

Updated for the 2006 ACFA and Noteworthy Conventions

***Why you should broker
seller-financed
business notes
to Security Financial***

FOR
NOTE BROKERS

2nd Edition

***A Reference
for note brokers
of ALL levels!***

Learn more at secfin.com

By Byron Rouda, CEO

*Security Financial Services, the largest
purchaser of business notes in the nation*

***Find out what business
notes are, which notes
meet our purchase
criteria, and how to
get your submissions
funded***



Security
Financial
Services

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Part III: Submit your note!

There are two ways to submit a business note worksheet:

- a. Fill out, print, and fax the worksheet on page 11 to us at 415-433-3588 OR
- b. Fill one out online at <http://www.secfin.com/getaquote.html>
9. Blank business note worksheet
10. Sample business note worksheet

We're looking forward to learning more about your upcoming business note opportunities.

We appreciate your interest in working with us. Please do not hesitate to contact us at (800) 982-5945.

Best regards,

Byron Rouda, John Loughmiller and Marc Rouda
Security Financial Services

100 Bush Street, Suite 1750
San Francisco, CA 94104
800-982-5945
415-433-3588 fax

Who we are

Security Financial is the leader in purchasing seller-carryback business notes. We've been a family-operated business since 1942 and currently manage the largest portfolio of business notes in the country. Our key strengths are:

- **The highest note purchase prices in the industry.** Because we use a mix of our own equity as well as low-cost lines of credit, we're able to fund notes without charging a large discount. Also, we're principals who fund with our own money – we can close more quickly because we don't depend on the approval of outside investors.
- **Product knowledge.** We have over ten years of experience in the business note industry working directly with note brokers. Our small purchasing team seeks to find quick and innovative solutions for brokers and sellers.

Please visit secfin.com to learn more about us and our business note purchasing program.

What are business notes?

Financing arranged by sellers to facilitate the sale of their business. Business notes are also called promissory notes, seller-carryback notes, seller carry notes, seller takeback notes and owner carry notes.

Usually a seller will issue a business note because the buyer wasn't able to obtain enough, or any, financing by traditional methods. Business notes can facilitate a sale when buyers:

- Couldn't qualify for conventional or SBA financing
- Were unable or unwilling to pay all cash
- Want to conserve cash for working capital

The seller is effectively making a loan to the new buyer, usually for the difference between the sale price and the total down payment. For example, an owner sells his \$225,000 business for \$100,000 down and a \$125,000 note; the \$125,000 note is called a business note.

Once the seller and buyer have agreed to the terms of the financing, they sign a promissory note which acts as a contract between both parties. Once the note is signed, the seller becomes the note holder.

With the business note signed, the interests of both parties have been met. Sellers have assured the sale of their business by financing the note themselves and will collect monthly payments plus interest; buyers have found an affordable way to purchase a business.

Where note brokers come in

Note brokers find the sellers of such notes and encourage them to sell the remaining monthly payments to a note investor like Security Financial. Brokers submit a business note worksheet to us and we'll respond with a quote. See page 6 for more on this.



The flowchart on the next page illustrates the creation and sale of a business note.

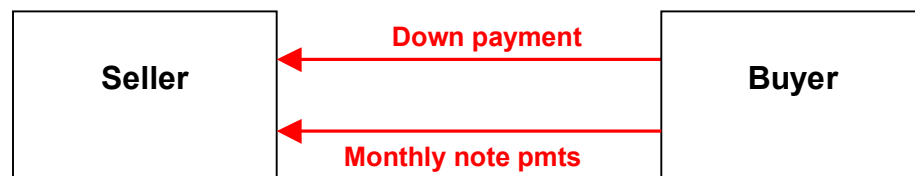
Types of purchase options

We try to offer the most flexible purchase plans. We will quote for whole (all remaining payments) and partial (a portion of payments) notes.

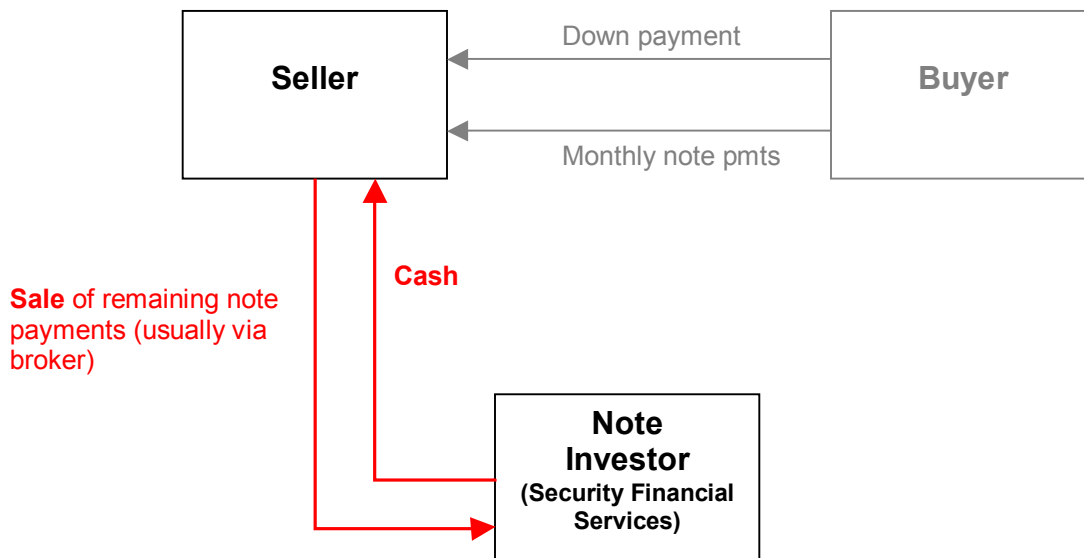


Flowchart: The creation and sale of a business note

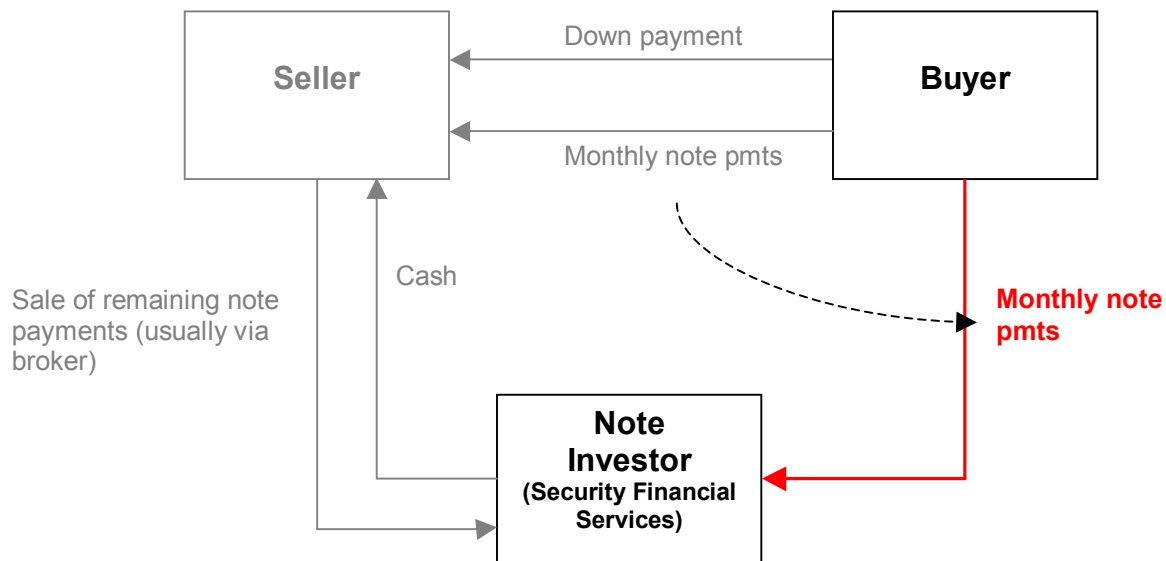
Phase 1: Creation of the note. To facilitate the business sale, the seller carries back a note. The buyer agrees to make a down payment and then begins making the note's monthly payments.



Phase 2: Sale of the note. The seller searches for a note investor like Security Financial Services to purchase the note. In exchange for the remaining monthly note payments the seller receives a lump sum today.



Phase 3: The note investor becomes the note holder. By purchasing the remaining payments, the lending institution becomes the note holder. From that point on, the buyer makes the payments to the institution instead of the seller of the business.



Why business notes are attractive cash flows

- They're one of the least risky types of cash flows. They're not exposed to volatile real estate prices or interest rates. Most notes are secured by the business, not real estate, amortize at a fixed interest rate, and are usually personally guaranteed.
- With interest rates on conventional loans as high as they are today, an increasing number of small- and medium-sized business sellers have found that seller-financing is more attractive. The seller can charge a more affordable rate to the buyer.
- According to the Small Business Administration, more than 550,000 small businesses were sold or created in 2005. Each one represents a seller-financing opportunity and thus a note-brokering one as well

Why note brokers have consistently turned to Security Financial

Why come to us? We are the leading purchaser of business notes in the nation. Here's why:

We use our own funds to offer fair, competitive pricing to note sellers. Our low cost of funds allow us to offer substantially lower discounts. Discounts vary on a case-by-case basis but typically run in the 14% to 19% range.

Unlimited commissions. We allow brokers to charge whatever commission the market will bear.

Fast approval and closings. Going through Security Financial will save you time. We have the know-how to quickly make a bid, underwrite, and fund a note. No loan committees.

No up-front or processing fees. Our quotes are net, with no additional costs to you or the note seller.

Personalized service & product knowledge. Our staff consists of a small team of business note experts who are willing to answer any questions about business notes. We have been in the business note industry working with directly with note brokers since 1995.

The majority of our note brokers are repeat customers. We aim to create a lasting relationship with our brokers.

How do brokers get cash for their note submission?

Our funding process is broken down into 5 steps:

1. Find a note that meets our purchasing criteria (see next page)
2. Submit a business note worksheet. We'll respond with a bid within two business days
 - a. Fill out, print, and fax the worksheet on page 11 to us at 415-433-3588 OR
 - b. Fill it out online at <http://www.secfin.com/getaquote.html>
3. When the seller accepts our bid, we'll ask you to forward the seller a checklist of documents needed for our review. The seller can send us copies of the checklist documents by fax, email, or mail.
4. If we decide to fund the deal, we'll send closing documents directly to the seller
5. Upon our receipt of the closing documents (signed by the seller and notarized), we'll send you a check for the commission and a separate check to the note seller

Please keep in mind that we will review these steps with you when we send you the checklist of documents we need.



The goal is not to fund only one deal. Your goal should be to build a strong, lasting and profitable relationship with us

Basic Purchasing Criteria

Does your submission meet the following criteria?

Here's how to quickly determine if your submission qualifies for funding (items listed in order of importance):

Down payment

- 30% minimum of purchase price
- Please specify if any of the down payment was borrowed

Payor credit

- Minimum of 625 FICO
- No major derogatories (i.e. BK, 180 delinquency, etc.)
- Credit history since business purchase should be emphasized

Healthy business cash flow

- Annual net income should cover note debt (monthly note payments X 12)

Seasoning (the number of monthly payments already made)

- 2 months minimum. Minimum can vary by business type
- The more seasoning, the higher our purchase offer

Personal guaranty

- Required from principal payor
- Can be waived if note has substantial seasoning or if CPA audited financial statements show significant cash flow

Term of note

- Maximum 72 months, preferably 60 months or lower

Position of lien

- First
- Second lien possible if seller's CPA audited financial statements or tax returns show enough cash flow to service both 1st and 2nd lien

Balloon payments

- Discouraged except in special circumstances

Motivation for note sale

- Screen to see if seller is trying to sell note because of knowledge of a deteriorating Business

All business types are considered



We can't emphasize how important is it for brokers to learn these criteria. The more familiar you become with this list, the more quickly you'll be able to identify fundable notes.

Common FAQ's for Note Brokers

Do you buy notes that are not secured by real estate?

Yes, almost all of our notes are secured only by assets of the business

Do you appraise the value of the business assets that secure the note?

No. We use the assets as security but realize that their value will usually be less than the remaining balance of the note we are purchasing

What size notes do you buy?

We buy notes up to \$500,000. We have a minimum discount of \$2,500 per transaction.

In which industries do you buy business notes?

We work with all types of industries - bakeries, restaurants, dry cleaners, laundries, convenience stores, or gas stations for example. We usually focus our attention on small and medium-sized enterprises.

How will my broker fee be paid?

Your commission will be paid directly to you by Security Financial when the transaction closes. The seller will get a separate check.

How much will my commission be?

Your commission is actually unlimited - we allow you to charge whatever commission the market will bear.

How long does it take to close a business note transaction?

We usually close no later than 15-20 working days after we have received all necessary documentation from the note holder. It really depends on the responsiveness and cooperation of the note holder - the sooner we get all documents the sooner we can close.

Do you buy part of a note or just the full amount of payments remaining?

We buy both partial and whole notes.. It is to the seller's advantage to sell just part of the note if their cash needs are less than they would get from selling the whole note. We will gladly quote on a partial purchase.



BUSINESS NOTE WORKSHEET

Print, fill in, and fax this page to us at 415-433-3588 OR
fill it out online at <http://www.secfin.com/getaquote.html>

Seller's Name _____ How did the seller hear of you? _____
Phone _____ Fax _____

Business Information

Exact name of Business _____

Type of Business _____

Is operation a Franchise? Yes No

Street Address: _____ City _____ State _____ Zip _____

Business is: Owned by Payor Leased by Payor and expires: _____

Terms of lease renewal option(s) _____

Is Note signed by a corporation? Yes No If so, is Note personally guaranteed? Yes No

If Note is not signed by a corporation, is it directly signed by an individual? Yes No

Is there a signed Security Agreement with UCC-1 recorded at the time of the Note creation? Yes No

Business Sale

Date of sale _____

Selling price _____

Down payment _____

1st lien _____

2nd lien _____

Note Information

Date of Note _____

Amount _____

Term of Months _____

Payment Amt _____

Balloon Amt _____

Balloon Date _____

Interest Rate _____

Due Date 1st Pmt _____

of Pmts Paid _____

of Pmts Left _____

Next Pmt Due _____

Balance _____

Financial Performance

Annual revenues _____

Less annual expenses _____

Net operating income _____

Payor /Guarantor

Most recent FICO _____

SSN _____

Qualifications for this biz _____

Payment History _____

Broker Contact Information

Name _____

Company _____

Email _____

Phone _____

Quote to Seller (for SFS use only)

Buy full note _____

Buy partial note _____

Quote date _____



SECURITY FINANCIAL SERVICES
SAMPLE BUSINESS NOTE WORKSHEET

Seller's Name Jack Adams
 Address 31 1st Street, Anytown, ST, 99999

How did Note Seller hear of you?
 Via ad in magazine

Phone (000) 555-0000 Fax (000) 555-0000

BUSINESS INFORMATION

Exact Name of Business Sam's Market
 Type of Business Convenience Store
 Asset Value Breakdown: Equipment \$ _____ Inventory \$ _____ Goodwill \$ _____
 Is operation a Franchise? No
 Street Address 61 100th St City Anywhere State ST Zip 99999
 How long in business at this location? 4 years
 Business Location is (check one) _____ Owned by Payor Leased by Payor and expires 5 years
 Terms of any lease renewal option(s) Two 3 year options
 Is Payor a corporation? No Is the Note personally guaranteed? Yes

BUSINESS SALE INFORMATION

Date of Sale 11/01/02
 Selling Price 225,000
 Down Payment 78,000
 1st Lien 147,000
 2nd Lien none

DESCRIPTION OF BUSINESS LOCATION & AREA

Convenience store in strip shopping mall center in downtown
 Anywhere, Arizona

PAYOR INFORMATION

(Employment information, Payment Record, Payor SSN)
 680 FICO – plus five years experience managing a convenience store

NOTE INFORMATION

Date of Note 11/01/02
 Amount 147,000
 Term of Months 60
 Payment Amt 2,910.78
 Balloon Amt none
 Balloon Date none
 Interest Rate 7.0 %
 Due Date 1st Pmt 12/01/02
 # of Pmts Paid 5
 # of Pmts Left 55
 Next Pmt Due 6/01/03
 Balance 134,499.26

MOTIVATION FOR NOTE

(Why, How Much, When, etc.)
 Seller buying another business in nearby state.
 Needs cash for down payment and working capital

BROKER INFORMATION

Name Jerry Mason
 Company Broker & Co.
 Email jerry@ilovebusinessnotes.com
 Phone (000) 555-1234
 Fax (000) 55-4321
 Comments

QUOTE TO SELLER (for SFS use only)

Buy Total Note _____
 Buy _____ Pmts _____
 Buy _____ Pmts _____
 Date Quote Given _____
 Closing Costs Pd by _____

Seller very motivated