

Show Me the Money- Financing Your New Business

Financing a business is a much different process than financing a home. When you buy a home, you make a down payment and then apply to a bank to get a home loan. This isn't usually too difficult if you've got credit, because the bank uses the house as collateral. If you default on your payments, the bank can repossess your house and sell it, recouping their losses. But when you buy a business, you're not buying a piece of property that can be resold if you're not successful. For this reason, banks are reluctant to offer loans for small businesses.

However, there are other options—and they're just as good, if not better, than getting a bank loan. Between seller financing and assistance from the SBA, you'll probably be able to put together a deal that will allow you to purchase your ideal business.

Seller financing means that a buyer will use a promissory note to count toward part of the purchase price. The buyer will put a certain percentage of money down, and then will make monthly payments to the seller. Terms are similar to those of a bank loan, with interest rates at or below the prime rate, and a buyer will be asked to secure the loan and sign a personal guarantee. This might come as a surprise, but an overwhelming majority of small business sales are structured in this way. It's particularly common when the business is too large for a buyer to pay cash, but too small to attract venture capitalists—namely, those businesses that will sell for between \$100,000 and five million dollars. While each sell is unique, sellers typically finance between 1/3 and 2/3 of the price of the business.

Seller financing is definitely a benefit to a business on the market. Not only will it allow you to afford the business, but it will also foster a positive relationship between you and the seller. This is beneficial for several reasons: firstly, a seller is unlikely to have lied to you or been dishonest about the business if their payment depends upon your success; and secondly, for the same reason, a seller is going to be more likely to be helpful down the road.

There are many others benefits to seller financing. It allows both parties to be more creative when structuring the deal. Contact your attorneys and work with them to structure everything from balloon payments to lump-sum payments, or even allowing the first year's payment to be applied entirely toward the principal. Additionally, you won't have any prepayment penalties, and you won't collateralize the loan personally. While you will sign it, the seller's lien is against the assets of the business.

If it's available, seller financing is usually the most attractive option for buying your own business. There's comfort—and a bit of security—in knowing the seller believes so strongly in their business that they are willing to take the risk with you.

If seller financing isn't available, you'll definitely want to contact the Small Business Administration. While they do not lend money to people for businesses, they will guarantee loans made by lenders. These loans are typically available up to \$2,000,000, although that amount varies, and the repayment terms are generally favorable. Furthermore, if the business you're trying to buy passes SBA qualifications, you can rest assured it's fairly stable.

However, there are many negative aspects to working with the SBA. Requirements are very stringent, and many businesses won't qualify. You also may have to demonstrate past experience in the industry in order to get a lender to work with you, and the amount of collateral required is usually significant. The process can take up to 90 days to be completed. Even so, the SBA is an option worth investigating.