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ICCFA Magazine spotlight

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More from this author

► Educational information, including copies of this article, can be found at www.theforesightcompanies.com

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Editor’s note

The Cemetery Impossible column is written by the staff of The Foresight Companies. **If you have a question you want to be featured in this column, please send it to danisard@f4sight.com.** Dan Isard or a member of his staff will call you to get more information and a recommendation will be provided via this column, helping not only you but also others who are facing similar challenges.

FINANCES

A cemetery is a different kind of business, so it’s not surprising that when it comes to getting their projects financed, cemeterians need to understand that and find the right sort of banker.

Finding a bank to finance building a new mausoleum

Dear CI,

I went to my bank to borrow money to build a new mausoleum. They turned me down. They said, “they could not perfect a collateral arrangement on the mausoleum.” I have built three previous mausoleums and they financed them all. Why has their position changed? Sincerely,

Need to Borrow in Boston

Dear NBB,

I think your bank got smarter of late. Allow me to explain in detail.

There are two types of lending relationships consumers and their banks might have. Most banks are asset-based lenders. This means you give them an item of collateral and they will generally loan you some percentage of the value.

For example, give them a building worth \$1 million and most lenders will use this to finance 75 percent to 80 percent of appraised value over 10 to 25 years. This means the maximum loan can be about \$750,000 to \$800,000.

A second type of lender is a cash-flow lender. This lender makes loans predicated upon the cash flow of an asset. For example, give them a building with \$100,000 of net rents (triple net leases) and the cash-flow lender will give you a loan not to exceed about \$70,000 a year in principal and interest payment. The term of the loan amortization might be from 10 to 25 years.

With these assumptions, the maximum loan could be about \$503,000 for a 10-year amortization, or as much as \$853,000 for a 25-year amortization.

When you look at an asset-based lender versus a cash-flow lender, you can see that given the length of the amortization, both are able to loan a similar amount of money on the same property. However, when dealing with a mausoleum building owned and operated as part of a cemetery business, the lender will



need to be focused on the security provided by the collateral of the overall cemetery.

You can’t resell the mausoleum without the operations of the cemetery. You can’t repossess a mausoleum by itself. You can’t pick it up and move it to a new location as if the mausoleum is a temporary warehouse.

The amounts involved in both types of loans might be similar, but the method of the collateralization by the lender is totally different.

Furthermore, if the cemetery goes into default on the loan, most lenders are not equipped to manage the asset. This business is not like a hamburger stand. Most lenders understand they can easily hire someone to run a hamburger stand if they make a loan and that food business defaults, but a cemetery requires specialized management.

There are state operating rules that can dictate that the state takes possession of a cemetery if it loses its operating certificate, which is a higher threat than a default. The lender can have a perfected judgment on the cemetery, but if the cemetery loses its operating certificate, this can make the lender’s judgment on the cemetery worthless. The state can sell or transfer the operating right to whomever it is comfortable with.

If a bank wanted to make a properly-secured asset-based loan on your mausoleum, it would have a lien on each niche and crypt. As ridiculous as it seems, each time you wanted to deed one of these interment options to a family, you would have to get that particular interment right released by the lender. That would be cumbersome and onerous—at best.

I guess your lender has been an asset-based lender. More than 80 percent of all

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lenders, especially local banks, fit into this classification. However, the premise of cemetery lending has changed.

In the past, many banks valued a mausoleum as a building. This is a ridiculous presumption! A mausoleum is inventory, not a building. In the past, the bank would make a loan on the mausoleum building and the loan would be paid off from your cash flow, and no one was the wiser.

I see this is an inventory loan. You, as a ceterian, are a dealer in your own inventory. Constructing that mausoleum is the same thing as buying land for conversion to grave sites, except that you are creating crypts rather than graves. You are selling crypts. Whether the loan payoff comes from crypt sales specifically or from the free cash flow of the cemetery in general is a detail to underwriting, not the limit on newly-created inventory.

In reality, if a default occurs, the bank might have an imperfect lien. You cannot get

a foreclosure or judgment on the mausoleum. It cannot be sold off, except through the efforts of the cemetery. While I have seen this, it is the wrong way to do it. You can have a guarantee backed by the cemetery organization; if a default occurs, the lender would have to repossess the entire cemetery.

How to obtain a loan

So, what can you do? Well, first you need to find a cash-flow lender. This cash-flow lender should have experience with the cemetery profession. Such experience in dealing with cemeteries is critical in case there is a problem with mortality rates, competition or other issue we in the profession know to expect and know how to deal with.

A knowledgeable lender doesn't move to foreclose too soon. You can't afford to be using limited cash flow to run the cemetery and create sales while also paying legal fees to keep a lender at bay.

Then you need to understand the value of

the cemetery and its predictable cash. This will allow you to be comfortable with the amount of the loan you take out and the cash flow need to make the loan payments.

Next, look at the sales *pro forma* for the new inventory going online. What are you selling in advance of construction, during construction and once construction is completed? How will your pricing change at each level and timing?

Your banker's previous brethren didn't understand the cemetery business. That didn't matter if you didn't default.

Now, due to the previous defaults of Loewen and other operators, all bankers and their attorneys understand what to do to secure their loans. That makes many of these lenders unwilling to make loans in cases like yours. Other bankers were motivated to have their lawyers investigate perfecting their loans in the event of a default by a cemetery, which led to the lawyers advising the bankers to get out of this particular lending business. □