

TOP SECRETS

FOR BUYING, SELLING
& FINANCING FUNERAL HOMES



Specializing in Working With Funeral Home Professionals

Contents

- Buying a Funeral Home 5**
 - How Much Can You Offer?..... 5
 - Are Funeral Homes Profitable?..... 6
 - How Much Does It Cost to Own a Funeral Home? 6
 - Time-Consuming and Stressful Process..... 7
- The Process of Buying a Funeral Home 8
 - Preparation..... 9
 - Search for a Seller and a Lender 9
 - Develop a Strategy Before Negotiation 9
 - Do Your Due Diligence.....10
 - Formalize the Purchase Agreement11
 - The Closing11
- Success Factors When Buying a Funeral Home12
 - Fire in the Belly12
 - Manage Your Attorney’s Involvement13
 - Closing the Deal is Hard13
 - Resist the Urge to Change the Business Right Away13
- Are You Ready to Own A Funeral Home?.....15
 - Do I Have the Experience?.....15
 - Am I Entrepreneurial?15
 - Do I Have the Credit and Financial Resources?16
- Selling a Funeral Home17**
 - Are You Considering a Sale?.....17
 - Review Market Conditions.....17
 - No ‘Secret Formula’ For Selling a Funeral Home18
 - Be Prepared to Answer a lot of Questions.....18
 - Be Ready to Prepare Your Records19



Find Out How Much Debt Your Business Can Pay For	19
Find Out How Much Your Business is Worth	19
Deciding to Sell Your Funeral Home	21
Control the Timing	21
The Process of Selling a Funeral Home	23
Preparing for the Sale	23
Establish Your Goals	24
Prepare Presentation Materials	25
Identify Prospective Buyers.....	26
Selling	26
Common Selling Myths.....	27
Myth 1: You Need a Formal Business Appraisal	27
Myth 2: You Need to Sign an Exclusive Leasing Agreement	27
Myth 3: Your Broker’s Fees are Paid by the Seller	28
Myth 4: You Need to Sign an Expert Consulting Agreement to Improve Your Operations Before Selling	28
Myth 5: You Need to Sign an Expert Consulting Agreement to Operate Your Business Before Selling	28
Myth 6: You Don’t Need to be Concerned With Financing	29
Educate Yourself	29
Avoid Roadblocks to Selling a Funeral Home	30
A Seller Who is Not Ready to Sell.....	30
Poor Packaging of the Business	30
Wasting Time With Unqualified Prospects.....	30
Letting the Business Slide While You are Focused on the Selling Process	30
Poor Management of the Sales Process.....	30
Too Much Focus on Price	31
Manage Your Attorneys!	31
Letting Time Go By	31
Someone Will Always Get Cold Feet at the End	31
Financing a Funeral Home	32

Common Questions About Funeral Home Financing	35
Interest Rate on a Funeral Home Business Loan	35
Red Flags to Watch Out For.....	36
Loan Term Depends on Proceeds	36
Fees Depend on Type of Loan.....	36
Application Process Relatively Easy	36
Closing a Funeral Home Business Loan	37
Securing a Funeral Home Loan.....	38
Good Character is Necessary.....	38
Capacity to Produce Cash	38
Investing Your Own Capital.....	38
Seller Lowers Bank’s Risk	38
Real Estate Provides the Collateral.....	39
Term of the Loan.....	39
Principal.....	39
Tell the Truth.....	39
Packaging Your Proposal.....	39
Shopping Your Loan	39
Selecting a Financing Intermediary	40
What a Lending Intermediary Does	40
How an Intermediary is Paid	41
Reasons to Use an Intermediary	41
What to Look for in an Intermediary.....	42



Buying a Funeral Home

Many funeral directors dream of owning their own funeral home. They want to be rewarded for long hours, hard work and time away from family. They want to be in control of their career and future retirement.

If you think buying a funeral home is the right path for you, ask yourself a few key questions first. Am I an entrepreneur? Do I have the drive and attention to detail that it takes to be successful? Do I have the personality to interact successfully with customers and employees?



How Much Can You Offer?

Once you find a business you would like to purchase, how much can you offer? Following are some general guidelines on the most common situations encountered when buying a funeral home. Several assumptions are made, including: the buyer will obtain bank financing to make the purchase; the buyer has excellent credit, strong industry experience and the ability to make a modest down payment; any seller financing will be at similar rates and terms as the bank financing; the buyer will own and operate the business for profit as a stand-alone facility; the value of the individual assets of the business, including real estate, are not greater than the overall value of the business.

An important point to remember when buying any business is that most good businesses sell in the price range of three to six times Seller's Discretionary Earnings or total cash flow available to the owner. Seller's Discretionary Earnings or SDE is calculated by adding together several components, including business profit or (loss), owner's salary, discretionary expenses, non-recurring expenses and non-cash

Where your offer falls in this price range depends on the industry and the individual characteristics of the business. In industries where inventory and equipment are of significant value, those items are added to the purchase price, with the purchase price often being expressed in terms of sales revenue, plus inventory and equipment. In the funeral industry, most businesses sell in a price range between four to six times SDE. This price range typically includes all operating assets of the business – including real estate.

Are Funeral Homes Profitable?

Most potential buyers wonder if funeral homes are profitable. That's why it makes sense to determine how much cash will be available to pay debt service after the purchase. This is also the method used by banks to determine how much they can loan on a purchase. SDE or cash flow available to the owner is often expressed in terms like adjusted cash flow, seller's discretionary earnings and adjusted EBITDA (earnings before interest, taxes, depreciation and amortization). All of these terms are often used to describe SDE.

Cash flow available to service debt is always a lower number than SDE and it is calculated by subtracting a normal salary for the borrower from SDE. Most lenders require the borrower to budget a minimum salary needed to take care of his or her personal liabilities and living expenses. They also require a small margin of safety over and above the actual debt service which we will discuss shortly.

The minimum salary required by the borrower will vary depending on their personal debt level. A good rule of thumb to estimate a borrower's minimum personal salary is to multiply their annual personal liabilities by two. For example, a borrower with annual personal liabilities of \$15,000 will require a minimum personal salary of \$30,000, which is then subtracted from SDE to arrive at cash flow available for debt service.

Cash flow available for debt service is then used to determine how much the borrower can borrow for the purchase. This in turn allows the borrower to estimate how much they can offer the seller.

How Much Does It Cost to Own a Funeral Home?

In order to determine how much it will cost to own a funeral home, take a look at the minimum salary requirement and the debt coverage margin. Let us say over the past three years a business has achieved average SDE of \$350,000. The borrower's personal salary requirement is estimated to be at least \$50,000, which is then subtracted from SDE to arrive at cash flow available to service debt of \$300,000. Let us say the lender is conservative and requires a debt coverage

margin of at least 1.5 on loans of this size. Dividing cash flow available to service debt of \$300,000 by the minimum debt coverage ratio of 1.5 leaves \$200,000 for total annual debt payments. In this example, \$200,000 in annual debt payments over 15 years at 8.00% would allow the buyer to borrow approximately \$1.7 million to make the purchase. If the buyer planned to put down \$300,000 in cash, how much could the buyer offer? The offer can be backed into by adding the cash down to the max loan amount and subtracting the closing costs and working capital. So the calculation would be \$1.7 million plus \$300,000 less \$150,000 in working capital and closing costs. The result would be a potential offer of \$1.85 million.

Time-Consuming and Stressful Process

Working long hours, being underpaid and having an entrepreneurial spirit are all factors that drive employee funeral directors to begin looking for ownership. These factors can also create an ownership drive so strong it overshadows logic when it comes to researching an opportunity. If you're unhappy in your current job make sure that your reasons for wanting to buy are valid and not just a way to get out of your current position.

Buying a business can be time-consuming and stressful. Just finding a quality business for sale can be difficult. Once you find what you consider to be a quality business for sale, the process of evaluating that business begins. Each step in the process is important to achieving ownership. The goal of this Buying Basics series is to introduce buyers to key elements in the buying process.

In the funeral industry, sellers typically do not want their competitors to know they are selling. The confidential nature of these transactions makes it difficult to find out which funeral homes are for sale. Personal networking is probably the best way a buyer can find out who might be considering a sale. Depending on the relationship you have with your current employer, your personal network should begin with people you can trust. This network will probably include a select group of your peers, existing funeral home owners and industry sales representatives. Mailing out a form letter to all the funeral homes in your desired area is one way of finding prospects. Contacting funeral home brokers and consultants and searching classified ads in trade publications and industry websites are also ways to locate a prospective seller. Beating the bushes for a prospective seller takes time. There's no easy way to do it. Sometimes buyers get lucky and find a quality business quickly. Most of the time, buyers will need to look at several prospective sellers before a reasonable deal can be negotiated.

Paramount in your search for a business for sale is to be on the lookout for several common seller situations. The first and most common situation is when the business is for sale, but not at a price anyone can afford. The common statement that everything is for sale at the right price applies to situations like this when the seller isn't really for sale but is merely "fishing" around for a buyer willing to pay a high price. This happens because some owners don't really understand what a buyer is up against in formulating an asking price. They likely have not done any planning with

their accountant or tax advisor. And they don't really know what price range to expect from a sale. It's important as a buyer to treat this situation with care. Show the seller what your up against if you were to pay the price they are asking. Prove to the seller that paying their asking price will not work on paper and could lead to a failure of the business. But, do this with a very soft touch. Remember, once the seller comes around to realizing their true price range, you want to bet he first buyer that comes to mind. So leave a positive impression when handling this situation as a buyer.

The second common seller situation is when a business is for sale, but the business is not viable long term. Most businesses are for sale for a reason. Finding out why a business is for sale is one of the most important questions you will need to answer. The most likely reason a business may be for sale is that the current owner wants to retire and transition the business to a well-qualified buyer. A less desirable reason a business may be for sale is that the market has changed and business volume isn't what is used to be. Maybe there's a new discount provider taking market share. Maybe there's been a change in a competitor that's allowing them to take more of the market. Don't assume that lost volume will come back. Find out why it happened and be realistic about the future prospects of the seller's business. Also be wary of anyone saying "if you make a few changes the business will come back." My experience has been that a seller who has operated his or her firm successfully for 25 plus years knows the market and knows what works and what doesn't. So be careful about assumptions being used in future business projections.

A third common seller situation is when a business is for sale, but the business doesn't fit your needs. It sounds great if the business is for sale for a positive reason and has been doing consistent sales revenue. It doesn't mean the business is a fit for you. The funeral business is personal and most owners enjoy a close relationship with their customers. These relationships are critical to the long-term success of the funeral home. Transitioning these relationships to a new owner doesn't always go off without a hitch. When there are competitors in the market, new owners often see a downswing in business revenue of 10 percent or more during their first year. If these customer relationships are not transitioned effectively, the new owner may see even greater downswings in revenue. Closely evaluate the non-financial aspects of the business opportunity, customers and community.

The Process *of Buying a Funeral Home*

Buying a funeral home business is a two-part process. On the one hand, you are looking for a business you can afford to buy and grow over time. On the other hand, you are selling yourself

to the business owner and lender. Your personality, ability to operate a business, credit worthiness and capacity as a borrower are all being evaluated.

Preparation

Align yourself with expert resources. A buyer is always in a stronger position with solid legal, financial and tax advice. Buyers who go it alone often pay the price in terms of poorly designed legal agreements with inadequate seller reps and warranties, poorly designed transaction structures with heavy tax consequences and overly burdensome financing with unfavorable terms.

Search for a Seller and a Lender

Good funeral home businesses for sale are not easy to find. Most sellers do not advertise they are for sale. They prefer to go through a sale transaction confidentially without the staff or community knowing the business is being sold. Sellers also know most prospective buyers may not be prepared financially to get a loan. Some sellers may be skeptical and require a buyer to demonstrate his or her financial ability to make the purchase.

Developing a personal network is one of the best ways to find owners that may be considering a sale. Remember the importance of confidentiality and be discrete in your communications. Most sales representatives call on several funeral homes and are often a great source of potential leads. Be careful about discussing your lead follow-up openly because the funeral industry tends to be a small community and you don't want to derail your own opportunity. Remember when a salesperson is telling you about a potential lead, chances are someone else also knows about it.

When evaluating a funeral home that's for sale, don't be afraid to ask why the seller is considering a sale. Make sure its priced at a level that will allow you to operate successfully. Make sure its customers and community are a good fit for you and your family. This fit will be the key to effectively transferring the current owner's customer relationships.

Develop a Strategy Before Negotiation

Before entering negotiations to buy a funeral home, do your homework. Make sure you can support what you are negotiating for. If you want to offer a million dollars for the business and real estate, make sure you can show the seller why that price is what a buyer can afford.

Make sure you can show how your financing will be structured and how much cash flow there will be available to service your debt. You need to be able to back up your offering price with valid supporting information.

Do Your Due Diligence

Your negotiations will conclude with a letter of intent to purchase the funeral home and real estate. The letter of intent is commonly called the LOI and it is your purchase offer based on the information you've received from the seller.

Unlike buying a house or car, buying a funeral home is a process of determining the true value of the business while uncovering any issues that may enhance or detract from future operations. The process of analyzing a funeral home prior to the purchase is referred to as "due diligence." The time period for performing these actions is referred to as the "due diligence period." The due diligence process begins when a buyer identifies a target funeral home to buy. The length of the due diligence period is determined by the complexity of the acquisition.

Reviewing the financial operations of the funeral home entails several areas. First, the buyer will examine the financial records to determine the company's historical cash flow. Next the buyer will analyze receivables to determine collectability. Payables and debt will be reviewed to determine the quality of vendor and lender relationships. Product pricing and service mix will be reviewed to determine consistency with industry norms and practices.

Reviewing the personnel will be done to determine who will stay, who will go and how much they will be paid. Most employees are often rehired at the same pay rate. Key employees almost always need to be rehired. Unnecessary employees are common in funeral home businesses. As the new owner with new acquisition debt, you need to stay as lean as possible without allowing customer service to suffer. You will also need to be on the lookout for any employees that are positive for the business. For example, your part time staff for funeral services could include several well respected retirees from the community.

Reviewing property and equipment should be done to see what needs replaced and how soon. Church trucks, embalming machines, stateroom furniture, carpet, chapel chairs, family cars. There's a lot of equipment in a funeral home and replacing it can be costly. Be realistic in your evaluation of the state of furniture, fixtures and equipment (FFE). Has the seller been "milking" the business for a while and not keeping items up-to-date? If items are in poor repair and need replaced its best to do it up front and include those items in your acquisition loan. You don't want to have to come out of pocket for these items during your first couple years in business. You need to build up cash reserves and pay down your debt with early payments if possible. You'll need to come to a reasonable value for the FFE because a portion of the purchase price will be allocated to it. This allocation determines how much you can depreciate – which is a tax advantage to you. Any equipment leases and rental agreements will also need to be reviewed for cost effectiveness.

Business operations are reviewed to assess the location, inventory, vendors, management, customer relations, insurance policies and any other industry specific items. The main point is to

question each item to see where improvements can be made. Is the funeral home location affecting business, is inventory adequate, are vendors providing quality goods at reasonable prices, has management run operations effectively, are customers satisfied with the services provided and are insurance policies adequately protecting the company from liabilities.

Marketing practices, advertising campaigns and public relations programs should be reviewed to determine their effectiveness. Does the funeral home have a marketing strategy? Is it effective? How do the competitors market their funeral homes? Can marketing be enhanced to increase business volume?

When commercial real estate is involved in a purchase, environmental due diligence refers to the site assessment performed to uncover any potential liabilities associated with the property. These assessments are called a Phase One and Phase Two Environmental Report. A Phase One is almost always ordered by the lender for commercial real estate transactions. A Phase Two is not normally required unless a potential liability issue is uncovered by the Phase One.

Formalize the Purchase Agreement

Once you've completed due diligence, it's time to formalize the purchase agreement. This agreement covers the price, terms and structure of the deal. Unlike the letter of intent, the purchase agreement is legally binding. It covers normal buyer and seller reps and warranties, non-compete language, seller note term and a lot of other details. Sometimes the initial draft purchase agreement is prepared by the buyer's attorney. Regardless of who prepares the initial draft, the final version needs to accurately and fairly represent the agreements being made by both sides. Be prepared for the agreement to be revised several times by both sides and be patient during this process.

The Closing

After months of anticipation, the closing concludes the transaction. The title agent, buyer, seller, and attorneys for both sides are normally present. All closing documents should be reviewed and approved prior to close. Your attorney should help you become familiar with all of the documents and obligations to complete the close successfully. Closing usually occurs at the office of an escrow or title company but can also be held at an attorney's office. All documents are executed, the title, deed, stock, etc. are exchanged, the mortgage is signed and funds are transferred. The bank transfers funds to the title company, then the title company releases funds in several directions. You searched for a funeral home for what seemed like forever. You negotiated terms with the seller for months. You started the loan process which seemed to take a long time. You've had to hurry up and wait for this day to get here. Now your signing the agreements and the funeral home is yours. But there's no band playing and no celebration. It's just another work day and the next call is yours!

Success Factors

When Buying a Funeral Home

Working with funeral directors can be very rewarding. Most are down to earth and genuine people. Most care for the families they serve like they are their own. They often treat the funeral profession like a calling to serve others. Having worked in funeral homes for five years and with funeral directors for over 20 years some characteristics of successful purchase transactions stand out. If you pay attention to these critical factors, you'll improve the probability of a successful purchase.

Fire in the Belly

You have a burning desire to own your own business. You are tired of working long hours to make other people money. You want to build your own retirement and something that you can pass on to your children. This entrepreneurial spirit is often called "fire in the belly." It's what drives many good business owners to achieve success. It's what gets them up in the morning and in the middle of the night for a first call!

You have the drive and you want to buy the best funeral home you can afford. You want strong purchasing power so you seek out a lower interest rate loan and a longer amortization. While these thoughts are driving you towards a purchase. Make sure you look past the seller's story. Ask yourself if they are putting their best foot forward. Pay attention to the little details in their financials to make sure they are not under-reporting expenses. Conversely, try to see where they may be spending too much.

Fully investigate the details of the business. Don't ignore pertinent facts because the fire in your belly is burning to hot. If you buy, you will live with this funeral home for a long time. Take the time to buy a quality funeral home. It's like the old saying goes: "If you buy quality, you only cry once."

The market for funeral home loans can sometimes be thin. Banks that don't specialize in funeral home loans may not understand the nuances of the industry. Brokers and consultants often market themselves as funeral home financing specialists in hopes of getting a referral fee for referring your loan to a real bank. Make sure you are talking directly to the bank. If someone wants to shop your loan to multiple banks for you be very careful. Do not sign any type of written agreement that binds you to paying a broker fee for someone to shop your loan to banks. Banks pay referral fees and if a broker is charging you a fee they may be trying to get paid by you and the bank. It's sneaky but it happens all the time. Funeral directors want to take care of families

and that is their priority. Make sure you are dealing directly with a bank loan officer and you will cut out the middle man.

for you be very careful dvantage of your inexperience and burden you with above-market rates or terms. In either case, this is a time to have someone sophisticated in lending practices on your side.

Financially, a funeral home is an asset that can generate a stream of earnings and cash. The earnings that the funeral home produces determine the size of your loan and to a great extent the price of the business you will buy.

Manage Your Attorney's Involvement

Your attorney has an important role in advising and preparing the legal structure of the business purchase and sale transaction. But problems arise if the attorneys see themselves as business negotiators whose goal is to get the “best deal” for their clients. They may forget that the “best deal” is one that both the buyer and the seller can live with, a deal that will enable the business to survive and thrive after the transaction. In their enthusiasm they may not remember that deals are forged in compromise. Keep in mind, if a deal becomes too lopsided, it will likely result in no deal at all.

Closing the Deal is Hard

It should be easy, but it's not. After all, the hard work is done — valuations, investigations, and negotiations are complete. Now it's just a matter of getting it all written down in a form that everyone can live with. Closing is the shortest part of the process. But someone will get cold feet when it's time close. Be ready! Anticipate and be prepared with your attorney and consultant to work through the issues in a logical and reasonable way.

Resist the Urge to Change the Business Right Away

This company has been working successfully, or you wouldn't have purchased it. Get to know the company and how it works before you start making changes.



Are You Ready *to Own A Funeral Home?*

It will also help you prepare for questions from a seller or lender if you decide to go forward. Many funeral directors talk about owning their own funeral home, but what traits are shared by those that become funeral home owners?

First, they realize they have the aptitude, dedication and desire to be an owner. They're willing to sacrifice long hours and time away from family to achieve ownership. They're willing to be the last one each night responsible for anything left undone during the workday. They know that if they are making these types of sacrifices already, they may as well be doing it for their own retirement.

Second, they have an entrepreneurial nature. They focus on daily priorities, not the hours of nine-to-five. They have a deep feeling of obligation to serve each family and to protect the reputation of the business. Their personal interactions with families, employees and people in the community drive their daily activities.

Answering the following questions honestly will help you determine if you are cut out for ownership. It will also help you prepare for the questions of a seller or a lender should you decide to go forward.

Do I Have the Experience?

It takes more than being a licensed funeral director and embalmer to be a funeral home owner. Management experience is critical because owners are responsible for the entire business. Owners manage the flow of first calls, embalming, cremations, arrangements, visitations, funerals, clergy, inventory, supplies, staffing, filings and the other administrative paperwork. Owners also manage relationships with the community, employees, suppliers and clergy. Owners track cash flow while keeping expenses low and successfully collecting receivables. Having solid management experience is often the first requirement for achieving ownership.

Am I Entrepreneurial?

Funeral directors are an entrepreneurial group. They focus on daily priorities. They will put administrative duties on hold in order to respond to a death call or a family in need. Funeral directors learn quickly that it is not just another job; they learn that their work requires a high level of personal interaction. These personal interactions drive everything they do and they quickly feel an obligation to serve families in their community.

Do I Have the Credit and Financial Resources?

Funeral home purchases are financed with debt. Lenders will look at the funeral home you buy and its ability to service the debt you borrow. They will also see if you have a consistent history of making payments on time: credit cards, utilities, house payments. They will want to see that you have money saved for a down payment.

Not all funeral directors with an entrepreneurial dream are cut out for business ownership. Those who are destined for the path of ownership have a detectable enthusiasm, a sparkle. They are not going to dwell on challenges and problems, their focus is on solutions. They can be quiet but confident, they have a firm determination.

At this point you may have realized you're not ready yet. If this is the case, and you still think ownership is in your future, continue to prepare yourself and invest in getting the right experience.

Or perhaps you are ready to move forward now. If so, take the next step of looking for an intermediary to work with and begin the process.

If so, take the next step of looking for a funeral home for sale and finding a trusted advisor to help you through the process.





Selling a Funeral Home

You've been running your funeral home business for a long time. Perhaps you've thought about selling the business. Thought about retiring and moving to another phase of your life. Whatever the reason, it's a big decision and an event you need to navigate with knowledge and confidence..

Whatever the reason, it's a big decision and an event to navigate knowledgeably and confidently.

The question is not whether you can sell your funeral home business. There will always be buyers for a well-run funeral home. The question is how will you handle the sale and the selling process. And, will you achieve the result you desire. Will you get the best price and terms for the asset you've worked hard to create?

Are You Considering a Sale?

A lead time of at least two years is needed to properly plan for a sale. You need to review your spending habits and prepare for the tax consequences of the sale. Remember, higher profitability normally translates into a higher business value.

If adjustments to revenues or expenses are necessary to increase profitability, it will take some time for those adjustments to be realized on your financial statements and tax returns. Potential buyers need to see proof of your historical profitability via your financials and tax returns. Buyers and their lenders will use this historical data to determine the amount debt service the buyer can afford in the future. Thus, more profitability results in more cash flow available to pay debt service, which results in a higher sales price for you.

Estimating the value of your funeral home can be difficult because values can vary greatly from one business to the next – even in the same industry. Every business is operated and managed differently, and that can affect the value.

Review Market Conditions

If you are considering the sale of your funeral home, you need to know what's happening in the market. You need to know who is buying; which buyers will be interested in buying your business; how desirable your business is; what prices buyers can afford to pay, what financing options are available to buyers, and if any seller financing will be required of you. Knowing the current market and addressing these factors will help determine the right selling strategy for you.

Large corporations rarely buy small- and medium-size funeral homes. Normally they are looking for 250-plus calls per year or more. After the feeding frenzy of the 1990s, corporations learned the importance of an owner's personal touch and the importance of not overpaying for acquisitions.

This means the days of a corporation offering an owner three times revenue are gone and not coming back. Right now, individuals and small regional firms are offering the best prices to sellers in the market.

Most individuals are looking to buy a funeral home doing 75 to 150 calls per year. (A more experienced individual may go for a larger volume.) Small regional firms are looking to buy funeral homes doing 100 plus calls per year if they are within a reasonable distance from their other firms.

What kind of prices are individuals and small regional firms are offering? Current selling prices range from four to six times adjusted cash flow or up to 2.25 times net revenue. The final price is not dependent or correlated with net revenue, but is sometimes expressed that way. The final price is directly correlated with the adjusted cash flow because that is what shows lenders how much debt service the business can afford. In simple terms, the adjusted cash flow is the amount of money the new owner will have available to pay debt service after the sale. This is where competitive financing comes into play because lower interest rates translate into the ability to finance more debt.

Sellers in today's market will often seek the advice of an expert, and they are often told their business is worth more than it really is. Be cautious of anyone telling you they can sell your business for over 2.25 times revenue, anyone trying to sell you an expensive business appraisal, anyone trying to sell you an outside management contract, anyone trying to sell you accounting services without the direct services of a Certified Public Accountant or anyone trying to get you to sign an exclusive listing agreement.

No 'Secret Formula' For Selling a Funeral Home

There is no "secret formula" that will allow you to glide through a funeral home sale with little or no effort. From start to finish, the process of selling a business is detailed and time-consuming. But there are several things you can do to help navigate your way through the process.

Be Prepared to Answer a lot of Questions

Why are you selling? Are you ready to retire? Assuming you are ready to retire, are you ready to let go of the income, control and relationships you have worked hard to maintain? How will your employees handle the transition? Will a new owner keep your employees? Will the new owner be a good fit with your customers? Will the new owner maintain your reputation in the

community? What is the accurate value of your business? Who should you get to value your business? Can you get enough from the sale to meet your needs? Who can you trust to negotiate with potential buyers? How many potential buyers will have to visit your business for you to find the right one? How much is selling your business going to cost you? How long will the selling process take? Have you prepared for the sale? Are your records maintained and organized properly? Can confidentiality be maintained during the process? These are the common questions.

Be Ready to Prepare Your Records

The “Due Diligence” checklist of a buyer can be very long and detailed. As a seller, you will be required to provide the buyer with full access to your records, financials and tax returns.

During the buyer’s review, the buyer will want to review your revenues and expenses by examining the supporting documents for the numbers listed on your financials and tax returns. You will need to provide copies of documents such as tax returns, financials, receivables, liabilities, signed contracts with customers, suppliers, employees, inventory listings, asset listings, tax bills, appraisals, surveys, operating licenses, insurance policies, benefit plans, advertising programs, price lists, payment policies, and vehicle titles just to name a few.

Find Out How Much Debt Your Business Can Pay For

Have your CPA prepare an analysis of your cash flow to determine how much cash is available to pay debt service on an annual basis. Once you know how much cash is available to pay debt service you can then estimate how much debt the buyer will be able to service. Most lenders calculate a minimum debt coverage ratio. This ratio is basically the cushion required by the lender for a given transaction. For example, your CPA says your business annually produces approximately \$125,000 of cash flow that would be available to service debt. Now let us say the buyer’s lender requires a minimum debt coverage ratio of 1.25. In this example, the buyer’s lender would only finance debt with annual payments up to \$100,000. Any debt payments above this level would not meet the lenders minimum debt coverage requirement.

Find Out How Much Your Business is Worth

Since valuing your business too high or too low can be a costly mistake, using a rule of thumb or multiple to guess at your business value is not a good plan. Many business owners decide to have a formal business appraisal or “valuation” done to help determine their asking price. But what happens if the appraisal is not accurate? This often happens and the business owner is stuck with an expensive appraisal that cannot be used.

Business owners, beware. There are a lot of companies out there selling expensive business appraisals that may not produce an accurate estimate of value. In addition, most lenders that require a business appraisal will not accept appraisals or valuations ordered by another party – the lender has to engage the appraisal or valuation company.

A safer bet than ordering an expensive appraisal is to estimate the amount of debt the buyer can afford to pay for. Using the cash flow available for debt service along with a reasonable term, interest rate and down payment, you should be able to reasonably estimate the amount of debt the buyer can afford. This debt amount plus a reasonable down payment should be close to the estimated value of your business.



Deciding to Sell

Your Funeral Home

Selling is one of the biggest decisions that you will ever make for your business. A lot is at stake. You've worked for years to build your business. Selling is a way to reap the harvest of all your hard work.

Yet all too often, owners of private companies enter the selling process without proper preparation. They're not ready for the complexity of the logistical and emotional issues they will face.

Which is why asking "Should I sell?" is perhaps the wrong question. It frames the situation incorrectly because it ignores a key factor: You will sell your business at some point.

It might not be this year; it might not be for a long time. But at some point most funeral home owners sell their business, whether it is to family, employees or an outside buyer.

Thus, it's not a question of if you want to sell, but "How can I control the process?" and "When is the best time to sell?" Whether you think you are close to selling or not, the decision to sell your business should be reviewed periodically.

Control the Timing

Selling a business is like being a farmer. You prepare for the moment of harvest, but you don't control the timing. You wait until the moment is right — the crop is ready, the weather is good, the crew assembled — and you seize the moment.

Conditions in the overall economy, in the funeral home industry, and growth trends in your company are largely out of your control. Yet these factors are vital to a successful sale. Although you can't control them, you can prepare and then watch the external trends. When conditions are on the upswing, you'll be ready to seize the opportunity.

Turning to the general economy first, it's not surprising that the best time to consider selling a business is when the economy is doing well, during a period of sustained growth, low unemployment, a positive trade balance and a rising stock market. General economic growth and a robust market for business acquisitions generally track each other.

These market perceptions also apply to specific industries. When an industry shows steady growth and the prospects are for this trend to continue, all companies in the industry benefit.

The most vital factor affecting the timing of a sale is the trend for your company.

A company that is profitable, growing and that can show prospects for future growth will be more attractive to a buyer than one that is on a downward slide or that is in trouble.

Conditions in the overall economy, in the funeral home industry, and growth trends in your company are largely out of your control. Yet these factors are vital to a successful sale. Although you can't control them, you can prepare and then watch the external trends. When conditions are on the upswing, you'll be ready to seize the opportunity.

If you can show that your business is healthy and that it has potential for future growth opportunities, you are selling a positive future and can command a good price. A steady pattern of growth and profits is likely to convince a buyer that these trends will continue. Considering the value of your business well before you intend to sell gives you plenty of time to fix problems so that when it is time to sell you can present a healthy company and good prospects for the future.



The Process

of Selling a Funeral Home

Selling your funeral home is like any other sale: You must understand your product, find buyers who are interested and qualified to buy, show the product to buyers in the best possible light, and pursue sales opportunities actively and diligently.

There are no shortcuts. Preparation, diligence and attention to the needs of the buyer are the criteria to succeed at selling a funeral home business.

Some owners take a more casual approach. Serious buyers quickly see that they are unprepared and uncommitted, and these buyers move on to better opportunities. If you aren't ready to sell, if you can't commit to the time and energy required, then it is best to wait.

Once you are ready, the steps in the process are straightforward. Establish your goals, prepare the business, find qualified buyers, and actively promote the quality and value of your business to these buyers.

Preparing for the Sale

Selling a funeral home can be the single most important event of a funeral director's career. Regardless of what is prompting the sale, it should be handled correctly as it will have far-reaching financial and emotional consequences.

In the best scenario, the business owner begins preparing for the sale several years in advance. The owner should start by working with his or her accountant to create clear-cut financial statements that illustrate the company's revenues, expenses and growth potential.

Owners typically try to minimize taxes during their careers. When it's time to sell, owners need to "lean-up" their operations to ensure they can show the best possible cash flow to prospective buyers. Their records should clearly document all transactions so that potential buyers can easily evaluate the company. This will also give the new owner the ability to take over with minimal training.

The following are additional recommendations for making your funeral home more attractive to potential buyers:

Eliminate any potentially difficult situations when possible. The new owner will not want to face customers expecting special treatment or, worse yet, be the one that cancels a long-standing verbal agreement with the company's oldest customer.

Examine all supplier and customer contracts. Make sure terms and conditions will not expire or require re-negotiation just as a new owner steps in. Terminate contracts that might be trouble for a potential buyer, or that drain the company financially and serve little purpose.

Start recording company policies and procedures that exist as unwritten rules. If necessary, create a procedure manual that documents exactly how to best run the business, and be sure to include your unspoken, undocumented techniques. Your payroll service may be able to prepare a comprehensive procedure manual for you at very little cost to you.

Review real estate leases, especially if your business is tied to its location. Make sure the lease does not expire or require re-negotiation at the same time you plan to sell the company. If the company's location will discourage buyers, consider moving the location before you place the business up for sale.

Analyze equipment leases and other material contracts from the buyer's perspective. Evaluate and catalog your company assets, from property to inventory to employees. If you delayed investing in computer upgrades to help with operations, now may be the time to modernize.

Address any employee issues. The loss of key employees during a sale can kill a transaction. Key employees may be crucial to the new owner's success, so it's important to determine which employees are prepared to stay with the company during and after the transition. It is also important that employees don't hear about the pending sale of the company from a third party.

Once you begin the process with a potential buyer, be sure to make a complete disclosure of all aspects of your business. Open up your books for inspection. Show all of your leases and other relevant contracts. Let the buyer see everything, good and bad. Business sales most often go awry if the buyer feels the seller is failing to disclose an important aspect of the operation – an act that may constitute fraud. By making a full disclosure, you ensure that no one can accuse you of anything down the road.

Discuss tax consequences of the pending sale with your accountant as soon as you can. After you sell your business, the amount of tax you owe will depend on the internal structure of your company and how you structure the sale. If you plan wisely, you can minimize your tax liability. (Your tax advisor or accountant will determine what's best for your company.)

Establish Your Goals

You might be surprised to hear that it's necessary to establish your selling goals. The overall goal is to sell but there are smaller goals that you'll need to meet to get there. A short list of your goals will help you form your selling strategy and help you make better decisions during the selling process

Some selling questions to consider include:

What are your main reasons for considering a sale? What do you want personally from a sale? What do you want for your company?

What characteristics are you looking for in a buyer?

How quickly do you want to transition away from the company? How long are you willing to consult or be available after the sale?

What deal structure will enable you to achieve your financial goals? Are you willing to accept terms in exchange for a higher price? Are you willing to finance part of the sale?

Do you feel any financial or other obligations to your management team? Employees?

How important is confidentiality to you? How vital is it that your employees and customers not know that you are for sale?

Different funeral home owners have different priorities.

Some want to maximize the price they get for their business, regardless of who the buyer is. Other funeral home owners place a high importance on finding the “right buyer” and will make concessions in price and terms for the buyer they believe is the best fit to continue to run their business.

The reality is that most sellers believe that multiple priorities are important: price, the buyer, the local community. By identifying and prioritizing your goals, you’ll have a better sense of what’s important to you and be able to approach your selling with a clearer strategy.

Once goals are set, you can create a strategy to achieve them. A haphazard approach rarely produces a successful transaction. A well-conceived plan will show you the type of buyer you should approach, the type of deal you’ll want to structure and the schedule for moving forward.

Set up a timetable at the beginning and track your progress against the schedule. Six months is a rule of thumb to sell a funeral home, though it can take as long as a year.

Prepare Presentation Materials

Buyers may be looking at several funeral home opportunities. They want to talk to serious sellers. They don’t want to waste time with a seller that has a pie in the sky number in mind and is only toying with the idea of selling if the price is right. To be taken seriously as a seller, you will need a complete and understandable history of the business and an accurate description of the assets. A good advisor can help you with these items before you approach a buyer. These items will help highlight the best aspects of your business.

Identify Prospective Buyers

You may have some prospective buyers already in mind. Perhaps an employee or a nearby funeral home owner would like to expand. More than likely, you will need to cast a wider net and look for buyers more broadly.

Although corporate funeral home businesses made many purchases in the 1990s, those days are over. They overpaid and found that the operational efficiencies they hoped to gain were not possible.

Who is buying today? Mainly individuals who are looking for funeral homes that are doing 75 to 100 calls per year.

It's impossible for you to avoid looking like you want it too badly if you approach a potential buyer directly. It's always better to have a third party, preferably a skilled professional, approach the buyer for you. This lets you discover the buyer's interest in a purchase, it maintains your confidentiality until you know there is interest, and finally, it lets you continue to run your business while the third party makes the time-consuming efforts to approach potential buyers.

Selling

Once you have a potential buyer, the best action you can take is to get them excited about your business. The facts of the acquisition can only say so much. It's your ability to personally influence the buyer that will increase the probability of a successful sale.

- Learn about the buyer and the buyer's criteria for purchase.
- Structure your meeting with the buyer so that you cover all topics that the buyer needs to become confident about your offer.
- Answer the buyer's questions openly and honestly. The buyer doesn't expect everything to be perfect, but the buyer will want to know the full story in order to make an informed decision.

If you can help the buyer become excited and can answer all questions about your business, you are on the way to receiving an offer. From that point, the process is straightforward: work with your intermediary to negotiate terms of sale, respond to all due diligence requests, and complete a contract.

Common *Selling Myths*

Education is often our first line of defense against many things in life and it's no different when selling a business. Appraisers, brokers and consultants will use a variety of methods to entice sellers into paying for expensive business valuations, signing exclusive listing agreements or expert consulting agreements. You may even be told that all fees are "buyer paid" so there will be no cost to you.

Everyone in business needs to make money, but normal profits should not be excessive nor have an adverse effect on the selling price.

Selling a funeral home can be difficult and time-consuming. It's important to be aware of these common selling myths. It may save you time, money and frustration and give you a better understanding of the selling process.

Myth 1: You Need a Formal Business Appraisal

Business appraisals or "valuations" are used to establish the current market value of a business. Valuations are commonly used for selling, buying, refinancing, estate planning, developing buy-sell agreements and settling divorces. When selling, a valuation is used to determine the asking price. The problem is, most buyers need a loan to make the purchase and lenders typically order their own valuations. Lenders do this because they need to ensure valuations are done by independent third parties with no interest in the transaction. So the lesson is, don't waste your money on a valuation lenders can't use. If you do decide to get a valuation, make sure you use a national based valuation company and check with the buyer's lender to confirm the valuation can be used. Also, be sure not to overpay for a valuation. Lenders typically pay between \$1,500 and \$2,500 for basic business valuations.

Myth 2: You Need to Sign an Exclusive Leasing Agreement

Exclusive listing agreements are designed to lock in the seller and give the broker time to find a qualified buyer. Exclusive listing agreements are typically 12 to 24 months in length and come with a standard industry commission between 5% and 10% of the sale price. Often, the commission continues to apply to any buyer referred by the broker or any buyer finding out about the sale through the efforts of the broker. The listing period is "Exclusive" and normally means you pay the commission if you sell during the listing period - even if you find the buyer. The commission may also apply if you withdraw from a sale, fail to complete a sale or terminate the

listing agreement prior to the end of the listing period. The reality is that you may already know the best buyer for your business and even if you don't, it shouldn't take a broker very long to find a qualified buyer you approve of.

Myth 3: Your Broker's Fees are Paid by the Seller

Standard industry commissions are typically paid by the seller. But some brokers advertise their commissions are paid by the buyer and there is no cost to the seller. Be wary of this "buyer paid" approach because total transaction costs affect the selling price.

While it may be true the commission is assessed and paid by the buyer, the true cost of that commission will affect the selling price. A buyer can only borrow so much money to buy your business, regardless of whether that money goes to you or to a broker's commission. The lesson here is to be weary of the "buyer paid" approach and focus more on total commissions paid.

Myth 4: You Need to Sign an Expert Consulting Agreement to Improve Your Operations Before Selling

Expert consulting agreements are designed to lock in the seller, generate fee income, and allow the consultant to handle the sell when sold. The reality is that "improving operations" mostly involves maximizing cash flows, which is something your own CPA can do easily. An expert consultant with good industry experience may have suggestions to improve your pricing and personnel, but unless these changes are significant, they won't increase your selling price.

Myth 5: You Need to Sign an Expert Consulting Agreement to Operate Your Business Before Selling

If you've been married to your business for 30 years you may want to relax for a few years before selling. The thought of relaxing and having someone else operate your business for a few years prior to selling is nice. But the reality of ownership is that while you still own your business, you're still responsible for its performance. And, you'll still go to sleep at night with the same level of stress and worry because of this responsibility. No consulting agreement to operate your business can change this stress level. Successful owners are heavily involved in day-to-day operations providing guidance and support to staff and customers. The lesson here is simple. As a successful owner, you've spent years developing relationships and trust with staff and customers. No outside consultant can duplicate these relationships and trust, or alleviate the stress and worry of ownership.

Myth 6: You Don't Need to be Concerned With Financing

Since few buyers can write a check for the purchase price, financing is critical to most sale transactions in today's market. As a seller, you want to make sure the buyer is getting competitive financing to ensure you get the best selling price. The following example will illustrate this point.

Let's assume you are selling your business to a buyer for \$1.5 million and your building and real estate are worth an estimated \$1 million. Due to the increase in real estate values over the past 10 years, this example is common in today's market. Actual rates and terms will vary depending on a buyer's credit history, experience and overall transaction risk.

A competitive loan would allow for a longer amortization period (25 years) and a lower interest rate (7.0%) on the real estate portion of the loan. While the business portion of the loan would result in a shorter amortization period (10 years) and a higher interest rate (9.0%). This competitive loan would result in annual payments on the real estate (\$84,814) and business (\$76,005) of roughly \$160,819.

Contrast this with a non-competitive loan for the business and real estate of \$1.5 million amortized over 15 years at 11.75%. This non-competitive loan would result in annual payments of roughly \$213,144. The higher annual payments associated with the non-competitive loan would directly affect the buyer's cash flow available for debt service by \$52,325.

Depending on the cash flow multiple, the higher payments associated with the non-competitive loan (\$52,325) could result in a decrease in purchase price of \$175,000 to \$275,000. This example clearly illustrates the importance of competitive buyer financing and how non-competitive financing can significantly reduce the selling price.

These selling myths are not meant to be all-inclusive. Selling is difficult and the appropriate use of consultants, brokers or experts can help you get the results you need. These experts and consultants should be paid for their services, but their profits should not be excessive nor have an adverse effect on selling price.

Educate Yourself

It's important to educate yourself on the selling process and to know what's in the marketplace. Total transaction costs can and do affect selling prices. And, keeping these transaction costs at a normal level will allow you to maximize your sales price.

Avoid Roadblocks *to Selling a Funeral Home*

In any complex situation where money, livelihoods, egos and timing pressures exist, lots of things can go wrong. Fortunately, the list of roadblocks in the sale of a business are predictable. The experienced professionals at BSF list 10 that are likely to crop up and that by preparing for them, you can avoid.

A Seller Who is Not Ready to Sell

Selling your funeral home is a big decision. Make sure you have thought it through before entering the selling process. Once you start, the process will take on a life of its own.

Poor Packaging of the Business

You are selling a financial asset. Does it look like one? Will a potential buyer see the earnings that your funeral home generates? Make sure the income and assets are easily recognized and verifiable. Your CPA and commercial attorney can work with you to organize your accounting and legal structure to maximize the valuation of your company.

Wasting Time With Unqualified Prospects

Many potential buyers are not mentally ready or financially prepared to buy and finance a funeral home. Learn how to quickly qualify potential buyers so that you only spend time with those who are serious. A good intermediary can help you sort the wheat from the chaff.

Letting the Business Slide While You are Focused on the Selling Process

Your business must continue to generate earnings to support its valuation. Don't lose sight of the business while you are negotiating with buyers.

Poor Management of the Sales Process

You get an offer, the start negotiating the price and terms. That's when the hard work starts. The due diligence process takes time and requires you to constantly walk a tightrope between honestly providing the requested information and painting a picture of your business in the best possible light.

Too Much Focus on Price

A big part of selling is about getting the best price. But not so big that it becomes a lopsided deal. Leave room for growth for the buyer. Sell the business at a price where the new owner can service the debt.

Manage Your Attorneys!

Your commercial law attorney has an important role in advising and preparing the legal structure of the business purchase and sale transaction. But problems arise if the attorneys see themselves as business negotiators whose goal is to get the “best deal” for their clients. They may forget that the “best deal” is one that both the buyer and the seller can live with, a deal that will enable the business to survive and thrive after the transaction. In their enthusiasm they may not remember that deals are forged in compromise. Keep in mind, if a deal becomes too lopsided, it will like result in no deal at all.

Time is a deal killer. Circumstances can change with you or the buyer, lenders can change their mind, the economy can shift. Make your preparations to sell the business. When you have a serious buyer, move quickly and bring the deal to a close.

Someone Will Always Get Cold Feet at the End

It should be easy, but it's not. After all, the hard work is done—valuations, investigations, and negotiations are complete. Now it's just a matter of getting it all written down in a form that everyone can live with. Closing is the shortest part of the process. But someone will get cold feet when it's time close. Be ready! Anticipate and be prepared with your attorney and consultant to work through the issues in a logical and reasonable way.





Financing a Funeral Home

Sources of Funeral Home Financing

Funeral home lending is a specialty market. Fewer banks cover the funeral home industry than other small-business markets. This has been true for the funeral industry for many years.

In response to the limited financing available to the funeral industry, some very ambitious lenders have attempted to enter the market. These lenders offer aggressive terms that put stress on the cash flow of the business. Over time, the business owner has difficulty paying down the debt. Lenders that charge aggressive interest rates and fees know this. Their main goal is to charge heavy closing fees and collect as much interest as possible until you can refinance your debt with a traditional or direct lender.

The right loan can be the difference between success and failure in the funeral home business. The following will examine some of the borrowing options available to funeral home buyers and owners.

Seller-Based Financing

Funeral home financing has traditionally been done via a seller-held note for the business and a local lender holding a note for the real estate. This structure can be good for the buyer but often requires the seller to hold a very large portion of the overall debt. Holding this debt means the seller still carries a lot of the risk of the success of the business. Consequently, the seller must continue to supervise the business until the seller note is paid off.

Direct Lenders

Baby boomers are starting to retire and generally they want to cash out of their business without having to hold 40% to 60% of the borrower's debt load. Specialty lenders have come to the table and offer financing that allows the seller to cash out and hold very little transaction debt.

This structure puts a large portion of the risk on the specialty lender. In turn, they demand higher fees and interest rates for taking on that risk.

Direct lenders include specialty lenders, traditional banks and non-bank lenders. Direct lenders originate and underwrite their own loans and either hold their loans in-house or sell off part of their loans to investors or other banks.

Direct lenders are the safest route to go when seeking financing for a funeral home acquisition or refinance. Direct lenders do not normally charge up-front fees for reviewing a transaction. Direct lenders do not require you to sign a financing agreement with them to pursue a loan.

Direct lenders may charge an application fee for submitting your loan for approval and they may ask you for a good-faith deposit once the loan is approved to cover any out of pocket expenses for third party reports such as a business appraisal, commercial real estate appraisal and an environmental inspection of the commercial property. Typically, the monies you pay into a direct lender during the approval process will go directly toward your down payment when the loan closes. Please verify this fact when dealing with any lender.

Dealing directly with the bank will save you time and money, but dealing with banks can be difficult if you don't know the lending process and the information a bank needs to make a credit decision.

Banks need to prove that your business can service the debt you are requesting. To prove your debt service, the bank will need to see a current picture or snapshot of your business and personal income and expenses. This means the bank will need your historical federal tax returns and your current financial statements. They need to see a current picture of your existing business and personal debt.

The key word here is "current." Your tax returns and financials must be filed and current. If you are behind on filing your taxes, a bank will not have the information they need to make a credit decision.

Being prepared is key. It shows the bank that you have attention to detail and an understanding of the financial aspects of business. Your banker will be much more confident in your abilities if you are prepared financially.

Non-Direct Lenders

The limited availability of financing for the funeral industry has led to an increased number of non-direct lenders and intermediaries advertising on the internet. These non-direct lenders and intermediaries are not lenders and do not underwrite and fund their own loans. Their role is to originate loans that they then take to direct lenders for funding. Remember, if you need a loan and don't know where or how to look for a direct lender, an intermediary may be able to locate a direct lender for you.

Whenever you are seeking financing on the internet be aware of the difference between a direct lender and a lender that may only be acting as an intermediary. Make sure you ask the question, "Are you a direct lender?" Not knowing the difference could cost you a significant amount of money in loan fees.

Be wary of any lender or intermediary asking you for up-front fees to begin working on your loan. Be wary of any lender or intermediary asking you to sign a financing agreement prior to beginning work on your loan. Direct lenders will not ask you for up-front fees or a financing agreement to review your loan and they can quickly gather the required information to assess their interest level in pursuing your loan.

In this confusing market it's easy to see why borrowers want to be well-educated about obtaining a loan and often seek the services of a reputable intermediary.



Common Questions

About Funeral Home Financing

When financing a funeral home, prospective borrowers often ask several common questions:

- Where can I find a funeral home business loan?
- What interest rate can I expect?
- How long will my loan term be?
- How much will my loan cost me in fees?
- How do I start the loan process?
- What information will I need to provide the lender?
- How long does the financing process take?

Financing a funeral home business normally involves financing an acquisition, refinancing existing debt or financing the expansion of an existing business.

Finding a funeral home business loan normally starts out with a search on the Internet for funeral home financing. Trade publications are also a good source for active lenders to the funeral industry. These searches can turn up a variety of results. Banks, non-banks, brokers and consultants all advertise via websites and trade publications.

Banks want good business loans and will often pay referral fees to get them. If you are not dealing with a bank lender, chances are the person you are dealing with is referring your loan to a bank in the hopes of getting a referral fee.

The interest rate on a funeral home business loan is right in line with the interest rate on any other business loan. Currently in late 2016 you can expect an interest rate in the 5% to 6% range.

Interest Rate on a Funeral Home Business Loan

If your loan is not fully secured by hard assets, it will likely be an SBA-backed loan. This means the bank will lend you the money and purchase an SBA guarantee. This guarantee allows the bank to loan out an amount greater than the value of the hard assets being pledged as collateral. SBA-backed loans normally have flexible amortizations and competitive variable interest rates. Sometimes fixed rates can also be obtained.

Red Flags to Watch Out For

Commercial loans based on the hard asset value of the pledged collateral will also have competitive rates and terms.

Watch out for a bank or individual asking you for an up-front deposit to review your loan. This is not a normal practice and should be a red flag.

Also, watch out for loan terms that offer a 5-year fixed rate, a balloon payment after 10 years or a large prepayment penalty. The short-term fixed rate and balloon payment may cost you more closing costs later if you choose to refinance your loan to get a better rate. The prepayment penalty may cost you if you do choose to refinance to a loan with better terms. These are all things to consider when going through the loan process.

Loan Term Depends on Proceeds

The term of your funeral home business loan will generally depend on the use of proceeds. If you are buying all real estate, your loan term will likely be over 25 years. If you are not buying any real estate, your loan term will likely be over 10 years. If you are buying a mix of business and real estate your loan term will be somewhere between 15 and 25 years.

Fees Depend on Type of Loan

Fees on funeral home business loans depend on the type of loan. For an SBA-backed loan, the fees are minimal. A packaging fee of not more than \$2,500 is normal. The SBA guarantee fee paid by the lender and built into your loan amount is a little over 2% of the loan amount. Commercial loans will often have what's called an origination fee. This fee can vary depending on the lender and is normally 1% to 2% of the loan amount. The other fees involved are closing costs and include real estate appraisals, environmental inspections, business valuations, surveys, title searches, transfer taxes and closing attorney fees.

Application Process Relatively Easy

The process of applying for a funeral home business loan is relatively easy. You will need to submit the basic terms of the proposed deal. This can come in the form of a term sheet or signed letter of intent. You will need to submit the tax returns and current year financials of the business you are buying "target business."

If you own a business, you will need to submit the tax returns and current year financials of the business you own "existing business." You will need to submit your personal tax returns, a personal financial statement and a management resume or bio sheet on yourself. This will give the lender enough information to get your loan into underwriting.

Closing a Funeral Home Business Loan

Closing a funeral home business loan with real estate normally takes around 90 days and one without real estate about 60 days. The main reason for this difference is that real estate needs to be appraised and inspected. Appraisers often take four to six weeks once the reports are ordered. If it takes two weeks to get your loan approved and the appraiser takes 6 weeks, that's already 8 weeks into the process.

Buyer and seller attorney will need time to iron out the final purchase agreements as well. Nothing will happen as fast as you want, so expect the process to be a series of hurry up and wait. When documents are needed, you hurry up to submit them, then sit back and wait. It's just the nature of the process.



Securing *a Funeral Home Loan*

Banks are in the business of renting money by lending it to you at interest. Before they provide you a loan, they want to be confident that you'll be able to pay it back. They use multiple ways to determine their confidence, some financial and some non-financial.

Meeting the bank's financial requirements is not enough. The bank wants to see other signs that you are a good risk for their capital. Just keep asking yourself as you work with your consultant, put your package together and meet with bankers: "Will these actions increase the bank's confidence in me?"

A solid financial history, a reasonable purchase price, and projections that are doable are the beginning of the story. But just as important to your banker is a positive attitude and determination.

Good Character is Necessary

Your character is a necessary condition. Lenders look for a clean credit report and a consistent record of paying your bills on time. They also want to see if you have the education, experience and emotional resilience to run a business. A positive personal attitude and a constructive business plan is a surefire way to impress all financial lenders and investors.

Capacity to Produce Cash

Determine the capacity of the funeral home you are buying to produce cash. Lenders only use historical tax returns and financial statements to determine your ability to repay the loan and still have adequate funds to run your business.

Investing Your Own Capital

How much of your own capital are you willing to invest? Lenders will not lend you the entire purchase price of the funeral home. They expect you to provide some of the capital, typically a down payment of 20%. The down payment reduces the bank's risk and it shows the bank that you are confident enough in the business to invest your own capital.

Seller Lowers Bank's Risk

The seller is part of the equation. Lenders often want to see the seller provide some of the capital in the form of a loan to you. This is another way for the bank to lower its risk.

Their thinking is, if the seller is willing to finance some of the purchase, then the seller must be confident that the new owner will be able to run the business profitably.

Real Estate Provides the Collateral

Your purchase includes two components: the real estate and the business. The business provides the cash flow. The real estate provides the collateral. The bank looks at your cash flow to determine how much you can borrow. It secures the loan with the real estate that comes with the funeral home.

Term of the Loan

The mix of the value of the business and the real estate determine the term of the loan. If it was all real estate, the term could be as long as 25 years. If there was no real estate, the maximum business loans are about 10 years. If the mix of the value of the business and the real estate are 50:50 (which is typical), then the term of the loan will be around 16 years.

Principal

Decide how much you need to borrow. The amount you can borrow is directly linked to the amount of cash flow the business produces each year. Contact us and we'll walk you through how to calculate the amount you can borrow based on the cash flow of the company you are planning to buy.

Tell the Truth

Be truthful to your banker and your business consultant. You may have a flawed credit record. No one is perfect. Better to lay all your cards out on the table with your financial intermediary so that the two of you can figure out the right strategy for approaching the lender.

Packaging Your Proposal

Prepare the documents you need to support your proposal. Your loan officer or business consultant will know what you need to prepare and how to package it.

Shopping Your Loan

Prepare the documents you need to support your proposal. Your loan officer or business consultant will know what you need to prepare and how to package it.



Selecting *a Financing Intermediary*

Whether financing a funeral home purchase or refinancing current debt, borrowers are determined to finance with terms their business can support. Although many borrowers go it on their own to arrange financing, they soon encounter challenges they hadn't anticipated.

For banks, lending to funeral homes is a niche business. Many banks are unfamiliar with the funeral home industry. Non-bank lenders have arisen to fill this gap in the lending market, but not all of them are reliable. Some non-bank lenders have good business practices, some do not. Some have a clear fee structure; others are less forthcoming about what they will charge you.

Under these conditions, lenders tend to have the upper hand in the negotiation. Borrowers often find themselves conceding to high interest rates and onerous terms.

In this market it's valuable to have someone on your side. A competent intermediary will be familiar with lending to funeral homes, will steer you to reliable lenders and negotiate a package that your business can cover.

The right loan can be the difference between success and failure in the funeral home business. Once a funeral home owner came to us who had arranged his own financing in the past. He had owned his funeral home for about five years and had gotten his financing from a specialty financing company. The debt load was threatening to put him out of business. We were able to help this owner refinance and get a very good deal compared to what he had before.

What a Lending Intermediary Does

- Determines the size and term of loan you need based on the amount of cash flow your business has available to service debt.
- Evaluates your background, credit history, and available collateral. Works with you and your CPA to prepare your financial projections. Helps you assemble your loan documents.
- Finds and contacts potential lenders, introduces your package to them.
- Negotiates interest rate, length of loan and other terms.
- Works with all parties to prepare and close the loan.

How an Intermediary is Paid

The standard industry fee charged by an intermediary for brokering a loan is 1 percent of the loan amount paid at closing. This is a success-based fee and if your loan doesn't close then you should not owe anything to the intermediary. In some cases, the borrower pays the fee and in other cases the lender pays the intermediary in the form of a referral fee.

It's possible that the lender won't disclose to you that they are paying a referral fee. In this situation, the intermediary may try to charge a fee both to you and the lender. Beware this "double dipping."

Direct lenders don't like it and neither will you since it could put you in a short cash position after closing. Ask enough questions when you interview an intermediary to fully understand how the fees will be paid.

Reasons to Use an Intermediary

You may be questioning the need for an intermediary. "Can't I do this myself?" "Is it necessary to pay a percentage of the loan to a consultant or broker?"

Competent intermediaries will more than make up for the fee you pay by getting you a better loan with a lower interest rate and favorable terms. Reasons to use an intermediary include:

- **Experience** - Like you, competent intermediaries have invested years to become a specialist in their field. A professional intermediary brings an understanding of the lending process and the market for funeral home business loans. Your intermediary can help you package your application, work with you on the technical aspects of the loan, and resolve accounting, legal and tax issues.
- **Objectivity** - You have a big emotional stake in the success of your business. It's hard to separate issues from emotions when you are close to a situation. An intermediary can maintain this separation and stay focused on resolving the issues that arise in the course of applying for a loan.
- **Knowledge of lenders** - Just as you are an expert in the needs of your local funeral home customers, an intermediary that specializes in funeral industry financing knows who the best lenders are and how to package your application for the best possible results.
- **Skill at negotiations** - It's often difficult to negotiate a deal for yourself when you are not used to negotiating. Intermediaries negotiate deals regularly and know what types of responses to expect and how to read them. It is in the best interest of borrowers to have someone negotiating on their behalf that is experienced at negotiating the best terms

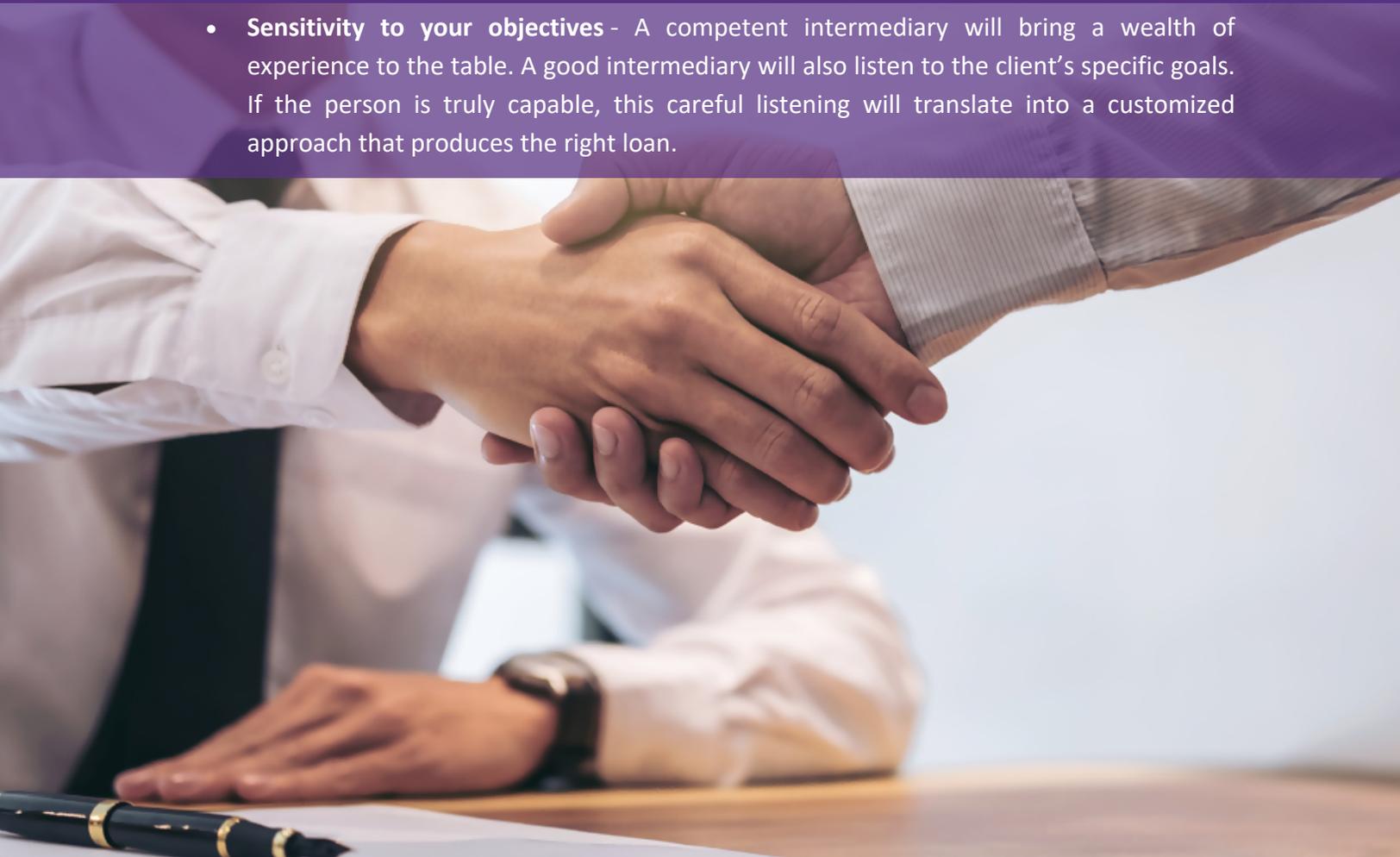
and rates. And because the intermediary can't legally commit for you, you will have more flexibility because the intermediary has to check with you before agreeing to anything.

What to Look for in an Intermediary

While a professional, experienced intermediary can add tremendous value to the loan transaction, an ill-informed, inexperienced advisor can do more harm than good.

Look for these qualities when seeking an intermediary:

- **Professionalism** - An intermediary's reputation can have a profound impact on your ability to qualify for the best loan. Be certain that your intermediary has the required education and experience. The intermediary also must have a solid reputation within the funeral industry.
- **Experience** - Your intermediary should have a track record of successful funeral home loan transactions.
- **Focused effort** - This transaction is important to you. You want an intermediary that also takes it seriously.
- **Senior level attention** - Avoid an intermediary who will hand off your work to a junior person on the staff. Find an intermediary who is anxious enough for your business to devote a senior person to the project.
- **Sensitivity to your objectives** - A competent intermediary will bring a wealth of experience to the table. A good intermediary will also listen to the client's specific goals. If the person is truly capable, this careful listening will translate into a customized approach that produces the right loan.



Who we are



Matt W. Manske has a long history of financing funeral homes and working with funeral directors. He worked for several top funeral homes in Kansas during college. While working and living on site in those funeral homes, Matt's duties included assisting with funerals, visitations, removals, deliveries, administrative tasks, cleaning and maintenance.

Matt founded BSF in 2005 to help educate funeral directors about buying, selling and financing funeral homes. Over the years, Matt has helped many funeral directors navigate their way through the transaction and financing process. His direct experience working in funeral homes and with funeral directors gives him an in-depth understanding of the day-to-day operation of a funeral home.

Matt:

- Knows how the transaction process works.
- Balances the interests of price, financing structure and debt service.
- Communicates clearly to create reasonable expectations.
- Develops trust between buyer and seller during the transaction process.
- Works with your CPA on tax planning and the types of entities to use.
- Works with your attorney on legal agreements.

Contact Us

Phone : 833-955-1242

Email : matt@4bsf.com

Web : www.4bsf.com

Linkedin : <https://www.linkedin.com/in/matt-manske-6a7a197/>