

Law dis6

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Commercial Loan Law discussion 6 Assume you are responsible for approving commercial loans at a bank where you are a senior lending official. You are approached by two hospitality college graduates, each with three years management experience acquired after they completed their studies. They are seeking a loan slightly in excess of \$1 million to establish a restaurant in the community. The funds will be used to lease land, facilities, and equipment as well as for renovation, inventory, salaries, and other start-up costs.

a. Will the organization structure selected by the partners have an impact on your decision to extend the loan?

The organizational structure is the bedrock for operating procedures and also determines those involved in making of major decisions. It is these decisions that lead to success or failure of the business hence its ability to offset the loan. The organization structure is therefore an important factor to consider when deciding about the loan.

b. What type of organizational structure would you want to see?

A Pre-bureaucratic structure would be best as the business is medium-sized, requires limited specialization and the structure allows for quicker decisions which are imperative in a restaurant business.

c. What other factors would influence your decision?

How realistic and achievable the business plan is, the borrowing history of the partners, the values of the collateral provided by the partners, the ability of the partners to offset the loan in the period provided should the business fail and the ability of the guarantors, if any, to offset the loan should the partners fail to do so.

d. Would it make a difference to you if the partners were requesting the loan

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to complete a franchise agreement with an established and successful franchisor?

The nature of the business would make a considerable difference. In a franchise, there are less teething problems as the brand name is already established. The business model is already tested as the franchisor is successful. However on the considerations, one must appreciate that the decision making of the entrepreneurs is limited as the franchisor has a significant say in the operation of the business hence their growth may be limited to a certain level.

e. What information would you want to see from the franchise relationship to help you make your decision?

The amount of fees to be paid to the franchisor as royalty as well as what the franchisee is to pay as training and advisory fees. The fees should not be too large as to hinder leave too little money for the daily operations of the business. Another factor to consider is the role in decision making of the franchisor which should not be too large and the duration of time that the franchise is supposed to take place. The creditor ought also to consider the business format- whether trade name franchising or business format franchising

f. What information (franchise relationship) is required by law?

The Franchise Disclosure Document (FDD) which should be made available to the franchisee by the franchisor, two weeks before payment of any fees. The document contains agreements made by the two parties on terms of the franchise including the fees.

g. What additional information might you request if the partners were seeking the loan to operate as an independent restaurant?

The intended location of the restaurant and the reason for choice of the location and the projected income from the restaurant.

h. Would it matter if the loan were for an existing restaurant, as opposed to a new start-up?

It would have a significant effect on the decision to lend if the restaurant is existing since its solvency can be determined as opposed to a new restaurant. It can also be evaluated if the management system of the hotel is working as opposed to a new restaurant. Generally, there is lower risk lending to an existing business than a new start up.

Works cited

Starting and Managing a Business: Franchise Business sba.
gov/content/franchise-businesses. Web. 28 Aug 2006.