

# The Seller Finance Solution

Seller financing can be a great way to get a business sold without slashing the price. Some sellers are hesitant because they need a large lump sum of cash VS installment payments. . . read on to learn more about how to accommodate this common need.

By recognizing the millions of people who can't get traditional financing as potential buyers, resourceful sellers (and their agents) can minimize their time investment in getting a property sold. Even better, sellers who offer financing can usually get a higher asking price for their property, even in the slowest markets. Clearly this is a win-win situation.

Most sellers never consider financing the buyer directly because they are not aware of the benefits or don't fully understand how creating a note works, and what can be done if the installments will just not work for them. Let's take a closer look at the advantages of owner/seller financing, as well as the option to sell that note.

## ***Three Advantages***

Seller financing is very powerful when the market is slow or when there are many buildings or businesses on the market. Just listing the property as "OWC" - Owner Will Carry - will make the deal stand out and attract more buyers. Because many individuals cannot get funding from a bank, offering financing will significantly increase the pool of potential buyers. **So, advantage #1 is MORE BUYERS.**

Seller financing also brings the seller another critical advantage: the likelihood of selling for a higher price. Offering to carry back a note will not only greatly increase the number of potential buyers, but also bring buyers who are willing to pay more if a business is seller-financed. There is a strong "trust component" built in when a buyer sees that a seller will hold a note. There is a perception of decreased risk that is a powerful incentive to a buyer. **Advantage #2: A Quicker, MORE LUCRATIVE Sale.**

Additionally, when the seller finances the buyer, they get to act as "the bank". That means they will structure the deal to collect interest. Over time, if the seller holds on to their note, this can add up very significant additional income, over and above the price they received for the business property. This can also be tax-advantageous compared to receiving a lump sum all the year of the sale. **Advantage #3: LONG TERM PROFIT (higher initial price + potentially lower taxes.)**

## ***The Seller's Strategy***

**A seller-financed sale is simply a transaction where the seller acts as "the bank" or lending institution.** The seller sets the sales price and acceptable terms, and then finances all or part of the transaction. Very often, the buyer will make a down payment and perhaps have some third party financing, and the seller will finance the remaining balance.

Even when the benefits to "carryback" lending are made clear, many sellers are still hesitant to offer financing because they are entering unfamiliar territory. It's a natural, human response -- everyone is uncomfortable with new things. For many property sellers, considering owner financing when they've only dealt with buyers via traditional funding is definitely "thinking outside the box". But once sellers understand the process, they are likely to choose seller financing instead of the unattractive option of cutting the asking price or waiting indefinitely for the "right buyer" who can get financed in a difficult market.

*Here is an example:*

If the sales price is \$500,000.00, and the buyer gives the seller \$100,000.00 cash, the seller will finance up to the remaining balance of \$400,000.00. The seller will be in first lien position unless there is also an institutional third party lender. The seller and his agent would devise acceptable to the terms, such as the interest rate and the repayment schedule, and the agent will negotiate these along with other terms of the Purchase and Sale contract. The transaction attorneys create the promissory notes, security agreements and the Security Deed if Real Estate is involved. After closing, the buyer begins repayment of the note by sending the seller the required payments. (or pay by bank draft)

### ***Special Circumstances (BUT I need the Lump Sum!)***

The whole process can really be that simple. But, there are some substantial differences between a seller-financed deal and one that relies solely on traditional bank funding.

First of all, the seller in this example does not receive a large, one-time payment at the time of the sale. In fact, they will only receive the down payment. On the other hand, the seller will be receiving monthly payments at a decent interest rate, but this income stream can't be used for plans that require that large lump sum.

Since many sellers have plans for the funds from the sale, the seller will need to get enough at closing to finance their plans. Without this payment, the seller's options will be limited. If they need to have a substantial amount of funds available, there is a common solution.

### ***The Solution***

In order to get the money the seller needs from the loan they just created, the seller could sell the monthly note payments to a specialist buyer for a lump sum of cash. If the seller finds someone willing to buy the payments, now they can "have their cake and eat it, too".

In summary.

Step one: Use the seller finance option to get the deal done, with more potential buyers, at a higher price, and with desirable terms.

Step two: Close the deal with all of the required legal documentation as for any loan.

Step three: If the property seller needs immediate cash, SELL the new incoming payment stream for a lump sum.

Article courtesy of our Strategic Partner, Pierre Stokes  
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