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Financing your Great Clips Salon?

(The answer is yes)

Whether you write a personal check, use the equity in your home, use your 401K money or get a commercial loan, one way or the other, you're financing your Great Clips salon. Financing it the right way is critical to your long term success. It might not be as critical as finding the right locations, but it's close.

Generally speaking, in financing your Great Clips business, you have three basic options:

- **Option I:** Finance it out of your own pocket, either by writing a check from savings, cashing out retirement assets, or some other means,
- **Option II:** Take out a loan secured by your personal assets, such as an equity loan or an SBA loan, or
- **Option III:** Take out a commercial business loan for franchise financing.

Each option has its pros and cons. The best option for you will be based on several different factors, including the goals you have for your new business. One option might be best if your goal is to open a single salon, another if your goal is to open several in a given time frame.

What follows is a discussion of the various options and how one might or might not be the best one for you. It is our goal to help you make the best decision possible, based on your current situation and on your goals.

We would welcome the chance to review these with you on the phone at any time. You can reach me at me desk by calling 818-783-7462 during business hours.

Sincerely,

Brian Link
InSource Capital Services, Inc.

Options for Great Clips Financing

Option I: Finance it out of your own pocket

If your objective is to open only one salon and you have the liquid cash to open it and get it to profitability, this is not a bad choice. You will lose the interest earned on your money, but avoid the interest cost of borrowing. If you plan to open more than one salon and have the resources to get them all to profitability, again, this may not be a bad choice.

However, if you have the resources to open the first location, and plan to rely on using cash flow from the first one to open the second, third, etc, be careful. Remember, if you have cash in the bank or equity in your personal assets, you can always use that for working capital or expansions later. If you plan to rely on commercial financing at any time, financing the first one is what gives you the greatest flexibility.

That's the downside of this option. Having your personal money tied up in a business limits your flexibility in the future. You may or may not be able to take advantage of a future opportunity when it comes along. Many books are available that discuss the value of using OPM (Other People's Money) in opening and growing a successful business.

Option II: Take out a loan secured by your personal assets

This Option provides greater flexibility than Option I. Your liquid assets remain liquid giving you the ability to respond as needed to changing business requirements. The net, after tax difference between interest earned and interest paid can be low making this a viable alternative to Option I.

The downside of this Option comes in two forms: (1) tying up the personal assets you pledge as security, and (2) the true, all-in cost of the financing.

Tying up your personal assets limits your choice and flexibility in the future. As an example, we recently funded a 2nd location for a Great Clips franchisee. He had taken out an SBA loan for his first salon using his home as security. He knew the lender was also filing a lien against his salon but no one thought this would be a problem since we planned to secure our loan with only his new location.

What we discovered during the title search was that when the original lender filed their lien against the franchisee's business, they listed the salon they were financing and included the phrase "all future salons" in the lien filing. Those three little words meant that any and all salons this franchisee would open at any time in the future were going to be considered security against his original loan! We were eventually able to resolve this but needed to negotiate a subordination agreement with the original lender.

The lesson here is to be very careful about what the lender actually uses as security on the loan because it may limit your options in the future.

In terms of the true, all-in cost of the financing, this can be a complex subject. Unfortunately, some lenders like it that way. They will quote a low interest rate but not the points and loan fees involved. They won't take the time to educate a borrower on the differences between variable rate financing and fixed rate financing. They won't fully disclose all the charges that are incurred during the life of the loan.

The lesson here is to get everything in writing and review it with a trusted advisor. Most reputable lenders will issue a proposal or term sheet that includes detailed information about payments, fees, terms, security, etc.

Option III: Take out a commercial business loan for franchise financing.

This option tends to offer the greatest flexibility to most franchisees. Franchise loans are typically secured only with the assets of the franchise, leaving all personal assets unencumbered. Pay close attention to *what* franchise assets are being used as security (See the story under option II).

In terms of the true, all-in cost of this type of financing, as we mentioned under Option II, this can be a complex subject. All of the items mentioned in connection with Option II apply here with option III. Get proposals in writing, review those proposals with a trusted advisor, and make a fully informed decision.

About InSource Capital Services, Inc.

At InSource Capital Services, we pride ourselves on being a different kind of commercial finance company. We specialize in franchise financing. As proud members of our local Better Business Bureau and the NAELB, we promote and subscribe to a Business Code of Ethics. We are committed to "raising the bar" when it comes to fair and honest business dealings with all of our clients and business partners.

Features of our Great Clips financing programs include:

- Fixed rate loans to 96 months
- No outside collateral, other than the assets of the franchise and your good credit
- Pre-Funding, we can pay Great Clips and your other Vendors directly
- Credit approvals in as little as 5 working days.

Our commitments to all members of the Great Clips family include:

- Fast Turnaround Times
- Clear Answers to your Questions
- Competitive Rates
- Honesty & Integrity
- Finding a Way to get the job done!