S.Crow Collateral Corp.

A uniquely qualified dealer in capital assets

M453$_{SM}$: A History

As Told by Stanley D. Crow, President of S.Crow Collateral Corp.

When I was a brand-new, ready-to-be-licensed lawyer and also ready to purchase my first house, the owner of the house I chose preferred to "carry the paper", to enjoy the benefits of an income stream from the property. He was concerned, though, about whether I would make the payments as promised.

As an indication of the times then, his way of assuring himself that I was a good risk was this: He asked only that the senior partner of the law firm which I was joining write a letter to the owner to say that I was reliable and had good prospects. I relayed the message to the senior partner, who said, "You write it, and I'll sign it." (Please continue reading on the next page.)

(Photos by David Ryan Photography)

S.Crow Collateral Corp.
Post Office Box 972
Boise, Idaho 83701-0972

Telephone
(208) 345-7561
(866) 345-7561

Internet
E-mail: SCrowCollateral@aol.com
Web: www.SCrowCollateral.com

An Installment Sale, Before I Knew It

I did, he did, the owner was satisfied, and I bought the house—and I really did make all of the payments! I didn't really think of it as an installment sale, but that's what it was.

What this story illustrates is that the installment sale which your grandparents knew was often a transaction between two persons who knew and trusted each other, because of the clear risk that a seller might have to foreclose and repossess the asset (real property or whatever), if the buyer failed to pay.

With the widespread advent of trust deeds and varieties of kinds of third-party lending, installment sales ceased to be a significant part of the financing of purchases of either business or personal assets. Because sellers wanted to minimize foreclosure or repossession risk and because buyers wanted to be free from oversight by sellers, installment sales became a financial backwater.

My First Collateralized Installment Sale

In 1995 a rancher in Idaho contacted me for legal advice concerning an installment contract he had signed for the sale of some timber land. The rancher had wanted a long-term income stream from the sale, but the buyer notified the rancher that the buyer had obtained other financing—the timber land was prime for resort development—and was about to pay the installment contract in full. The rancher instead wanted the payment stream to continue.

Upon examination of the contract I found no provision which prevented prepayment, so I asked the rancher for some time to think about what could be done.

I arranged for another entity to assume the installment contract from the buyer. The rancher agreed to release the lien the rancher had retained on the land. The buyer paid the unpaid balance in full, but paid it to the entity which had assumed the installment contract. The cash proceeds were used to acquire mutual fund investments in the entity's name and tax number, and the investment provided the money for the installment payments.

As a result, the rancher retained his desired income stream and installment reporting of the gain on sale, and the buyer obtained free and clear title and proceeded with development of the resort. That was the forerunner of the "collateralized installment sale" which S.Crow Collateral Corp. undertook in 2005 and in turn the forerunner of what is now the "Monetized Installment Sale" or "M453$_{SM}$" transaction.

The Essence of a Monetized Installment Sale

A Monetized Installment Sale is simply a new type of installment sale in which the seller is able to obtain cash up front from a third-party lender in a "monetization loan", instead of obtaining sale proceeds from the buyer and instead of having the installment contract be secured by a lien. The buyer's installment payments fully fund the seller's repayment of the loan.

With insight into that new way, S.Crow Collateral Corp. became a Monetized Installment Sale dealer under Section 453 of the *Internal Revenue Code*. Although the tax code has provided for dealers since the tax code was first adopted in 1913, it is the power and flexibility of M453$_{SM}$ that is re-making the financial marketplace once again.

Sometimes we achieve clarity
only when we look back on what we have experienced;
we learn from what we do, as much as we do what we learn.