

## **The Ideal Seller-Financed Note**

Being in the note buying business, we receive hundreds of requests to evaluate notes that were initiated by seller-financing a business sale. Of all these notes, only a small percentage is able to be purchased by a note investor due to the criteria of a "good note". We'll go through those criteria and whether your client chooses to sell their note or not, they should require the same specifications in order to protect themselves when offering seller financing.

### Position on the Note

Ideal notes are in the first position. There's too much risk in a business owner taking off with assets or severely depleting the value of assets of the business to insure that a second position would receive any value in the event of the worst-case scenario.

### At Least Three Timely Payments Required

The buyer of a note wants to feel assured that the current cash flow of the business is adequate to meet the note payments. Unless at least three payments have already been made on a note (and made on their due date), the note buyer will not even quote the note. The more timely payments made, the lower the discount on the note and the higher the cash payment to the note seller.

### Personal Guarantees

The note must be personally guaranteed by the debtor(s). They should have a minimum FICA score of 650. The note buyer wants to make sure that the debtor will feel some pain if they cannot make their payments, not just let the business go back to the seller.

### Proof of Profitability

Financial Statements showing that the company has been profitable for at least three years.

### Location

The company must have been in the same location for at least three years.

### Down Payment

Ideally, a 30% down payment is required before a note buyer will even quote a note. If the down payment was less than 30% but at least 20%, it still may be a marketable note, but it will have a higher discount.

### Buyer with Experience

Note buyers want to see that the current owner of the business has previous experience in the business.

The above criteria are the ones in place for an "ideal" note. If any of the above criteria can not be met, the note may still be marketable, but the discount rate will reflect the increased risk to the note buyer. If the note fails to meet more than 2 of the above criteria, it will be very difficult to find a buyer for the note.

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