INSPIRATION FOR TRANSFORMING THE BUSINESS OF FOOD

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THE MAGAZINE OF THE ARIZONA RESTAURANT ASSOCIATION

What you Need to Know when seeking Financing Options

Nearly every restaurant will take out a commercial bank loan at one time or another. Whether seeking funds to help cover start-up costs or grow to new heights, it is important for restaurant owners to understand the commercial lending process from start to finish. Here are five tips to help your restaurant along the way:

1. Get your house in order.

In order to get the best possible loan for your restaurant, you need to put your best foot forward. Presenting your business in an organized and professional manner will go a long way toward earning the confidence of prospective lenders, ultimately saving time and increasing your chances of securing the loan you want. For example, well before you start applying for a loan, clean up and assemble the basic documentation that nearly every lender will want to see, such as business plans, credit reports, tax returns, financial statements, collateral documentation, organizational documents (e.g., articles of incorporation, bylaws, operating agreements, minutes, etc.), business licenses and permits, franchise agreements, and leases.

2. Make your wish list and shop around.

Before you begin talking to lenders, educate yourself about customary loan terms, figure out what your restaurant really needs, make a wish list, and shop around. While some lenders may be more willing to negotiate than others, don't be afraid to ask for what you want. Even if you don't get everything on your wish list, you will find that lenders often have flexibility on certain terms. Of course interest rates and payment terms are extremely important, but you should also consider other loan terms that can have a big impact on your business. For example:

- **Purpose:** What is the purpose of the loan? Most lenders impose restrictions on how you can spend their money,

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so make sure you have an appropriate plan for how you will use loan proceeds.

- **Type:** What type of loan do you need for this purpose? A term loan? A revolving line of credit? A construction loan?
- **Pricing:** How much are you willing to pay for the loan? In addition the interest rate itself, be sure to factor in rate adjustments, origination fees, and other fees and expenses.
- **Term and Repayment:** When and how do you plan to repay the loan? Regular payments of principal and interest? Interest only payments? Balloon payment?
- **Prepayments:** Is there a chance you will want to refinance your loan or pay it off early? If so, seek out a loan that allows prepayment without penalties or additional fees.
- **Collateral:** Most restaurants will have to provide collateral in order to receive a loan. What assets are you willing to pledge?
- **Guaranties:** Banks will inevitably ask a restaurant's principals to provide personal guaranties. Are you and your principals willing to take on this personal exposure? If so, consider ways to limit the guaranties. For example, seek to limit the amount of money being guaranteed, and seek to have the guaranty dissolve over time after the restaurant has established a reliable repayment history.
- **Notice and Cure Periods:** If despite your best efforts an event of default occurs, how much time would you like to have for curing the default before the lender can exercise remedies (such as charging penalties, imposing default interest rates, or even calling the loan due)?

3. Review the loan documents carefully.

Review your loan documents carefully before signing. Make sure that they accurately include all of the terms you so carefully negotiated. Just as importantly, make

sure that you understand all of the other terms of the documents. As the saying goes, the devil is often in the details, so don't ignore the fine print and boilerplate. Once you sign, you will be bound by your loan documents in their entirety, regardless of whether you fully understand all of the terms and even if the documents don't include everything that you were promised.

4. Be a good partner and honor your obligations.

After the ink has dried and you get your money, keep in mind that your lender is now a partner in your business with expectations for how you will operate. These expectations go beyond merely making your loan payments on time and typically include financial covenants (metrics you have to meet), negative covenants (things you cannot do without lender permission), and affirmative covenants (things you have to do to avoid defaulting). Before signing your loan documents, review these covenants carefully to make sure you are willing and able to comply. You may find yourself needing your lender's permission for even routine business decisions you previously made on your own.

5. Seek out help from your advisors early.

Remember that you are not alone. Consult your trusted professional advisors throughout the loan process. With their expertise and experience, they can provide invaluable assistance with each of the tips described above, ultimately improving your chances of efficiently securing the best possible loan for your restaurant.

For more information visit **www.gknet.com**.

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