Hello everyone. Thank you for joining me for today's podcast and thank you for joining me for this month's edition of The Rainmaker Roundup. As most of you know, my name is Storm Miller. I am one of the Senior Consultants here at Benetrends Financial and I typically use this time as an opportunity to highlight some of our most unique funding solutions for clients who have recently engaged us for our Rainmaker program.

However, I thought I would switch gears a bit this month and discuss an issue that many of our partners have asked me about at a few of the franchising events that we have attended over the last few months. What I would like to discuss with you all today is the issue of **post-closing liquidity**. This is a term that is often referenced when borrowers are applying for SBA Loans.

So that's where you may have heard this term before, and if it is something that has come up in conversation likely the discussion encompasses ideas of how to overcome this issue. Outside of the obvious issues of bankruptcies and poor personal credit, the biggest deal killer for SBA financing is indeed post-closing liquidity. Post-closing liquidity can be defined as what a potential borrower or buyer will have leftover in liquid cash after deducting the down payment and closing costs from their liquid funds.

The banks called this post-closing liquidity, but I think an easier way to think of this is “wiggle room” or frankly, a “margin of error”. It’s funds that are left over after a buyer makes their cash injection that can either be used in the business or - more importantly - to cover the buyers’ own personal living expenses while the buyer ramps up revenues that are going to be generated by the business.

We now arrive at why post-closing liquidity is so important, especially to the lenders. We all know that 100% business financing does not exist. Right? It's a myth. If it did exist, everybody would own a business because it would be almost no risk in it. What lenders are looking for from borrowers is for them to have “skin in the game”, and this comes in the form of a cash injection on their total project costs.

Lenders often require a cash injection between 20% and 30%. But what the lenders also like to see is that same amount of cash available in post-closing liquidity. This often means that borrowers need to have between 40 and 60 percent of the total project costs available in liquid cash in order to secure financing. Even though they only have to contribute half of that amount as their cash injection.

For example, let's say a lender's requirement is a cash injection of 25% on a total project of $100,000 or a cash injection of $25,000. The lender will also look for the borrower to have another $25,000 available in liquid cash to help cover their own personal living expenses while the business begins to grow.

That means, the borrower must show on paper $50,000 of available liquid cash, even though they are only required to utilize half of that for the project. Post-closing liquidity is of the utmost importance to banks and lenders because it helps mitigate their risk in the investment.

If the borrower has to utilize every dollar available in liquid cash to come up with their cash injection, then the business must begin generating significant revenue on day one or the business will fail. Neither the bank nor the borrower wants this. The additional post-closing liquid cash allows the business to grow slowly or even maintain through early losses that the business might sustain. Also, that post-closing liquid cash availability means that the borrower will not have to rely on profit generated by the business to cover their own personal living expenses, thus allowing the business to flourish.

So how do we solve this problem of post-closing liquidity? Unfortunately, most banks do not view the money that's locked up in retirement accounts as liquid cash, and therefore it cannot be counted as post-closing liquidity. However, our Rainmaker program helps significantly with this post-closing liquidity requirement. It is the best solution in just about every case.

The Rainmaker program gives borrowers the ability to utilize their pre-tax retirement savings, not only to come up with their cash injection for the project, (but) it provides them with the ability to pay themselves a salary out of the rollover proceeds, and it often allows them to maintain any other liquid post-tax cash that they have access to as their post-closing liquidity on the deal.

This significantly strengthens most applications and that is something that we are very comfortable explaining to our lenders. The program helps mitigate both the borrowers own personal risk in the business, since the pre-tax cash injection forces the government to assume about 30% of that risk, as well as the bank's risk in this investment.

This is why Benetrends has maintained for years that the rollover program is the best friend of SBA financing, and this is why so many lenders from all across the country refer their loan candidates to Benetrends Financial. Our Rainmaker program helps eliminate the most common deal killer in SBA financing - and that's post-closing liquidity - and it helps to get more deals done for our partners every day.

If any of you guys have any questions on post-closing liquidity requirements, on the Rainmaker program or on the SBA process as a whole feel free to reach out to me directly. My phone number is 267-328-1709. And again, this is Storm Miller, Senior Consultant, Benetrends Financial. Thank you for your time today.