

# em&fbusinessfinance

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## All you need to know about funding the purchase of a leasehold business

### Introduction

Backed by over 20 years experience in arranging business loans, we offer an unparalleled service to clients seeking funding to acquire their business, right from the initial thought, to completion of the purchase.

Recognising that this may well be the first time you have purchased a business, this information pack is based on the questions and issues raised during countless discussions with people, just like you, who have gone on to successfully buy their own business.

Lending generally is difficult at the moment, however we are arranging funding for well thought out ventures where buyers are taking advantage of some of the opportunities currently available.

We hope you will choose to work with us, for friendly, straightforward advice and to achieve the best possible financial package to secure and drive your business forward.

**Roger Schooling**  
Senior Partner  
EM&F Business Finance

[www.emfinance.net](http://www.emfinance.net)

## Summary

As it is vital to get the initial financing of your business right, we recommend that you take some time to consider the contents of this information pack and talk through with us any questions you may have.

The following however highlights the main services and facilities we can offer:

- ✓ Free, friendly telephone support and expert advice whilst you are looking for a business, backed by over 20 years experience
- ✓ Free email/fax/letter detailing anticipated terms, interest rates, costs, repayments etc. for any business under consideration
- ✓ Full transparency of all costs, fees etc.
- ✓ Full preparation of business plan for loan purposes
- ✓ Full preparation of cash flow forecasts and financial projections
- ✓ Access to all major lending institutions
- ✓ Unsecured lending to 50% of purchase price (very conditional at present)
- ✓ 100% plus funding with additional security
- ✓ 5 -15 year repayment terms
- ✓ Competitive Interest rates
- ✓ Short term bridging funding available (buy before you sell)
- ✓ Re-mortgage existing residential property onto a buy to let basis
- ✓ Rapid agreement in principle
- ✓ Loan offer (conditional) usually with 5 working days
- ✓ Most facilities we arrange can be settled in part or full without penalty

## Overview

Lending to leasehold businesses differs from the freehold sector in that any lease with less than 35 years remaining on it at the end of the loan term, is not considered by the lenders to offer any security whatsoever. All you are generally buying with a lease is the goodwill, fixtures and fittings of the business, the value of which can easily disappear in a period of poor or distressed trading. Also in the event that you default on the rent, ownership usually reverts to the freeholder even if a loan is outstanding on it.

Assuming therefore that for loan purposes the lease itself is valueless we need to consider how we can raise funding against it. This is either considered on a secured basis, using a house or other freehold property as collateral security or the lender will be required to lend without security.

If a house or other freehold property is available as collateral security and if sufficient equity is held, then this can be offered to secure the loan, allowing you to borrow 100% of the purchase price and all associated purchase costs.

If no other security is available then, subject to a combination of your experience and the accounting information for the business, up to 50% of the purchase price may be borrowed. As the lease will not be recognised as security the loan that we apply for will be considered under the **Enterprise Finance Guarantee Scheme**. This is a government backed loan scheme which banks use to make up for the lack of security. As the Scheme guarantees 75% of the loan the pricing is higher than a conventional loan and a premium of 2% p/a is collected by the Government on the reducing capital amount outstanding over the term of the loan which will be restricted to 10 years.

In addition to the purchase price of the lease you will need to budget for purchase costs which may include a rent deposit and stock at valuation, as well as legal and finance arrangement fees. We usually suggest a budget of £15,000 – £20,000 to cover this, depending on the amount of advance rent required.

**If you would like to call us with a brief outline of your circumstances we will be pleased to advise you as to what you can realistically afford.**

# Frequent Questions

## How much can I borrow against the lease?

Subject to:

- No freehold property being available as collateral security
- Up to date accounts being available to support both the loan repayments and your drawings requirement.
- You holding sufficient capital to meet all purchase costs (see above)
- The lender is satisfied that you have the appropriate background/experience for the business under consideration

At present work on 50% funding although this will vary depending on business sector.

The above is a rough guide only and some of the parameters may be changed if accounting information and or experience is particularly strong.

## How much can I borrow against the lease with freehold security?

We can help here by arranging competitive re-mortgages either on a residential mortgage basis or on a "buy to let" basis, aimed at those planning to rent their properties out. This can typically provide a re-mortgage of up to 85% of the property's value, from which the outstanding borrowings will need to be settled, with the balance being

made available to you as a cash lump sum. This will be subject to income/rental assessment.

Additional funding can be made by way of an unsecured loan as described above.

Where a re-mortgage is not a practical proposition we can negotiate with Bank's for up to 100% commercial loan for the lease provided there is sufficient equity in a residential property and a second charge against it is available.

Subject to the equity available the advance can be further increased to also include all purchase costs, stock, rent deposit etc.

To calculate the available equity in your home take 80% of its current estimated value and deduct the amount of the mortgage outstanding against it.

e.g. House valued at £200,000 then 80% of this figure is £160,000. If the existing mortgage is £50,000 then the available equity for loan purposes is £110,000.

Please note that satisfactory up to date accounts will be required and the lender will make a judgment on the experience of the applicant/s

## How long can I take the mortgage over?

The re-mortgage against residential property can be up to 25 years

For commercial loans usually to a maximum of 10 years or over the remaining term of the lease, less 1year. i.e. 9 years remaining on the lease means an 8 year repayment period.

## Can I settle my mortgage early or over pay to reduce the term?

For re-mortgages you will be advised of any settlement penalties which apply to the product chosen.

For commercial loans then yes, this can usually be done without any penalty.

## Do I need to be experienced in the business sector I am buying into?

Ideally you will have had some experience in the business sector you are entering.

When considering any proposal the lender is looking at three main aspects of the deal; the security it will hold, the ability to repay the borrowing requested and the suitability of the applicants. If the security and the repayment ability are strong then this will often compensate for lack of experience. However if we are pushing the maximums in terms of the amount of borrowing and/or the business needs to be improved to meet the borrowing and drawing requirements, then the focus will turn on the applicant.

## Can I still borrow if the business has poor or no accounts?

If all the capital is being raised against freehold security by way of a re-mortgage or buy to let mortgage then yes.

For a commercial loan as the lender is technically unsecured then they are relying on the business to demonstrate good trading performance, therefore businesses performing badly will not generally be considered

unless additional freehold security is provided.

### Can income from outside the business be taken into consideration?

Other income from say one partner continuing in employment or receiving pension income etc. will substantially enhance a proposal, although it must be stressed that the business must be seen to be able to meet its own costs.

### What costs should I expect in connection with my leasehold purchase?

You need to be aware of the likely costs surrounding a leasehold business purchase to ensure that enough funds are available for you to complete the purchase and to allow you to trade.

Principle costs include:

- Legal Fees
- Stamp Duty
- Stock at valuation
- Lenders arrangement fee
- Valuation costs
- Brokers fees
- Working capital & Contingencies
- Rent deposit or advance rent
- Survey fees
- The taking over of a dilapidation fund

## Time Scale?

Agreement in principle for residential mortgages can, subject to valuation, be provided very quickly where the lender has an on-line submission system. Where a paper submission is made this can take 3-10 working days to process depending on the lender's workload.

Commercial loans are usually decided on within 5 working days, again subject to valuation on any freehold security which is being offered.

## What next?

If you are at an early stage of looking for a business you should contact us to establish what you can afford given the capital/assets available to you. This will save you time and money viewing businesses which you cannot afford.

We have a brief personal financial profile form which can be completed, which will provide us with the necessary personal information to give you the most appropriate advice.

Only once you have viewed a business will accounts be made available to you. We can arrange for these to be forwarded, through the appropriate selling agents. We will provide you with an assessment and if necessary an explanation of these figures to help decide whether this business is suitable for you.

If you wish to move forward with the purchase of this business, we will be pleased to advise you on making an offer, which should be submitted by you through the offices of the selling agent. This will be considered and if accepted will usually be conditional on you being able to prove you have the funding to complete the purchase. This

proof, in part will come from you, either in the form of evidence of cash held on deposit or your solicitors confirmation with regard to the position of your house sale. The evidence of the balance of funds which will be raised by a business loan, will be supplied by us, initially as an agreement in principle from a recognised lender followed by a formal offer of funding once the valuation has been completed (if required)

To obtain the agreement in principle to lend we need to prepare a sound business proposal clearly outlining what you require to borrow, the terms you need to borrow on, and detailing your plans and aspirations for the business.

To achieve this we have developed a comprehensive business document which involves taking C.V. information from you, background information on the business you are buying, considers your plans and ideas for the future and assesses the accounting information from which we prepare detailed financial forecasts. This provides the lender with all the information they need to agree your commercial loan in principle generally without the need for a " face to face" meeting.

The time scale for obtaining an agreement in principle from a lender is usually 4-5 working days. The valuation process can take 5 -10 working days, depending on the type of valuation required by the lending institution, following which formal loan documentation can be issued.

Once the formal loan documentation has been accepted by you, the time scale to completion is governed by the speed of your and the seller's solicitors, in completing the legal formalities.

For any loan application we need the following:

- A completed personal financial profile for you
- C.V. information on all connected parties to the purchase

- A copy of the selling agent's property details (we can obtain)
- Copies of all available accounting information (we can obtain)
- A brief summary (verbal or written) of what you plan to do with the business.

## What our clients say

*"Many thanks for your help, I wouldn't hesitate to recommend your services to anyone in the trade"*

*"Thank you very much for the help and advice over the past few months. The service we received from you has been absolutely first rate and I would not hesitate to recommend you to anyone wishing to buy a licensed business"*

*Roger you have done an excellent job for us, huge thanks!*

*When I get a second I will be singing your praises on a few web sites*

*So far its been plain sailing and as far as I am concerned exactly what I wanted. Just like to thank you and Martyn for making it so easy*

Many more letters of thanks are held on file.

## Mortgage Calculator

See [www.business-mortgage.com](http://www.business-mortgage.com) for an on-line mortgage calculator

The figures shown below represents the cost per £1,000 borrowed, repaying capital & interest over the terms shown, together with the interest only comparison.

To calculate the cost of your mortgage multiply the amount you are borrowing by the relevant figure in the grids below and divide by 1000.

Interest Rate	5 yrs	7 yrs	10 yrs	12 yrs	15yrs	20 yrs	25 yrs	Interest only
	£	£	£	£	£	£	£	£
3.00%	17.88	13.10	9.48	8.02	6.54	5.36	4.52	2.91
3.25%	18.00	13.23	9.61	8.16	6.69	5.51	4.68	3.12
3.50%	18.12	13.36	9.74	8.30	6.84	5.66	4.84	3.33
3.75%	18.24	13.49	9.87	8.44	6.99	5.81	5.00	3.54
4.00%	18.36	13.62	10.00	8.58	7.14	5.96	5.16	3.75
4.25%	18.48	13.75	10.13	8.72	7.29	6.11	5.32	3.95
4.50%	18.60	13.80	10.26	8.86	7.44	6.26	5.48	4.16
4.75%	18.72	13.88	10.39	9.00	7.59	6.41	5.64	4.37
5.00%	18.84	14.01	10.52	9.14	7.74	6.56	5.80	4.58
5.25%	18.96	14.14	10.65	9.28	7.89	6.71	5.96	4.79
5.50%	19.08	14.27	10.78	9.42	8.04	6.86	6.12	5.00
5.75%	19.20	14.40	10.91	9.56	8.19	7.01	6.28	5.20
6.00%	19.32	14.53	11.04	9.70	8.34	7.16	6.44	5.41

For more information contact us on: 01834 849793

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