

Financing the Business Purchase

Where can buyers turn for help with what is likely to be the largest single investment of their lives? For most small to mid-sized business acquisitions, here are the best ways to go:

Personal Equity: Typically, anywhere from 20 to 50 percent of cash needed to buy a business comes from the buyer and his or her family. Buyers who invest their own capital (usually an amount between \$50,000 and \$150,000) are positively influencing other investors or lenders to participate in financing.

Seller Financing: This is one of the simplest and best ways to finance the acquisition, with sellers financing 50 to 60 percent--or more--of the selling price, an interest rate below current bank rates, and a far longer amortization. Many sellers actively prefer to do the financing themselves, thereby increasing the chances for a successful sale and the best possible price.

Venture Capital: Venture capitalists are becoming increasingly interested in established, existing entities, although this type of financing is usually supplied only to larger businesses or startups with top management and a good upside potential. They will likely want majority control, will want to cash out in three to five years, and will expect to make at least 30 percent annual rate of return on their investment.

Small Business Administration: Similar to the terms of typical seller financing, SBA loans have long amortization periods and up to 70 percent financing. The buyer must provide strong proof of stability--and, if necessary, personal collateral, but SBA loans are becoming more popular and more "user friendly." For example, the Money Store is the largest SBA lender in the country.

Lending Institutions: Those seeking bank loans will have more success if they have a large net worth, liquid assets, or a reliable source of income. Although the terms are often attractive, the rate of rejection by banks for business acquisition loans can go higher than 80 percent.

[Chart]

Sources of Small Business Financing

Commercial bank loans	37%
Earnings of business	27%
Credit cards	25%
Private loans	21%
Vendor credit	15%
Personal bank loans	13%
Leasing	10%
SBA-guaranteed loans	3%
Private stock	.5%
Other	5%

Printed with permission of Business Brokerage Press