

## [The Top Two Ways to Purchase a Business without Collateral](#)

Banks love collateral and for a very simple reason. If you have collateral, then the bank has something it can take if you fail to repay your loan. At its heart, collateral is a remarkably simple concept. However, unfortunately, many people who want to start a business lack it. All of this leads us to the simple question, “Can I start a business without a collateral.



### **1. Try the SBA**

There are ways that you can start a business without collateral, but you will need some amount of money. The larger the business, obviously the more money you'll need. Those interested in the zero collateral route will want to take a look at the SBA's 7 (a) program. This program incentivizes banks to make loans to prospective buyers. Through this program, the SBA guarantees an impressive 75% of the loan amount.

Of course, the buyer still has to put up 25% of the money in order to buy the business, but for those looking to own a business without having to put up collateral, the SBA's 7 (a) program is an impressive option. Perhaps best of all, the cash buyers used can come from investors or even a gift, helping to make this program a potentially great one for first time business owners.

### **2. Think about Seller Financing**

Another option is seller financing. Sellers frequently get involved in financing. When a seller is motivated to sell, due to retirement or some other factor, things can get interesting. Most sellers do agree to offer some degree of financing, so asking for selling financing is not unheard of or insulting to a business owner. Prospective business owners may even be able to combine seller financing with the SBA's 7 (a) program. Correctly used, this path could provide a powerful and useful option.

Speaking of retiring, according to The International Business Brokers Association (IBBA), M&A Source and the Pepperdine Private Capital Market Project, [33% of deals now take place when owners are retiring](#). This clearly demonstrates how it is in the best interest of many sellers to consider seller financing.

While the SBA's 7 (a) program is potentially very useful to buyers, it is important to note that under the program, the seller cannot receive any payments for two years. Working around this potential problem may very well require some creativity and effort on the part of the prospective buyer. In the end, it may be necessary to offer the business owner some incentive in order to justify waiting two years for his or her money.

Attempting to buy a business without collateral may, at first, sound like too large of an obstacle to overcome. However, these kinds of purchases really do happen all the time. By staying focused, persistent and understanding your options, you will increase your odds of success. Finally, get as much professional help as possible. Prospective business owners should consult with S.C.O.R.E., experienced business brokers and others to learn the best way to buy a business without collateral.

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