 1 percent prepayment penalty, a good product if the prime rate stays low for at least two years.

The 7A has limits on how much any individual may borrow—this varies but is somewhere around two to three million, while the 504 allows for a higher ceiling. The 504 also has some "job creation" and "minority ownership" requirements, but these can usually be easily satisfied. You must find an "SBA" participating bank to get the latest requirements for these loans.

On the 504 loan, the bank is essentially faced with making you a "conventional" loan on 50 percent of the



project. So, while 30 percent is backed by the SBA, 50 percent is left up to the individual bank, thus making it important to research the bank you want to work with. They may quote 1 percent to 2 percent over prime, fixed for three to five years, which is a pretty good deal. This will give you time to bring your project up to speed and open up the possibility of conventional financing if your numbers are fairly good. Keep in mind that the fees on the SBA portion are set by the government and are generally a little higher than conventional bank loan origination fees would be, but remember the SBA is accommodating your “first time operator” and “single use” classification. This feature makes it possible for first time owners to become financeable.

### Conventional Loans

It is very difficult to obtain “conventional” financing on your first project. After you have operated your first project for a year or so and have shown a successful growth pattern, then conventional loans open up to you. I always suggest using an SBA to get started with; what you do a year or so down the road is certainly up to you and any bank willing to offer you a better deal. I have found that investors who want to start a second project a year or so later can find conventional financing to not only do their second project, but to take their original first project out of SBA financing as well. If you plan on going down this path, remember that the 7A loan has a one percent prepayment penalty after 24 months on the entire loan, while the 504 would have an 8 percent prepayment penalty after 24 months, but only on 30 percent of the project cost.

### SBA Lending

Certain banks, usually smaller banks, become proficient in SBA lending. They grow an appetite for particular projects that are similar in nature. Any bank finds it difficult to become educated on the various types of projects they are funding.

Some banks make an effort to learn more about car washes in particular. When they do and then experience very low failure rates, their appetite grows. I once had a small bank president say to me that of the 40 plus loans he had made on car wash projects, he not only experienced no failures, but that he didn’t even have any late payments on these loans. Needless to say he valued these types of loans very much. His loan officers became very proficient with SBA requirements and were able to push loans through the SBA process very quickly. We completed one loan process within two weeks, although this is not the norm. A proficient SBA lender can process an SBA loan within a few weeks of what a conventional loan would take, so time shouldn’t be a deciding factor in your search for a good loan. I prefer working with smaller lending institutions with whom you have more opportunity to educate as to the particulars of your project. This opposed to larger banks who tend to be more “stand-offish,” more “by the book” lenders who really don’t have the time to become involved or educated in any particular type of project, such as a car wash.

### Equipment

On a strictly conventional loan, few banks will loan more than 70 percent of project costs, most would like to be even below that exposure. And again, it’s a much harder sell to go conventional on your first project even though terms might be slightly better. Another drawback to attempting a conventional loan is that you will find banks do not like to finance equipment on a long term conventional loan; they will try to shorten the term on the equipment to 10 or even seven years or refer you to a lease company for the equipment portion of your project.

SBA backed loans welcome and even require the equipment into the overall package. Banks, in general, do not like the equipment portion of the loan as much as the real estate portion because they know that equipment depreciates much more quickly. The SBA guarantees a large enough portion of the loan



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so that banks are much more comfortable in including land, building and equipment into one overall package of complete financing. The end result is that you will get a better rate and a longer amortization on the equipment portion by coupling the equipment with the real estate portion of the loan. The bank is incentivized to take the “bad” with the “good” since the SBA has lowered their exposure. You can still depreciate the equipment on a seven year schedule for tax purposes. With a package loan, you can essentially have your cake and eat it too in regards to the equipment portion of the loan.

### **Fees**

One last important consideration: try to get the bank loan fees, including the SBA fees, rolled into the loan package and finance them as well. This will minimize the cash you have to bring to the closing table. Many banks will do this for you. You may also want to build some contingency money into the loan in case something unexpected comes up. Usually 10 percent of the construction costs will suffice. If you don't use this money, you will not be charged any additional interest or fees to have it available. You can always borrow less than you are approved for, very rarely can you borrow more without almost starting over with the loan application.

Financing can be very difficult or rather easy; it's all in how you approach this very critical phase of your new undertaking. I have tried to put you into the driver's seat to successful financing; you must now do the steering.

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*Carl Nuss the CEO and chairman of Comtec Wash Systems, Inc., founded the family-owned company in 1984. After his 24 years experience as an owner/operator, his goal remains to guide prospective car wash owners through the process of purchasing property, hiring an architect, finding financing, hiring a general contractor and providing the most up-to-date reliable car wash equipment on the market. Please contact Carl at 303.233.7667, salesinfo@comtecwash.com or visit www.comtecwash.com.*