Seller Financing

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Seller Financing: How It Works When Buying or Selling a Business

Seller financing, Sellers Note, is a loan the seller of a business gives to the new buyer to cover a portion of the total purchase price. Seller financing for business carries strong benefits for both buyers and sellers. It can give buyers access to more capital to buy the business and opens up the pool of potential buyers to a much wider audience for the seller.

Seller financing will often only cover a portion of the asking price. That means buyers must make up the difference, often 70-80%.

What Seller Financing Is

Seller financing happens during the sale of a business when the seller decides to finance a portion of the purchase price. It can be the primary financing source, but more typically is used as a portion of the capital stack to complete the purchase. Seller financing is sometimes also referred to as owner financing. Whether or not to offer seller financing one of the many questions a seller should ask themselves before listing their business.

Seller Financing Popularity

The largest online marketplace for buying and selling businesses, BizBuySell, regularly surveys business brokers about topics like prices and financing. In a recent survey, 74% of brokers, and 58% of owners, reported that they believe seller financing to be either essential or important to closing small business acquisitions in today's market.

Benefits of Seller Financing

Most sellers are initially reluctant to provide seller financing because of the risk that the buyer won't pay back the loan, but it can benefit both the buyer and the seller. Seller financing helps the seller attract buyers and get a higher price for the business, and it helps buyers who may not have access to the full purchase price through other means.

Here's the specific benefits of seller financing for both buyers and sellers:

Owner Financing Benefits for Buyers

- Get Guaranteed Financing
- Easier Access to additional Financing
- Quicker Closing
- Fill Financing Gaps

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As a buyer, seller financing can get you access to a large amount of capital that you may not qualify for otherwise, and it is typically cheaper than getting a loan from a lender. If you're

looking to get an SBA loan to make your business purchase, the lender may want to see seller financing involved in the transaction. This gives the lender evidence that the seller believes in the future of the business, and in you as the owner.

Owner Financing Benefits for Sellers

- Attract More Buyers
- Quicker Closing
- Potential to Make More Money through Interest and delayed Taxes
- Increased Sales Price

With seller financing, you can attract more buyers and price the business higher because you're providing financing, which allows the buyer to pay for the business over a period of months or years. Many serious buyers will not even commit to buying a business that doesn't offer seller financing because if the seller has no skin in the game, the business opportunity doesn't look as attractive.

Typical Seller Financing Terms

Each seller has a different mindset of what they want to get out of their business, and when they need the cash for the sale of that business. However, there are some commonly accepted terms that can be a good thumb in the air when looking to negotiate seller financing. Terms for seller financing will commonly include:

- Loan Amounts: Ideally the Seller should not finance more then 30%
- Term Length: 3-5 Years
- Interest Rates: Going rate + 1-2%
- Repayment Schedule: Quarterly or annual