

## Show me the Money? Why Seller Financing Can Work For You

If you're thinking about selling your business, you've probably already thought about the profits you stand to reap. What you may not have considered is seller financing?but you should.

As with real estate purchases, buyers can rarely afford to pay a purchase price out-of-pocket. Even if they can, they might be reluctant to invest their entire life savings in your business. Some kind of financing is usually required. However, unlike real estate, banks can be reluctant to offer financing for small businesses. That's where seller financing comes in.

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 to merit a cash sale, but too small to attract venture capitalists?namely, those businesses that will sell for between \$100,000 and five million dollars. While each sale is unique, sellers typically finance between 1/3 and 2/3 of the price of the business.

While it might not seem practical or even desirable, seller financing will put you in the best position to get a higher offer and quicker sale. And although acting like a bank may feel uncomfortable, it definitely has its advantages. Firstly, offering seller financing can make your business more attractive, resulting in a higher offer and a quicker sale. In fact, transactions that include financing by the seller result in a 15% higher sell price on average. It also reassures potential buyers that you believe in your business and haven't made false promises about its potential profitability. In essence, you're confident enough in the success of the business you've created to take a risk with them. And because ultimately you'll be responsible for approving financing for your buyer, you control how quickly your deal will close.

Furthermore, there are certain tax advantages to seller financing if your deal meets certain criteria. While those benefits may not be compelling on their own, combined with the other advantages, they do make seller financing more appealing. Of course, you'll have to work with your attorney and accountant to structure your deal in a way that best utilizes those advantages.

Obviously, seller financing comes with a risk. If the new owner of your business fails, they could default on their payments to you. But while there are no guarantees, don't forget that your buyer has already invested their own money to make a down payment. Their incentive to succeed is probably even greater than your own hope that they do so.

There is a wide variety of ways in which to structure a seller financing deal, and often these deals get very creative. Again, work with a professional?your attorney, your accountant, and even a broker if necessary?to structure a deal that works for you. But don't overlook this option?seller financing can result in a win-win situation for buyers and sellers alike.