# Seller Financing

Experience has proven that seller financing, if properly managed, can result in a win-win situation for all parties involved. How is this possible?

Consider these points:

1. Requiring cash most certainly reduces the number of prospects and will likely reduce the selling price.

2. Buyers may assume the seller is not sufficiently confident in the business if there is not a willingness to offer some level of financing.

3. The asking price of a business is almost always greater than the value of its hard assets. The difference between the price and asset value is considered the "goodwill" or "intangible value" of the business". Lending institutions may loan for the assets but will not finance goodwill. This is left to the seller of the business.

4. One of the benefits of seller financing is that a higher price can be expected for the business. Buyers will always discount the price by as much as 10-40% for "all cash" deals.

5. The seller will also receive more income as a result of the interest paid over the life of the loan. It is important to consult an accountant regarding capital gains consequences as well as the tax savings of an installment sale as compared with paying the entire tax in the year of the sale. Changes in the tax laws in recent years require the use of a CPA or tax attorney in these matters. Also consider the low rate of return if the proceeds of an all-cash sale were placed in an interest-bearing account at a bank.

6. Naturally owners are reluctant to take back a note because of the risk of not receiving all of the payments due. However, the steps below can be taken to minimize the risk:
   - Determine if the buyer is creditworthy and capable of managing the business. A credit report can be required as well as references.
   - Require a sufficiently high down payment in the range of 20-30%. Keep in mind that there will be more buyers available at this level than at an "all-cash" level. Consider that this amount may represent nearly 100% of the buyer's available cash. Thus they will have a vested interest in managing the business in order to protect their investment.
   - Require a payment schedule over a period of three to five years, perhaps up to seven years, under certain circumstances.
   - Require the buyer to personally sign for the loan.

- Require monthly and/or quarterly financial statements to allow the seller to regularly monitor the financial health of the business.
- Finally, the filing of a UCC Security Agreement would protect the seller's interest in the fixed assets.

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## For More Information, Contact

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