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Can a Senior Lender Stop Seller Note Payments? 2026 Guide

> Laurent Capital is an independent M&A advisory firm headquartered in San Jose, California. It advises owners of founder-owned, family-owned and sponsor-backed B2B companies on sales, acquisitions and recapitalizations.

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Executive Summary

The short answer is that the senior lender can block payment for a time and to the extent the documents say so. A seller note is deferred purchase price, and its amortization schedule shows only when the buyer has promised to pay (www.axial.net). In a deal financed by a senior bank or private credit lender, the dates on which the buyer is permitted to pay can differ from the scheduled dates. Bank lenders will typically require the seller to sign a subordination agreement (www.akingump.com), and the seller's central question is whether, and to what extent, the bank lender can block payment (www.akingump.com). The answer is spread across four documents: the promissory note, the senior credit agreement, the subordination or intercreditor agreement and the purchase agreement.

This report separates concepts that are routinely blurred. **Payment priority** ranks who is paid first from all assets, while **collateral priority** ranks competing liens (www.gibsondunn.com). **Payment blockage** stops otherwise permitted payments for a defined time, and an **enforcement standstill** limits what the seller may do about the unpaid amount (gowlingwlg.com). Filed examples show blockage windows that depend on the type of senior default, such as 135 days after a notice for a covenant default in one 2014 subordination agreement (www.sec.gov). Practitioner papers on mezzanine debt (the Proskauer paper dates from 2009) describe blockage notices typically effective for 180 days (www.proskauer.com) and standstills usually lasting 90 to 180 days (bassberry.com). Those are analogies from adjacent products, not seller-note market norms.

A missed scheduled payment, an unpaid amount that accrues and an enforceable default are different events. In a hypothetical $3M five-year bullet note at a chosen 8% simple rate (Hypothetical Example), scheduled cash is **$240,000** a year plus principal at maturity ($4,200,000 in total). If year-two interest is blocked, year-two cash received is **$0**, and the seller's total cash falls to $3,960,000 unless the documents provide a catch-up. An

express payment-in-kind (PIK) clause would instead capitalize the unpaid $240,000 and change later interest. With $9M of senior claims and $3M of seller claims, hypothetical recoverable collateral of $8M leaves the seller **$0** and $12M leaves the seller **$3M**, ignoring expenses and other claims.

UCC citations in this report are to the uniform text; state enactments can differ, so the law governing the note and the collateral must be checked. The evidence base is thin. Axial's seller-note page rests on a select set of 100 letters of intent and states that it is not a comprehensive study (www.axial.net). The only seller-note-specific primary documents are individual filed agreements. This report is general education, not legal, credit, tax or investment advice, and it does not recommend accepting or rejecting any note. Transaction counsel and a credit professional must read the actual agreements.

Introduction and Background

A seller note is deferred purchase price: the buyer pays part of the price at closing and owes the remainder to the seller in future installments (www.chapman.com). The note's amortization schedule states when the buyer has promised to pay. It does not, by itself, state when the buyer is allowed to pay. This report, written for US founders, family owners and chief financial officers (CFOs) of companies with roughly $5M to $150M in revenue, examines the question behind the target query: can the senior lender stop seller note payments?

The short answer is that it can, for a time and to the extent the documents say so. In a financing with senior bank debt and seller financing, senior lenders will often insist that the seller subordinate its debt in right of payment (www.chapman.com). Subordination can sometimes be done in the purchase agreement but is often done in a separate agreement signed by the seller in favor of the senior lenders (www.chapman.com). Practitioners writing for sellers identify the key issue as whether, and to what extent, the bank lender can block payment (www.akingump.com). A technical covenant breach after closing can leave a seller without a significant portion of the consideration it thought it had bargained for (www.akingump.com).

This report therefore builds a **cross-document map** rather than a note-term summary. It distinguishes payment priority, collateral priority, payment blockage, enforcement standstill, permitted payments, maturity, refinancing consent and indemnity setoff. It also separates three events that are easy to conflate:

- **A missed scheduled payment:** cash did not arrive on the date the note shows.
- **An unpaid amount that accrues:** the claim remains outstanding, and whether interest runs on it depends on the documents.
- **An enforceable default:** the seller can accelerate the note or pursue remedies, which may still be limited by a standstill.

The evidence has boundaries. The filed agreements cited here are individual transactions from 2004 to 2026, not a standard form, legal rule or representative lower-middle-market sample. Several practitioner papers address mezzanine or second-lien debt rather than seller notes, and the papers date from 2009 to 2019. Where a source describes a convention, this report says so and treats it as an analogy. The scope excludes Small Business Administration (SBA) program rules, employee stock ownership plan (ESOP) financing and tax treatment, each of which has its own governing rules and professionals. Dollar figures in worked examples are hypothetical, and the 8% rate is a chosen illustration, not a benchmark.

The Four-Document Map: Who Owes What to Whom

The first error in reading a seller note is treating the promissory note as the whole contract. *Table 1* below separates four documents and states, for each, who owes or is bound and which questions it usually answers. The assignments are analytical generalizations from the filed agreements reviewed, not a statement of what any particular deal contains.

Document	Who owes or is bound	Questions it can answer	Filed illustration (one transaction each)
Promissory note	The buyer or acquisition vehicle is maker; the seller is payee	Principal, interest, maturity, prepayment, events of default, cure periods, acceleration	One filed seller note states it is subject in all respects to the terms of its subordination agreement (www.sec.gov)
Senior credit agreement	The borrower and guarantors owe the senior lenders; the seller is generally not a party	Whether subordinated debt may be paid, amended or refinanced; what counts as a default; change of control	A 2026 filed credit agreement restricts amending the terms of any Subordinated Debt (www.sec.gov)
Subordination or intercreditor agreement	The seller as junior creditor and the senior agent or lender, usually acknowledged by the borrower	Payment priority, blockage, standstill, turnover, amendments, liens	A 2014 filed agreement bars enforcement action without the senior agent's prior written consent (www.sec.gov)
Purchase agreement	The buyer and seller, and sometimes parents or guarantors	Closing and deferred consideration, price adjustments, indemnity, setoff against the note	Filed purchase agreements can allow indemnity amounts to be satisfied by set-off against the seller note (see the setoff discussion below)

Table 1 shows why the note alone cannot answer the target query. The seller typically receives the note and signs the purchase agreement and the subordination agreement, but is generally not a party to the credit agreement that defines defaults, restricted payments and permitted refinancing. A seller's cash therefore depends on a document the seller may never have read unless it asks. The Uniform Commercial Code (UCC) Article 3 text gives a hint of the mechanism: an obligor's duty to pay an instrument may be modified, supplemented or nullified by a separate agreement of the obligor and a person entitled to enforce it, if the instrument was issued in reliance on that agreement or as part of the same transaction (www.law.cornell.edu). Whether a given note is an "instrument" under Article 3, and how that text applies in the governing state, is a question for counsel.

The same text points to a practical conclusion. The documents must be read together, and the order of precedence among them (which prevails if the note says "payable on June 30" and the subordination agreement says "not while a senior default is continuing") should be stated in writing before the note is accepted.

Priority: Payment Priority Versus Collateral Priority

Payment priority

Payment subordination gives the senior lender the right to be paid first from all assets of the borrower, whether or not those assets are collateral (www.gibsondunn.com). Lien subordination, by contrast, involves creditors with security interests in the same collateral (www.gibsondunn.com). A 2014 filed subordination agreement illustrates the payment form: the subordinated debt is subordinate in right and time of payment, and senior debt must first be paid in full in cash (www.sec.gov). Practitioners writing about mezzanine debt add that, under payment subordination, the source of the funds is irrelevant (www.proskauer.com).

An unsecured seller note is therefore not necessarily worthless. Its payment right is limited by the permitted-payment and blockage terms rather than eliminated, and value above the senior claim is not necessarily reserved to anyone else. Nor is an unsecured note strong. The contract ranks the seller behind the senior lender, but it does not by itself state the seller's position against trade creditors or other claimants. Security can change that ranking: one practitioner paper notes that a security interest would place the seller financing above most trade debt in an insolvency (www.akingump.com).

Collateral priority

Collateral priority is a lien question, and it is governed by state law. Under the uniform UCC text, conflicting perfected security interests rank according to priority in time of filing or perfection (www.law.cornell.edu), and a perfected security interest has priority over a conflicting unperfected one (www.law.cornell.edu). Article 9 does not preclude subordination by agreement by a person entitled to priority (www.law.cornell.edu), and the Delaware and New York enactments carry the same operative language (delcode.delaware.gov) (www.nysenate.gov). Practitioners describe lien subordination as the junior lienholder giving up the right to exercise remedies or foreclose on collateral until the senior lender is paid (bassberry.com).

Some seller notes carry no collateral at all. A 2019 filed subordination agreement for a seller note and earn-out has the seller agree not to accept any security of any kind for the subordinated indebtedness (www.sec.gov). A lender-side article, by contrast, observes that sellers usually want a secured position of some sort (www.attractcapital.com). Where a lien does exist, it is not a collection right on its own schedule. A UCC secured party's remedies arise after default (www.law.cornell.edu), including the ability to take possession of the collateral (www.law.cornell.edu), and a disposition of collateral must be commercially reasonable in every aspect (www.law.cornell.edu). Those state-law rights are in turn subject to any standstill the seller signed.

Blockage, Standstill and Permitted Payments

Payment blockage

A payment block lets the senior lender stop otherwise permitted payments to the junior creditor for a defined time (www.asimplemodel.com). One Canadian law firm's commentary separates a payment standstill (a payment block) from an enforcement standstill, and notes that the terms of each are unique and deal specific

(gowlingwlg.com). Practitioners report that triggers and length vary by deal (bassberry.com), and that certain material credit events trigger automatic blockage while other events let the senior lender choose to send a blockage notice (www.proskauer.com).

In the 2014 filed seller-note example, permitted payments are blocked while a Senior Payment Default exists and, for other defaults, once the junior creditor has received a Senior Default Notice (www.sec.gov). A covenant-default blockage ends on the earliest of cure or waiver, payoff or 135 days from receipt of the notice (www.sec.gov), and the senior agent is limited in how many such notices it may deliver in a 365-day period. Mezzanine practice shows similar features: blockage notices are typically effective for 180 days unless the underlying senior default is cured or waived sooner (www.proskauer.com), and they can invariably be issued only twice in any 12-month period (www.proskauer.com). A 2017 workshop slide on traditional subordinated debt shows 180 days for a covenant default (abi-org-corp.s3.amazonaws.com). These are conventions from adjacent products and single exhibits, not seller-note norms.

Enforcement standstill

A standstill bars the junior creditor from pursuing remedies. In the 2014 example the subordinated creditor may not take any Enforcement Action without the senior agent's prior written consent (www.sec.gov), with release tied, among other triggers, to the passage of 135 days after a notice. The same agreement carves out action necessary to toll the running of any applicable statute of limitations (www.sec.gov). Practitioner papers report a standstill that usually lasts 90 to 180 days (bassberry.com), a remedies standstill that typically ends no later than a specified period, usually 150 to 180 days, after a mezzanine event of default (www.proskauer.com), and automatic termination on acceleration of the senior obligations or the start of bankruptcy proceedings (bassberry.com). Gibson Dunn's authors describe the purpose as giving the senior creditors an exclusive period in which to exercise their remedies (www.gibsondunn.com).

A standstill does not necessarily remove the seller's right to accelerate. A 2019 filed agreement lets the subordinated creditor accelerate on a seller note event of default (www.sec.gov), while a seller note dated 2004 (filed as an exhibit in 2010) bars the holder from accelerating until the senior debt is paid in full in cash, subject to listed exceptions such as acceleration after 270 days following specified events. The lesson is that "can accelerate" and "can collect" are different questions.

Permitted payments

Permitted payments are the cash the documents allow to flow while no blockage is in effect. Practitioners describe an arrangement in which the borrower may make regular payments of interest while no blockage is in effect (bassberry.com), or interest and regularly scheduled repayments of principal only (www.ahbl.ca). A senior credit agreement may add its own tests, such as liquidity, no-default or leverage conditions, which is why the permitted-payment definition should be read against the credit agreement. Senior cash-sweep provisions can also reduce cash available to the seller, because the senior facility may require operating cash to be used to pay down senior debt (www.akingump.com).

Maturity, Refinancing, Setoff and the Three Events

Maturity and refinancing consent

A bullet note shifts all principal to maturity. One lender-side article describes seller notes structured with no principal repayment until the maturity date (www.attractcapital.com).

Consent rights run in both directions. Each lender may negotiate a consent right over changes to the economic or other material terms of the other lender's facility (bassberry.com), usually those affecting core economic terms such as interest rate, fees and amortisation (www.proskauer.com). In the 2014 example the subordinated creditor may not agree to an amendment of its own documents without the senior agent's consent (www.sec.gov). A seller should ask both whether the note can be amended without the seller's signature and whether the senior documents can be changed to restrict payments further.

Indemnity setoff

The purchase agreement can reduce cash even when the subordination agreement permits payment. In a 2023 filed asset purchase agreement, amounts owed to the buyer under the indemnity article are satisfied first by set-off against the seller note (www.sec.gov), and a properly noticed pending claim lets the buyer withhold the amount of the claim until it is resolved. A 2022 filed unit purchase agreement permits setoff against payments of principal or interest under the promissory note (www.sec.gov). Such clauses commonly raise further drafting questions: whether written notice is required, whether disputed amounts are escrowed and whether a good-faith setoff counts as a breach or event of default under the note or senior documents.

Missed, accrued and enforceable

The three events diverge in the filed documents. A cash interest default under one seller note dated 2004 (filed in 2010) becomes an event of default only after a 30-day period (www.sec.gov). In another filed note, amounts that could not be paid under the subordination agreement become due on the earlier of two dates (www.sec.gov). Accrual during blockage is a drafting question: in one practitioner example involving an earn-out in a merger agreement rather than a seller note, suspended earn-out payments would accrue interest at eight percent until paid (www.akingump.com), which shows that accrual can be negotiated. It should not be assumed from silence, and neither should compounding or a catch-up right.

Three Cash Timelines (Hypothetical Examples)

Timeline 1: on-time permitted payment (Hypothetical Example)

Assume a **$3M** five-year bullet seller note with **8%** simple annual cash interest. The 8% is a chosen illustration, not a benchmark or market rate. Scheduled cash is $240,000 each year, plus $3,000,000 principal at maturity, for $4,200,000 in total. If no blockage ever applies and no setoff arises, scheduled cash, permitted cash and cash received are identical in every year.

Timeline 2: temporary blockage with accrual (Hypothetical Example)

Now assume year-two interest is blocked and the block lifts before year three. *Table 2* below tracks scheduled, permitted and actually received cash, plus unpaid interest and remaining principal, under (a) interest that is merely unpaid without compounding and (b) an expressly agreed PIK clause that capitalizes the unpaid amount and accrues 8% thereafter on the larger balance. Neither a catch-up payment nor compounding is inferred from silence in case (a).

Year	Scheduled cash ($)	Permitted cash ($)	Received, case (a) ($)	Unpaid interest, case (a) ($)	Principal outstanding, case (a) ($)	Received, case (b) PIK ($)	Principal outstanding, case (b) ($)
1	240,000	240,000	240,000	0	3,000,000	240,000	3,000,000
2	240,000	0	0	240,000	3,000,000	0	3,240,000
3	240,000	240,000	240,000	240,000	3,000,000	259,200	3,240,000
4	240,000	240,000	240,000	240,000	3,000,000	259,200	3,240,000
5	3,240,000	3,240,000	3,240,000	240,000	0	3,499,200	0
Total	**4,200,000**	**3,960,000**	**3,960,000**	**240,000 still unpaid**	**n/a**	**4,257,600**	**n/a**

In case (a), year-two cash received is **$0** and the seller's cash over five years is **$3,960,000**, which is $240,000 below the $4,200,000 scheduled. The $240,000 remains a contractual claim only if the documents keep it alive, and it is payable only if they permit its payment. In case (b), the balance entering year three is $3,240,000, so 8% interest is $259,200 a year, and total cash received is **$4,257,600** if every later payment is permitted and made. The $57,600 difference between case (b) and the original $4,200,000 equals three years of 8% on the capitalized $240,000. The purpose of the exercise is not to predict either result. It is to show that the schedule alone does not tell a seller which columns will contain cash.

Timeline 3: distress and refinancing (Hypothetical Example)

Suppose the buyer's senior lender enforces and the seller's remedies are subject to the standstill. The seller's recovery then turns on how much value remains after the senior claim. *Table 3* below applies the arithmetic only: recovery available to the seller is min($3M, max(0, collateral value minus $9M)). It assumes a $9M senior claim and a $3M seller claim, and it ignores expenses, other claims, timing, guarantees and non-collateral assets. No probability, discount rate or expected return is implied.

Hypothetical recoverable collateral ($)	Senior claim ($)	Senior recovery ($)	Seller claim ($)	Seller recovery ($)	Seller claim unrecovered ($)
8,000,000	9,000,000	8,000,000	3,000,000	**0**	3,000,000
10,000,000 (added illustration)	9,000,000	9,000,000	3,000,000	**1,000,000**	2,000,000
12,000,000	9,000,000	9,000,000	3,000,000	**3,000,000**	0

The table shows a cliff rather than a gradual slope: the seller's recovery is zero until value exceeds the senior claim, then rises dollar for dollar until the note is covered. A real refinancing changes the arithmetic through the documents already described: the senior lender may need to consent to changes to the seller note, the refinanced senior debt may re-impose blockage, and the seller note may need to be re-subordinated on terms at least as favorable to the lenders (www.sec.gov).

Bankruptcy adds federal overlays. A subordination agreement is enforceable in a bankruptcy case to the same extent it is enforceable under applicable nonbankruptcy law (www.law.cornell.edu). A bankruptcy petition operates as a stay of acts to collect a pre-petition claim (www.law.cornell.edu). Federal law also lets a trustee reach certain transfers made between ninety days and one year before a petition if the creditor was an insider at the time (www.law.cornell.edu). Whether a selling owner who remains an officer is an insider is a question for bankruptcy counsel, and this report does not assess any specific facts.

Data Analysis and Evidence

The quantitative record on seller notes is thin, and none of it measures collection outcomes. The evidence divides into market context and contract conventions.

Market context

- **Axial letters of intent (LOIs):** Axial's page analyzes platform data from a select set of 100 LOIs that include a seller note (www.axial.net). Because every LOI in the sample has a note, the study cannot show how often notes occur. Axial describes its inferences as only an indicative representation of potential trends (www.axial.net) and says the piece is not a comprehensive study (www.axial.net). The page text reviewed reports no interest rate, term, subordination or standby statistics.
- **Pepperdine Private Capital Markets Report 2026:** the investment banker survey captured responses from 43 professionals (digitalcommons.pepperdine.edu). Respondents reported that seller financing and rollover equity were the most commonly employed tools, appearing in roughly half of all deals (digitalcommons.pepperdine.edu). The roughly-half figure combines seller financing and rollover equity, so it is not a seller-note rate, and it reflects the reported experience of 43 investment bankers rather than a census of deals.
- **GF Data:** a summary by GF Data's research manager reported seller earnouts or financing in 42% of deals involving companies with below-average financials in the first half of 2023 (middlemarketgrowth.org), on 135 completed deals (middlemarketgrowth.org). The metric combines earnouts and financing, so it is not a seller-note rate.

Contract conventions reported by practitioners and filings

- **Blockage notices:** typically effective for 180 days (www.proskauer.com); the 2014 exhibit uses 135 days from receipt for covenant defaults.
- **Frequency limits:** twice in any 12-month period in mezzanine practice (www.proskauer.com); the 2014 exhibit also caps senior default notices within a 365-day period.

- **Standstill lengths:** usually 90 to 180 days (bassberry.com); separately, a mezzanine standstill typically ends no later than a specified period (usually 150 to 180 days) after an event of default (www.proskauer.com).
- **Cure rights:** where an intercreditor agreement gives the junior (mezzanine) lender a right to cure defaults under the senior obligations, a typical cure timeframe for a senior monetary default is 15 days (bassberry.com); separately, a 30-day grace period for a cash interest default in one filed seller note.
- **Maturity gap:** not earlier than 91 days after the latest maturity date for refinancing subordinated debt in one filed credit agreement (www.sec.gov).
- **Blockage that never ends:** for payment defaults, one paper says a senior payment default will always trigger a permanent payment blockage in mezzanine deals (bassberry.com).

These figures differ by product, decade and counterparty. They show a range of negotiated outcomes. They are not a distribution, and no probability should be attached to any value.

What the evidence cannot show

No source reviewed measures how often seller notes are paid in full, late or not at all. Contract-specific collectability remains the main uncertainty.

Information and Consent Checklist

The checklist below is general education for preparing questions. It does not identify what any seller should accept.

Before the letter of intent

- **Ask what the senior lender requires:** whether a subordination agreement will be required, in what form, and whether the lender will share its term sheet. Bank lenders will typically require a subordination agreement (www.akingump.com).
- **Ask for the payment conditions:** which payments are permitted, what tests apply (no default, liquidity, leverage, business-plan consistency), and whether the senior facility has a cash sweep (www.akingump.com).
- **Ask who issues the note:** a holding company issuer with debt at the operating company produces structural subordination (www.akingump.com).
- **Ask whether any guarantee or security is available:** and whether the lender will agree to it, since the lender may require tighter subordination in exchange (www.akingump.com).
- **Ask how the note ranks against other debt:** and whether it can be prepaid, a topic one filed note treats as subject to the subordination agreement.

Before closing

- **Blockage terms:** triggers, notice mechanics, duration, frequency limits, and the events that end a block.
- **Accrual and catch-up:** whether interest accrues during a block, whether it compounds or is capitalized, and whether a catch-up payment is permitted when the block ends. Do not infer these from silence.

- **Standstill:** when it starts, when it ends, what the seller may still do (accelerate, file a proof of claim, toll limitation periods) and what notice the seller must give.
- **Turnover:** what the seller must hold in trust and pay over if it receives a prohibited payment.
- **Definition of senior debt:** the borrower and guarantor entities covered, any cap on senior debt, and whether amendments and permitted refinancing can increase it.
- **Amendments and refinancing:** what changes to the note or senior documents need the seller's consent, and what a permitted refinancing may do.
- **Information rights:** whether the seller receives copies of senior default notices, compliance certificates and covenant breach notices, and when.
- **Cure rights:** whether the seller may cure a senior default and for how long.
- **Setoff and withholding:** which claims can reduce the note, how disputes are noticed and escrowed, and how setoff interacts with the subordination agreement.
- **Change of control and transfer:** whether a later sale of the buyer accelerates the note, and whether the note can be transferred.
- **Releases:** when liens, guarantees and subordination terms terminate on payoff.

Questions for Counsel, Buyer and Senior Lender

For the seller's transaction counsel

- Does the subordination agreement override the note's payment dates, and what happens to amounts that cannot be paid?
- How does state law (the governing state named in the documents) treat lien priority and perfection for any collateral, and does the note rely on UCC Article 9 mechanics?
- What bankruptcy exposure, including insider status and the preference look-back, applies to this seller's facts (www.law.cornell.edu)?

For the buyer and its CFO

- What is the forecast of permitted payment capacity under the senior credit agreement's tests, and what is the plan if a test fails?
- Which indemnity claims could produce setoff against the note, and how will the buyer notify the seller?
- What is the senior debt maturity, and is a refinancing expected before the note matures?

For the senior lender

- Which defaults trigger automatic blockage, which require notice, and how many notices may be given in a year?
- Will the lender provide default notices to the seller, and will it consent to a seller cure right?
- What is the lender's position on permitted refinancing and on amendments to the senior documents that further restrict payments?

Questions that need a credit professional

A credit professional or independent financial adviser is the right resource for stress-testing the buyer's cash flow against the senior covenants. Counsel interprets the contracts, and neither role is a substitute for the other.

Implications and Future Directions

Lender policy, not only contract drafting, shapes what a seller can expect. On December 5, 2025, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) announced withdrawal of the 2013 Interagency Guidance on Leveraged Lending and related FAQs, saying banks should manage leveraged lending exposures consistent with general principles (fdic.gov). The withdrawn 2013 guidance had called for describing amortization expectations for senior and subordinate debt (www.govinfo.gov). A law firm's memo reads the change as removing a significant supervisory constraint and notes the Federal Reserve did not join the statement (www.sullcrom.com). No source reviewed ties that change to the treatment of seller notes, so sellers should treat it only as context for how bank credit policy can move.

For owners planning a sale, the practical implication is sequencing. The seller note's terms are often negotiated while financing is still being arranged, so the questions in this report are cheapest to ask before the letter of intent is signed. An M&A advisory firm such as Laurent Capital can help coordinate a sale process across counsel, the buyer and lenders. It is not a law, tax or accounting firm, a lender or a credit adviser, and it does not give legal, credit or tax advice, so the contract and credit questions above belong with transaction counsel and a credit professional.

Future work that would make this evidence base stronger includes a larger sample of executed subordination agreements for lower-middle-market deals, with terms coded in a consistent way, and outcome data on how often permitted payments were made as scheduled. Neither is available in the sources reviewed.

Limits of This Analysis

- **General education:** this report is not legal, tax, accounting, credit or investment advice and does not recommend that any seller accept or reject a note.
- **Single transactions:** the filed agreements illustrate how contracts can be drafted. They are not standard forms or legal rules, and their language should not be reused as model contract language.
- **Adjacent products:** most blockage and standstill durations come from mezzanine or second-lien commentary and are analogies for seller notes.
- **Hypotheticals:** all worked figures, including the 8% rate, are chosen illustrations. They are not benchmarks, forecasts or market rates.
- **Statutes:** the UCC sections cited are the uniform text, with Delaware and New York enactments confirmed for one section only. The federal citations are to the United States Code. Present applicability must be verified with counsel.
- **Older sources:** the practitioner papers were published between 2009 and 2019, and the Chapman paper is from February 2015.

Frequently Asked Questions (FAQs)

Can the senior lender stop seller note payments? Often, for a time, if the subordination and credit documents permit it. The seller's key question is whether, and to what extent, the bank lender can block payment (www.akingump.com).

What is a seller note subordination agreement? It is the agreement, signed by the seller in favor of the senior lenders, that puts the seller note behind the senior debt in right of payment. Bank lenders will typically require one (www.akingump.com).

What is seller note payment blockage? It is the senior lender's right to stop otherwise permitted payments to the seller (www.asimplemodel.com), often triggered by a senior default and limited in duration by negotiated terms (bassberry.com).

What do standstill provisions do to a seller note? They limit the seller's enforcement actions for a period. A 2014 filed example bars the subordinated creditor from enforcement action without the senior agent's consent, subject to listed exceptions.

Is a seller note always subordinated to senior debt? Not always, but senior lenders will often insist (www.chapman.com). A lender-side article notes that paying the seller first inverts the usual seniority position (www.attractcapital.com).

Can a bank stop seller financing payments, and is that a default? A bank can stop payments only to the extent the documents give it that right, and the seller's key question is how far the bank lender can block payment (www.akingump.com). Whether a blocked payment is an event of default depends on the note and the subordination agreement. One filed seller note makes unpaid cash interest an event of default only after more than 30 days (www.sec.gov). That 30-day grace period is the only example of that kind here; a separate practitioner paper describes a different mechanism, a junior lender's negotiated right to cure a senior default, for which a typical timeframe is 15 days for a monetary default (bassberry.com). That is not a grace period before a default on the junior note.

How does a seller note intercreditor agreement differ? An intercreditor agreement is a contract between creditors. Lien-only versions rank collateral rights without payment blockage, a distinction drawn between lien subordination and payment subordination (www.gibsondunn.com).

Do SBA loan payment restrictions apply? This report covers conventional bank and private-credit financing only. SBA-financed purchases follow SBA program rules, which are outside scope and should be reviewed with a lender and counsel.

What is a standby period? A standby period is a negotiated interval in which seller note payments are suspended. In one practitioner example, under a merger agreement, earn-out payments subordinated to a senior credit agreement were suspended until an event of default was waived or otherwise cured (www.akingump.com).

What rights does the senior lender have if the seller note is in default? That depends on the documents. A default on the seller note may affect the buyer's senior covenants through cross-default terms, while the seller's remedies may be limited by the standstill (www.gibsondunn.com).

Conclusion

The promissory note shows what the buyer promised. The subordination agreement, the credit agreement and the purchase agreement determine what the seller may actually receive and when. In the hypothetical $3M example, a single blocked year turns $240,000 of scheduled interest into $0 of received cash that year, and the later outcome depends on whether the documents provide for accrual, capitalization or catch-up. In the waterfall example, the seller's recovery is $0 at $8M of recoverable collateral and $3M at $12M, because the $9M senior claim ranks first.

Owners and CFOs can use the scheduled, permitted, received, unpaid and remaining-principal columns as a worksheet to ask better questions before a letter of intent and before closing. The filed agreements and practitioner papers show that blockage periods, standstills, cure rights and setoff terms are negotiated, not fixed. The evidence does not establish repayment outcomes, and nothing here recommends accepting or rejecting a specific note. Transaction counsel should interpret the actual agreements, and a credit professional should test the buyer's capacity to pay. The columns do not predict an outcome. They give an owner and a CFO a common language for asking what the lender can block, for how long, whether the unpaid amount survives, and what the seller may do about it, before the seller agrees to defer part of the price.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

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