

For Sale by Owner: Benefits of Seller Financing

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Buying an existing business is a smart and relatively quick way to become an entrepreneur that comes with several advantages — an established client base, curated logo and branding, and potentially a brick and mortar store that's already in place. Running any company requires the entrepreneurial spirit, but joining the game when things are already off the ground can mean a little less initial bootstrapping.

Finding the right business for sale can take time, but the real challenge presents itself when you need funding. Not surprisingly, you're more likely to pay a higher upfront price when purchasing an existing business than when launching a new one, but you're also more likely to generate revenue sooner. Guidant clients paid an average price of \$100,000 to purchase a business last year — a sum that most don't have on hand in cash or available credit. Fortunately, there are many ways to get creative and make purchasing your dream business a reality.

When seeking business financing, most entrepreneurs first turn to traditional lending options such as bank loans or borrowing from friends and family. While these are viable options, there's another option that's exclusive to buying an existing business — seller financing. The process of seller financing is simple: the individual selling the business holds the note for the business loan and the buyer makes payments, with interest, to the seller rather than to a bank.

Buying a business from someone who's willing to offer seller financing can help set you up for success. As a buyer, there are a bevy of benefits, which can help you more easily afford the payments and get in business faster. On the flip side, offering seller financing when selling your business can be a savvy decision for many reasons. Here are some of the benefits seller financing can offer parties on both sides of the deal:

Buyer Benefits of Using Seller Financing

1. Improved Chances of Approved Funding

When using seller financing, the seller holds the right to approve you for the loan rather than the bank. However, since the seller likely wants to close the deal and stands to make interest in your loan, your chances of approval are higher. This isn't to say the loan approval process isn't just as intense as if you were working with a bank — it usually is. It's necessary to approach the deal with the same gravity and professionalism as you would when working with a banker.

Set yourself up for success by learning the 5 C's of qualifying for a business loan.



2. Save Time Shopping for a Loan

Applying to banks for loans means sourcing banks that fit your needs as well as filling out multiple applications without a guarantee you'll be approved — a time intensive endeavor that can take months. Although you still have the work to do in presenting yourself as an attractive borrower, working with the seller to finance your business can save you valuable time.

3. Ability to Combine Financing

Typically, seller financing covers less than half of the total loan. Fortunately for buyers, it's very common and easy to combine financing methods to cover the rest of the sum. Rollover for Business Start-ups (ROBS) or 401(k) business financing is an ideal vehicle for attaining part of the total funding in this situation. ROBS allows you to roll over funds from an eligible retirement account for the purposes of purchasing a business — without triggering an early distribution or tax penalties. Combining 401(k) business financing and seller financing means only working with one lender (ROBS is not a loan so you're only working with the seller) and making interest payments on a smaller portion of the purchase price. This also enables you to make a larger down payment, which puts a smile on any lender's face.

Seller Benefits of Offering Seller Financing

1. Earned Interest

First and foremost, offering financing for the sale of your business will earn you interest, which you can then reinvest in future business deals or save for personal enjoyment. Rates for this type of loan can vary greatly but are usually within a percentage point or two of a typical bank loan. Work with your accountant and attorney to decide on a number that makes it a worthwhile transaction.

2. Attractive to Buyers

Chances are if you've listed your business for sale, you'd like the process to move quickly. Offering financing provides buyers a fast way to finance the business and offers the ability to easily combine financing methods — putting them in a better position to reach your asking price (or close to it). It also sends a message that you're confident in the ability of the business to thrive since their ability to repay you may depend on it.

3. Peace of Mind

Playing an intimate role in financing allows you to vet potential buys more closely. As the lender, you'll review the business plan and financial projections of the new owner as well as be able to ask him or her detailed questions about their plans for new operations. If you're looking for assurance your business is going to be in good hands, offering financing can help provide just that.



Other Considerations of Seller Financing

Though seller financing offers clear benefits to both the buyer and the seller, it also presents a certain amount of risk. Both parties should work with their attorneys, accountants and business advisers through every step of the deal to ensure an official contract and promissory note are in place.

