

Helping to finance C&G deals can be a gas

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The past few years have been particularly difficult for financing gas stations, convenience stores and truck stops — commonly referred to as C&G (convenience and gas). Many lenders and brokers avoid this industry altogether. By observing some common-sense rules of financing, however, your success rate in penetrating the market should increase dramatically.

The best source for financing a gas station or convenience store almost always is a local bank. However, 95 percent of banks are averse to this asset class. This is where you, as a facilitator, come in.

One of the most-important things in obtaining a loan approval is the actual packaging. There is a high correlation between how well the loan is packaged and its success rate at approval. I can't tell you how many times people say they're looking for an 80-percent loan with 20 percent down and fail to include an executive summary or "Usage of Proceeds." A well-described summary goes a long way.

Lenders' major areas of concentration are direct-industry experience and verifiable-equity infusions. Borrowers must prove the source of their cash. If your borrowers do not have direct-industry experience, it is going to be a hard sell to obtain bank approval unless they have significant retail experience in a related industry. This experience can be with convenience stores without fuel or liquor-store ownership. Possible solutions to this problem are to: 1. Take on an experienced partner as a minority owner; 2. Attend oil-company-training school; and/or 3. Have the seller stay on in a management capacity for an extended period of time.

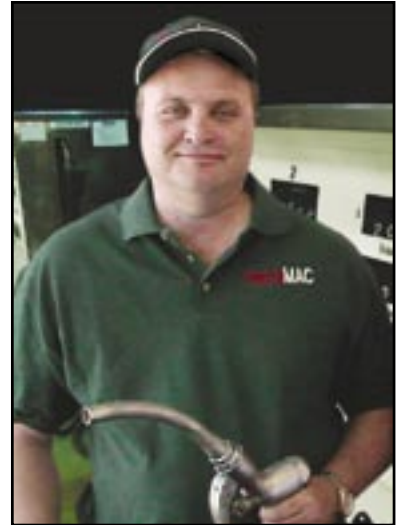
In the past few years, the C&G industry's default rate has been extremely

high, particularly in the franchise arena. In the late 1990s, lenders tripped over themselves to lend to this asset class, which had an insane cash flow of seven to 7.5 times over. As high-profile retailers went bankrupt, regional oil companies or operators themselves bought their locations at a premium price. Today, there are five buyers for every location for sale, and the days of buying at a bargain are gone.

Lenders now are in the conservative 75-percent to 80-percent lending arena. Previously, part of the problem in the industry was that many people were getting high-loan-to-value loans without putting their own money into the deal. They borrowed from "someone who loved them" or took out home-equity loans to get into the station. The default rate was high because the locations did not have sufficient cash flow. Borrowers were repaying bank notes and the secondary source of their down payments.

To an extent, borrowing money is still acceptable. But this only is at a minimum of 15-percent equity that is verifiable and part of borrowers' own nonborrowed funds. Even if they borrow the final 5 percent to 10 percent to obtain 75-percent financing, lenders still will see if the location qualifies for an 85-percent loan because of the borrowed funds. Other ways of reducing the LTV are to have the petroleum supplier make an equity contribution into the transaction or to have the seller hold a note. If there is insufficient cash flow, the seller might have to go on stand-by status for a year before receiving payments.

Cash flow always will be a beast in C&G. To avoid taxes, many operators and dealers do not declare all of their income. However, that makes it difficult for them to get top dollar for their



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locations if they decide to sell. Lenders verify information more closely now. If sellers are not forthcoming with real income, they frequently hold a seller-held second when selling the property. It is a good idea to get the past three years' fuel-gallon total to see the location's real income.

Environmental issues

Environmental issues are a concern but can be overrated. Banks take the path of least resistance when it comes to this asset class. To put things into perspective, the average remediation costs for a location are less than \$50,000. The last time I checked, few locations have to close shop for facility remediation. More close to upgrade their equipment, such as pumps or multiple-product dispensers, or to install new underground storage tanks.

First, find the property's current and past environmental statuses in order to avoid spending months on a loan only to find out that you could canoe in the location's undisclosed fuel leak. The Small Business Administration (SBA)-provided environmental questionnaire

is a good starting point for evaluating the status. Although brokers can no longer order commercial appraisals, they can order environmental reports to assess an unknown situation upfront. Just make sure that you hire an environmental company experienced with commercial banks and lenders.

When conducting a Phase I or Phase II site assessment, use an environmental company that can define environmental issues honestly for your lender. SBA loans will be sent to the local-district office automatically, regardless of whether the lender has preferred-lender status. SBA normally requires an indemnification agreement from the party responsible for the environmental issues on the property at the time a leakage, spillage, etc., occurred. With purchases, you most likely will not get a strong-enough indemnification agreement if the seller is an actual oil company.

All states have a LUST/UST (Leaking Underground Storage Tank) fund. This usually insures the affected property and surrounding properties for as much as \$1 million. In most cases, the money will be cover remediation costs. If the proper steps are taken, many loans in which the property has been remediated and is in the monitoring phase can become SBA loans.

Collateral and credit scores

In the past few years, collateral has been an issue with lenders. Many banks discount the actual real estate of a gas station and convenience store by 20 percent to 25 percent. They discount machinery and equipment by 50 percent, inventory by 90 percent and goodwill by 90 percent. Lenders will consider a loan in which the borrower puts 20 percent down to be under-collateralized. Alert your borrower to this fact. This does not mean the loan will be declined, however. It is more likely that the loan will be approved if it is fully collateralized. Because of this, business-only loans are more difficult

to get approved. If you do not have an exceptionally strong borrower on a business-only loan, chances are it will not be approved.

Personal credit has also been more of an issue in the past few years. If you have a borrower with a credit score in the 500s, the loan will probably not be approved on a conventional or SBA basis. It is possible to obtain hard-money financing or even private financing, but that typically is done on a lower-LTV basis.

SBA loans

A misperception exists that SBA loans are more difficult for financing. In fact, sometimes the only way a deal can be approved is by SBA financing. This is because of a longer amortization period that allows borrowers to qualify where they might not be able to on a conventional basis. There are probably 10 U.S. lenders that do 50 percent of the SBA business in this asset class; many smaller banks do one to three loans annually.

If possible, deal with preferred lenders. This inherently shortens the approval process because they do not have to submit the loan to a local-district office for approval. Many banks want to use the SBA guarantee now because of the higher-than-normal default rate during the past few years. Previously, they would have done these loans on a conventional basis. Remember: SBA does not have to stand for Slow Bank Approval.

A well-put-together package expedites the underwriting process. Although many borrowers prefer conventional loans, SBA loans can be less expensive in the long term and marginally more expensive in the short term. With many lenders, conventional financing is not a possibility. A few new programs are not done by banks, offer quick-closing possibilities and are viewed as bridge financing. It will be exciting to track their popularity.

Other considerations

To be successful in brokering these loans, it helps to understand the industry's jargon. If you do not understand basic terms, your borrowers will lose confidence in you.

A few industry-specific terms include:

- **Jobber:** A fuel supplier or middleman.
- **Rack:** The price at which the major and independent refineries sell branded or unbranded gasoline to jobbers and wholesalers.
- **CRIND:** Acronym for "Card Reader in a Dispenser."
- **MPD:** "Multiple-Product Dispenser," also known as a dispenser or pump

Another thing to consider are hypermarkets — nontraditional gas retailers such as Wal-Mart and Costco — which are carving their market niche. Make sure one is not in the planning stages near the property in question. If one is, your underwriter will conduct a sensitivity analysis to see if the location will lose profits.

Good luck to you in your financing efforts. C&G is a fun and profitable asset class. Brokers with high expertise can enjoy exceptional incomes.

Harold Jaynes is president of PetroMAC, which finances gas stations, convenience stores, truck stops, auto-repair facilities, auto-lube centers and car wash facilities. PetroMAC understands their financial issues and offers a broad range of services tailored to meet the needs of the industry. Harold can be reached at (202) 438-0408 and (866) PETROMAC (738-7662). E-mail him at hjaynes@petromac.com. The company's Web site is www.petromac.com. ❗