

All you need to know  
about funding your  
freehold business  
purchase



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## Introduction

Backed by over 20 years experience in arranging business finance, 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.

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**  
**Graham Jones**  
**EM&F Business Finance**

## 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
- ✓ 75% funding for going concern businesses
- ✓ 85% funding for Bricks & Mortar only properties
- ✓ 100% funding with additional security
- ✓ 10 year to 30 year repayment terms
- ✓ Rates from Bank Base + 1.25%
- ✓ 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 within 5 working days
- ✓ No accounts, poor trading records, impaired credit, no problem
- ✓ Most facilities we arrange can be settled in part or full without penalty

## More Detail

In a question and answer format we cover most of the basic information you should require to understand the general lending criteria relating to freehold business funding.

### What is the maximum I can borrow against the purchase price?

Most businesses are sold as going concerns with the purchase price including the property, the fixtures, fittings and goodwill.

We can usually secure up to 75% of the value of the business, subject to accounting information, although if the borrowing can be restricted to 70% a wider range of lending sources and improved terms can be offered.

Where the purchase consists of property only, for example an empty shop or industrial unit then up to 85% of the valuation is the maximum.

Where additional freehold property is available as collateral security, then 100% of the purchase price plus costs, development expenses etc. can be funded. This may apply where you wish to keep your home rather than sell it to raise your deposit.

## How long can the loan repayments be spread over?

The most common lending term is 20 years but we can offer a 25 year term and even 30 years in some cases.

Please note that it is possible to arrange an interest only payment in the first year which can in some cases be extended.

## What interest rate will typically apply?

The following examples are all actual rates achieved:

Loan not exceeding 60% of valuation:	Bank Base + 1.25% - 1.5%
Loan not exceeding 70% of valuation:	Bank Base + 1.5% - Bank Base + 1.75%
Loan not exceeding 75% of valuation:	Bank Base + 1.75% - Bank Base + 2%

## Why the variation?

Few lenders apply a standard set of rates to every transaction, instead account will be taken of the financial strength of the business under consideration and the relevant experience of the purchaser. The stronger the overall proposal, the more room we have to negotiate a lower rate.

## Can I have an interest only mortgage?

Unlike the residential and buy to let market, interest only mortgages are not widely available in the commercial sector at present but we understand this situation is being reviewed. As mentioned above we can usually negotiate a capital repayment holiday for the first year with most lenders and sometimes longer.

## Do I need a business plan?

The information we gather from you and the selling agents is submitted by us in such a detailed format to the Bank/Lending Sources that you do not usually have to prepare your own business plan. However it is strongly recommend for your own purposes that you carefully consider the financial forecasts we prepare for you and compile your own plan around the strengths, the weaknesses, the opportunities and the threats relating to the business. You should also consider a marketing plan, taking into account, local press advertising, creation of a web site etc.

## What costs are involved in setting the loan up

We operate on the basis of complete transparency with regard to costs, with no hidden surprises. All costs will be outlined once an agreement in principle is received from the Bank/Lending source.

- ✚ Typically you can expect a valuation fee which can vary from £500 + VAT to £1,500 + VAT depending on the type of valuation required, value of property, location etc.
- ✚ The Bank/Lending source will usually add an arrangement fee of 1% to 1.5% of the amount you borrow to the loan, on completion
- ✚ Often the Bank/Lending Source will appoint your own solicitors to act for them, saving you additional cost, however some lenders require separate legal representation. Again this cost will be detailed at the agreement in principle stage.
- ✚ Land registry charges and other disbursements usually total around £400.00
- ✚ We do charge fees for our services which will be confirmed to you once we have assessed your proposal.

## What other costs can I expect in buying a freehold business?

You need to be aware of the likely costs surrounding a freehold 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

### Legal fees

These costs can vary tremendously and you will be well advised to speak to at least two firms of solicitors to compare costs. For a recommendation on suitably experienced commercial solicitors, the selling agent may be able to offer local recommendations. Please note that in some cases your solicitors will also be asked to act for the lenders, in completing the mortgage documentation therefore they usually need to have at least two partners in the firm to gain Bank approval. Licensed conveyances are not usually acceptable.

### Stamp Duty

At present stamp duty on commercial property is levied as follows:

Under £150,000	Nil
Up to £250,000	1%
Up to £500,000	3%
Over £500,000	4%

If VAT is charged on the sale then we understand stamp duty is also charged on the VAT element. Care should be taken to ensure this does not push the total sale price into a higher band.

**Important:** We understand that Stamp duty should be levied on the property value only and not charged on either the goodwill of the business or the fixtures and fittings. Do check this with your solicitor.

### Stock at valuation

With a going concern business you will need to budget for the stock at valuation on take over. The selling agent should be able to give you some guidance as to the likely level of stock held.

### Can I settle the loan early or make lump sum reductions?

The majority of mortgage offers we negotiate can be settled or part paid without penalty. If settlement penalties are to apply these will be advised to you at the agreement in principle stage.

### What do you mean by agreement in principle?

When we refer to an agreement in principle it will be a document prepared by a recognised lender, outlining the terms and conditions under which they will consider lending. It will already have been submitted to the bank/lending source's underwriters and therefore as long as the valuation is satisfactory and any conditions contained in the agreement are met, the loan can be considered as approved.

### Can I bridge the sale of my house to buy now?

Where sufficient equity is available and where sufficient income is

being generated to service the mortgage on the new business, any existing mortgage and the short term loan, then we may be able to arrange short term funding to allow you to complete the purchase before the sale of your house is completed. Please call to discuss this further.

### **I want to keep my home as an investment and raise capital against it can you help?**

Yes, this will be done by arranging a buy to let mortgage. The amount raised will be governed not only by the value of the property but by the assessment of the likely rental income.

### **Do I need to be experienced in the business that I am buying?**

Ideally you will have had some experience in the type of trade you will be entering. If this involves the sale of alcohol, then you will have to obtain a personal licence. For information on this go to

[http://www.culture.gov.uk/alcohol\\_and\\_entertainment/licensing\\_act\\_2003/personal\\_licences.htm](http://www.culture.gov.uk/alcohol_and_entertainment/licensing_act_2003/personal_licences.htm)

or type "personal licence" into GOOGLE

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.

## What if the accounts for the business are poor?

This is not necessarily a barrier as the lenders will take a view on the potential of the business, any relevant experience you may have and income you continue to receive from other sources.

## Are non status loans available?

In the absence of accounts you can self declare the anticipated profit of the business under your control. The lenders in this sector do charge a small premium on the interest rate but this can open up the opportunity of funding a business which will otherwise be impossible to fund. (We will be happy to provide you with a detailed quotation for this)

## 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.

It will help if you could complete and return our brief personal financial profile form, 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. Please note that if there are

no accounts available or if for good reason they are not a reflection on the true potential of the business, then this does not necessarily prevent the business being funded.

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 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 mortgage, 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.

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 strong business document which by taking C.V. information from you, background information on the business you are buying, considering your plans and ideas for the future, assessing the accounting information and preparing detailed financial forecasts, provides the lender with all the information they need to agree your mortgage.

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 mortgage 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.

## Testimonials

*"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 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

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 monthly cost of your mortgage multiply the amount you are borrowing by the relevant figure in the grids below and divide by 100.

Interest Rate	5 yrs	7 yrs	10 yrs	12 yrs	15yrs	20 yrs	25 yrs	Interest only
	£	£	£	£	£	£	£	£
6.00%	19.32	14.53	11.04	9.70	8.34	7.16	6.44	5.00
6.25%	19.44	14.66	11.17	9.84	8.49	7.32	6.60	5.20
6.50%	19.56	14.79	11.30	9.98	8.64	7.46	6.75	5.42
6.75%	19.68	14.92	11.43	10.12	8.79	7.60	6.91	5.63
7.00%	19.80	15.05	11.56	10.26	8.94	7.75	7.07	5.83
7.25%	19.92	15.18	11.69	10.40	9.09	7.90	7.23	6.04
7.50%	20.04	15.31	11.82	10.54	9.24	8.05	7.39	6.25
7.75%	20.16	15.44	11.95	10.68	9.39	8.20	7.55	6.46
8.00%	20.28	15.57	12.08	10.82	9.54	8.35	7.71	6.67