
Seller Financing

Welcome to the Other Side

By: Aaron Dyer

We've discussed the various methods of procuring funding, but what about life on the flip side of financing? Seller financing is a completely different ballgame where a new set of rules applies. It is your job to know them so you won't find yourself in the ninth inning without a hope of scoring.

If you've decided it's time to move on to another field or simply move on to a different stage of life, selling your business might be part of that package deal. Seller financing can be the ideal way to continue the legacy that is your business as well as profit financially and personally from the transaction. When done correctly, it can provide you with immediate funds in the form of a downpayment and then a regular series of payments based on your outlined agreement with the buyer.

In terms of a downpayment, it is in your best interest to ask for as large and reasonable sum as possible up front. This guarantees you a greater security of payment and fewer complications later on. The remainder of the purchase price, or unpaid balance, should be documented in a promissory note or mortgage. The office of the secretary of state will place a lien on the property in order to document the transaction and in the event that the buyer defaults on that note, you will be able to step back into your previous role of owner.

You need to adjust your way of thinking and step into the lender's shoes, the same shoes you found yourself quaking before in times past. Run credit checks, background reports, and find information concerning the buyer's experience of running a business. Do they have any?



Knowing their past business management history will aid you in making an informed decision in selling to the individual. If they have a strong business track record with proven results, then it is more likely they will continue that success with your business. This will then lead to timely payments of the balance left on the selling price.

Another option for protecting yourself in the event of future misfortune, is asking the buyer to take out a life insurance policy naming you as beneficiary. This may sound absurd or morbid, but it will ultimately protect you. In the event of their death, the remainder of the debt should be covered in such a policy and you won't find yourself financially six feet under. Remember, this is business and being blunt is necessary.

Although such a request may be slightly uncomfortable, it should not be unexpected as it is common practice.



Another important item to determine involves a timeline for payment. How much time are you willing and able to give the buyer to fulfill their financial obligations to you? If you feel sudden pangs of sympathy with the buyer over such a difficult process, step aside and consider the facts.

The more time you allow the buyer to pay off means greater risk to you. If their business acumen is not quite up to par, and the business falls apart, your money will go down with that ship. You will likely be forced to repossess the business and start the process of selling over again. And

this is a best-case scenario, as it implies the business hasn't lost all value and isn't steeped in debt.

The options involved with seller financing can be appealing, but you have to be willing to set those ground rules. Set out definite terms on the payment schedule, loan period, and interest rates. Seller financing is generally short term, five to seven years, at the end of which it is assumed the business will be in a better place financially to pay off any remaining balance by more easily procuring funds from a lending institution.

Parting with your business can be emotionally taxing, but don't let it take a toll on your financial portfolio. It's a detailed process, so take your time and make sure you're selling to the right buyer. It is likely you will still be dealing with that person for some time, so don't set yourself up for a difficult relationship. This can be one more way your business can give back to you after all that you've put into it.

About the Author:

Aaron Dyer is President of Dyer Consulting Group, a small business consulting firm that advises business owners on ways to grow their revenues and increase profitability through better strategic planning and financial management. For more information, and also to sign up for Aaron's future articles, visit www.DyerConsultingGroup.com

