

Smart Money

Cash Flow Notes Making Business Ownership A Reality

by Russ Dalbey

(NAPSA)—While small businesses have a big effect on our economy, becoming an owner can be difficult, since securing bank financing to purchase a small business can be challenging. Typically, the collateral for a small business purchase is the business itself, which can present a unique set of challenges. The selling price of a business is usually far greater



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than the cost of the capital or inventory involved. Many businesses may have a few thousand dollars invested in equipment, but the value of the business is much higher, since the owner will want

to be compensated for cash flow, customer base and projected profits.

That leaves a bank in a precarious situation. If foreclosure becomes necessary, it would find itself in control of a business that it has no expertise or staff to operate. As a result, it is sometimes hard to secure a loan for the purchase of a small business.

One alternative is to use private cash flow notes to finance the purchase or sale of a business. Put simply, a cash flow note is an IOU between two private parties,

secured by the collateral (in this case, the business). Here is how it works:

Let's say I found a business I would like to purchase for \$50,000. I have \$10,000 to use as a down payment. I approach the seller and negotiate a \$10,000 down payment and ask him to carry back the remaining \$40,000 over five years. The seller now has a cash flow note that generates monthly payments from me of \$792.05 secured by a tangible asset—the business itself. It's a win-win: I have now fulfilled my dream of owning my own business, and the seller has a down payment, monthly income with interest and—since the note is secured by the business—one of the safest investments he could find.

Another less obvious benefit is the flexibility of a cash flow note. Note ownership not only provides a steady, secured income, but the former business owner now has the option of selling the note to another investor and getting instant cash. Either way, the outcome is positive for everyone involved.

Cash flow notes may be the financing solution that makes the dream of business ownership a reality for millions of Americans.

Mr. Dalbey is the founder and CEO of The Dalbey Education Institute, www.dalbeyeducation.com.