



## ***Don't Forget to Consider Seller Financing***

*By Gary Papay, M&AMI*

As baby boomers begin to hit retirement age, many who are business owners are ready to sell. It's created a market that has many businesses for sale.

At the same time, concerns about the economy have made it tough to get financing for many potential deals. Seller financing is one option that could be the solution to get many deals done.

Seller financing involves a seller helping to finance the sale of the business by taking back a second note on the business. It differs from a traditional Small Business Administration (SBA) loan because the seller essentially extends credit to the buyer against the purchase price of the business. However, seller financing is misunderstood by many, even though it may be the best way to sell a business during a stagnant economy.

The most common option for seller financing involves secured notes, but other options also exist, including: unsecured notes, assumption of the seller's guaranteed credit, assumption of capital leases, a real estate lease, earnouts, notes on capital equipment and more.

There are a number of benefits for business owners who are considering seller financing:

- **Faster sale** – Seller financing provides an attractive option for buyers which means that sellers can sell their business fast and at a higher price.
- **Flexibility** – Seller financing enables the seller to create a payment schedule, interest rates and loan period that fit their personal needs.
- **Tax breaks** – Taking a note for part of the business purchase price may provide a tax break for the seller. The seller can defer some of the tax due on the sale of the business until full payment is received, which could be several years down the road.
- **Protections** – Asking the new owner to keep the seller up to date with information like monthly profit and loss statements, workforce numbers, order backlog, inventory levels or other items with the monthly payment can be in the sale contract. The additional information allows the seller to keep track of the business and step in to offer advice or help if any problems are detected.

Working with a qualified business transaction professional, like a Certified Business Broker (CBI) or Mergers & Acquisitions Master Intermediary (M&AMI) is also recommended. Certified brokers and intermediaries can provide the guidance you're looking for when considering seller financing or other financing options. They will help potential buyers and sellers develop a deal that is fair to both parties in the acquisition process.

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