

>>Seller Finance Tutorial<<



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1. What is Seller Financing?

In a seller-financed real estate transaction—also frequently referred to as *owner financing* and *seller carry back financing*—**a property seller agrees to lend money to the buyer** to purchase and close on the property.

In essence, the seller assumes the role of a banker, and **carries back the loan**. The buyer sends regular payments, typically monthly. A down payment is negotiated between the seller and buyer as in any other sale.

More than anything else, seller financing is flexible. So there can be many variations on the way the loans are structured and repaid.

This flexibility allows the buyer and seller to negotiate the interest rate, payment amount, late charge provision (if any), interest and payment adjustments (if any), any call date (balloon payment date), any acceleration clause, and other provisions of the payment schedule that a buyer would typically find it difficult to negotiate with a lender.

In commercial lending, the borrower typically locates lending programs with preset provisions and applies to qualify for the most desirable set of terms.

But in seller financing, there is true negotiation. One party can trade any element of the terms in exchange for the other party's compromise on a different element.

It's much easier than you may think. And once the transaction is complete, your seller can easily and economically contract with an account servicing provider to handle all the record keeping, as well as the transfer of funds. And when they decide to cash out their contract, that's easy too. Direct them to NoteWorld.com for an instant, no-obligation quote.

2. How Can Seller Financing Help Your Home Sellers?

Your seller has a property and you're ready to sell. How can they make the most profit and establish the wisest investment? If your seller has substantial equity in their property and doesn't require a lump sum payment from the sale, then they should consider seller financing.

Here are just a few of the benefits:

1. A larger pool of potential buyers

Some buyers only look for properties that offer seller financing. They know that bank loans cost about four percent of the loan amount. Other buyers may have difficulty getting a conventional loan. For example, sometimes it's tough for a self-employed buyer to get a conventional loan even if she has perfect credit.

2. A Shorter Time to Close the Sale

Transactions with lenders take longer to close. Most loans require an appraisal and some require an inspection. The appraisal can take weeks to complete. If the inspection reveals defects in the property the lender might require time-consuming repairs even though the buyer isn't concerned.

3. Tax Benefits

Tax consequences depend on individual circumstances, but big taxes often follow a large capital gain. (Capital gain means the property has appreciated in value and the seller is making a profit). The government may take as much as 20 percent of the profit from a sale. Seller financing can help reduce this tax. It spreads the gain over time because taxes are paid as payments are received. Spreading a large gain over time may prevent being bumped into a higher tax bracket or may create time to take some capital losses to offset the capital gain. Also, some extra time might give your seller a chance to reinvest in something that provides tax shelter.

4. Good Interest Earnings

Over time, your buyer makes payments of principle and interest to the seller. Seller financing interest rates are usually 1.5 - 2.5 percent over conventional home loans and 4 to 5 percent over money market saving accounts. Instead of putting their cash in a CD or money market fund at five percent, your seller could earn a nine-percent rate on the loan.

5. A relatively safe investment

Seller financing with a substantial down payment and a responsible, credit-worthy buyer tends to be a secure investment. Sure, your seller can play the stock market and might earn a higher return, but they would carry a greater risk as well. Seller financing returns a monthly income

with a relatively high interest rate, and the investment is protected by real property. If the buyer defaults, the seller forecloses.

But play it safe. Before you've closed the deal, encourage the seller to plan on contracting with an established account servicing provider to keep their payment and tax records and handle the monthly transfer of funds. It's very inexpensive, and they'll save themselves a lot of hassles.

3. How Can Seller Financing Help Homebuyers?

Owning a home is recognized as a major part of the American dream. Yet ownership is becoming more and more difficult for many first-time homebuyers. The growing trend of seller financing keeps that dream alive for millions of families across the country. Many real estate investors are seller-financing fans as well. Check out some of the benefits below:

1. Easier Qualification

Many buyers don't fit into the rigid requirements necessary to qualify for a conventional mortgage. But this does not mean they are bad credit risks. They may simply have not established credit, they may be divorced, have filed bankruptcy in the past, or be new to the country. Seller financing gives these buyers the chance to purchase the home of their dreams.

Your buyers can help reassure the seller that they'll receive timely monthly payments by agreeing to contract with an account servicing provider. A good servicing company will keep all the payment and tax records, and handle the transfer of funds as well.

2. Flexibility

With seller financing, the terms of the contract are completely negotiable between the two parties. Depending on the relationship, there is often no credit check. The required down payment amount is up for discussion. Or there may be low monthly payments initially, with a larger balloon payment down the road.

3. Cost Savings

Loan origination fees can get very expensive. Seller financing eliminates nearly all of these fees, usually saving the buyer from four to ten percent of the total loan price. There also may be savings in mortgage insurance and other closing costs as well.

4. Time Savings

Getting approval for a loan, closing a real estate transaction and transferring the necessary fees typically takes a month or more. Seller financing moves fast. The transaction can close as quickly as both parties agree on the terms. This means your buyer get into their new home sooner and you get your commission faster.

5. A Great Way to Create a Solid Financial Base

How do you establish good credit if no one will loan you money? Seller financing gives many buyers that start they need. Whether they're buying a property from a family member or entering a contract with a willing homeowner, seller financing will help them start building the solid financial base a successful future demands. And by helping them, you've made a customer for life.

4. Frequently Asked Questions

What are the general considerations of a seller-financed sale?

Frequently, the terms (sale price, size of the down payment, interest rate, monthly payment, and term of the loan) do not differ substantially from the terms of a sale utilizing conventional financing. The loan must pay off in a period reasonable to both parties, typically as short as ten years or as long as 30 years. The longer the loan term, the more interest the buyer will pay.

If the seller needs cash from the sale in a shorter time horizon, perhaps 3 to 5 years, the loan is often structured with a balloon clause. When structuring an offer to purchase property, buyers must also be aware that in addition to the monthly loan payments, there will also be real estate taxes, property insurance, assessments, utilities and property maintenance.

If they can handle these obligations, buyers will qualify for an income tax deduction and an opportunity to participate in the nation's largest investment activity--owning property--allowing them to take advantage of increasing value over time.

How is a seller-financed contract structured?

As a real estate agent, this is not typically your territory. The terms of sale are generally the business of the buyer and seller. But for educational purposes, you should know that terms of sale need not differ from the terms of a sale involving conventional financing, but seller financing can be more flexible in allowing terms to fit the particular circumstances.

In the event of unusual circumstances, seller financing may allow an unusual term in the note. For example, a payment may be set for the 18th of the month because the buyer will use a paycheck from the 15th to make the loan payment. A sale of farm acreage may allow payments to fit crop sales that occur in July and November; in this case, payments would be made twice a year with intervals of eight months and four months between them. In another situation, an extra payment each year (for a total of 13) can turn a 30-year payment schedule into a 12-year payoff.

This extra payment (which is separately calculated and not the same as the monthly payment) may be paid when the buyer receives his annual bonus, or in April when he receives a refund - sometimes called forced withholding - from the IRS. This annual balloon concept is commonly used to hold the monthly payments down, while providing a faster payoff of the balance.

What documents are used in a seller-financed transaction?

Typically a seller-financed transaction is on a mortgage or a real estate contract. In many states, a mortgage is the most likely choice for a residential sale. In this form of sale, the seller will deed the property to the buyer. Then the buyer signs a note back to the seller and secures it with the property-on a mortgage or trust deed.

An agricultural sale will often be on a real estate contract because contracts are more likely to incorporate special terms, such as a requirement to farm the property in a specific way. In some states, the real estate contract is also used for residential sales.

What are the steps involved in a seller-financed transaction?

Every sale of real estate requires that the original intent of the parties be carefully defined. The negotiation process that you, as the real estate agent, manage, establishes the price of the sale, the expected condition of the property, and any other considerations important to the parties. The document that sets out this agreement is the **Purchase and Sale Agreement, or Earnest Money Agreement**.

In most states, this document is so basic to the process that an escrow closer cannot proceed until all sellers and buyers of the property have signed the "P&S" in agreement. This document is typically made up of a "boilerplate" with addenda. In the event of a later dispute or a document that differs from the Purchase and Sale Agreement, it is generally held that the original intent of the parties is controlling. Any deviation from the P & S during the closing, or later, can be done only with the agreement of every party to the transaction.

Once everyone has agreed on the terms, the purchasers deliver this offer to the seller, along with **earnest money to bind the agreement**. The sellers must all agree and accept the funds to bind their agreement. The P&S Agreement is delivered to the designated escrow closer, along with the earnest money.

In some states, the seller may be required to hand the **purchaser a disclosure of the condition of the property** before closing can take place. If so, this should be done early in the process. Quite often a purchaser arranges to have a home inspector look at the property for defects in major elements. Electrical, pest, or roofing inspectors may also be called in.

Prior to the closing the buyer must arrange to carry **insurance** (homeowners, business) in agreement with the requirements of the documents. The closer will review a binder to see that the seller's interest is insured. The seller will typically be required to provide title insurance at the closing. If a claim should arise later that is ahead of the purchaser's interest in the property, the title insurance company will pay off any claim up to the limit of the sale (the value of the property).

At the closing, the escrow closer brings together the property from the seller in exchange for the purchase price from the buyer. An **escrow closer** is generally independent of both parties, and has a duty to see that both parties are fulfilled, or the transaction fails. The seller (typically) could choose their attorney to close. In this case, the attorney carries a duty to both parties to execute the Purchase and Sale Agreement, but also carries a specific duty to look out for the interests of his client.

At closing, the property could be encumbered by **liens** (loans) and, depending on the terms of the sale, the loans may be paid off from the down payment; they may continue in force and receive payments from the seller (just as he receives payments from the buyer); or the buyer may assume those debts to pay as his own, reducing the amount owed to the seller. Both parties should read the loan papers carefully when structuring either type of assumption.

As in a conventional transaction, the purchase price is made up of the earnest money agreement (already paid and typically held by the escrow closer), the remaining amount of the buyer's down payment, and the loan documents that represent the rest of the sale price. At this time, the escrow closer inspects the title to the property to ensure it meets the requirements of the Purchase and Sale Agreement, and takes signatures from the buyers and sellers. The closer drafts checks to pay off liens as necessary, determines

that insurance is in force, pays taxes as necessary, and prepares lien documents for recording. The parties may all come to a single table to **sign and exchange documents** (a "New York" closing) or, more typically, the parties come to the closers at different times to perform their separate responsibilities.

As the final element of a closing, the closer will **record the sale** in county records and disburse funds. **Liens are repaid, title is transferred, and loans made of record** by an attorney or other professional licensed by the state to perform the work. The sale is dated and consummated.

Wise seller and buyers will consider using an independent escrow collection agent to collect the payments, disburse the funds, and convey the property on payoff of the balance.

Is it necessary to engage professionals other than Realtors® when buying or selling real estate?

In various areas of the country, sales are closed by attorneys, escrow agents in title companies, escrow officers, or real estate brokers. Either party may consult a CPA, particularly if the property is income property or, at least, not a primary residence. The sale may also involve appraisers, home/well/termite inspections, or other necessary experts.

What is involved in servicing a seller-financed note or contract?

There are two common methods of servicing a seller-financed transaction.

Typically, a buyer makes payment to the seller, and the seller brings forward the payment history and new balance. The seller is responsible (according to the federal tax code) to provide (for the buyer's tax information) an accounting to the buyer (at least annually), and to provide the amount of interest paid during the year. If the payments are always exactly on time, for exactly the right amount, a predetermined amortization schedule can show the progress of the account over time as each payment is checked off.

The other method of servicing a contract involves use of an independent account service provider. In the last 20 years, specialized software applications have allowed for the establishment of dedicated escrow and contract collection servicers. In many states, these are responsible for more than the accounting of the balance. In many states this is a licensed function, and the servicers are bonded and insured by state requirement.

While maintaining the accounting and the required interest reporting for tax purposes, professional servicers also:

- Handle distribution of funds and ensure repayment of the underlying loans on property
- Distribute funds among several payees, such as partners or heirs on a property
- Divide the taxable interest information of purchasers and of sellers
- Generate late payment notices and enforce late charges
- Maintain tax, insurance, and assessment reserve (impound) accounts, making those payments when necessary.

What should a seller look for when selecting a professional to service the note or contract?

A state-licensed escrow agency provides certain protections for the consumer and is not necessarily limited to serving transactions in that state.

Because escrow servicing is a regulated industry, these businesses are usually licensed and bonded, and therefore offer a high standard of care. They can:

- Provide forms to record information about the buyer, seller, seller distribution (bank, underlying loan), and terms of the contract being collected.
- Provide payment coupons to the buyer. Most will offer to draft payments electronically from the buyer's bank and send the funds electronically to the seller's bank. The seller will be provided with notices of payment.
- Furnish an annual history and make the required IRS tax information filings, with copies to the parties. If a party to the account (seller or buyer) passes away, the servicer's accounting system is able to distribute the deceased's share among multiple heirs in varying percentages.
- Allow the customer to access their account status via the Internet to check their payments or balance any time of the day.

A list of qualified nationwide account servicing providers is available online at NoteWorld.com.

What are the mechanics of setting up a contract or escrow collection account?

Your buyer should deal directly with a collection agent in this situation. Collection agents need to hold original documents or see copies of documents to determine the account requirements (depending on whether the account is an escrow collection account or a contract collection account). The agent will need the signature of all parties in an escrow collection account.

For a contract collection account, the servicer needs the signature of the seller, but purchasers who pay any of the fees may also sign the servicing agreement.

Signatures are taken by the independent escrow closer if the "Purchase and Sale Agreement" calls for the closer to send the documents directly to the collection servicers. In this case, the collection agreement is a cover letter describing the documents. Acceptance by the servicer constitutes a receipt for the documents sent by the closer. The seller should direct the servicer to send funds directly to their bank, with notice of payment sent to their mailing address.

In an escrow collection account, the servicer may demand a document of conveyance or lien release that will allow them to release or convey property on payoff.

This required item may be:

- Satisfaction of a mortgage
- Request for full reconveyance of a deed of trust
- Fulfillment deed in a contract sale

- Release of interest when holding a mobile home title
- Termination statement of a security interest
- Other lien satisfaction documents

When all documents and signatures are gathered, it's possible that the file will remain in storage for a number of years-until a payoff is quoted, received, and the documents conveyed. In some cases, there may be a sale of the note (seller assignment), a death of one party, a divorce, a payoff of an underlying loan, or simply an address change. These events cause the collection agent to access the file for administrative activity or to enforce escrow provisions.

In these circumstances, the professional organization is experienced to guide the parties to the account in necessary requirements. The goal on payoff of the account is to meet the necessary requirements to convey property even if the note has been sold, and the original seller has either become incapacitated, passed away, or on travels and couldn't sign the necessary papers.

5. Who Is NoteWorld

[NoteWorld.com](http://www.noteworld.com) (hyperlink to <http://www.noteworld.com>) is **the leading resource center in the world of seller finance real estate**. We provide selling and buying opportunities, valuable tools and expert-level advice. Most importantly, we'll help you connect to other organizations and people just like you—people involved in every aspect of seller-financed real estate transactions.

Whether you're a buyer, a seller, a note holder or a real estate industry professional, NoteWorld.com will make you more effective. When we work together, we succeed together.

Check Out Our Valuable Features

- Free [Quick Quote](#)—an instant cash-value analysis of any seller-financed note
- [Free listing](#) of your seller-financed properties
- [Search our listings](#) of homes and land for sale with seller financing
- Easy Access to [professional note servicing](#)
- [Daily Real Estate News](#) to keep you on the leading edge
- [Power Tools](#) for seller financing.

6. Who is a Seniors Real Estate Specialist?

REALTORS® who have successfully completed an in-depth education program receive the designation "Seniors Real Estate Specialist (SRES)®".

SRES® REALTORS help seniors make wise decisions about selling the family home, buying rental property or managing the capital gains and tax implications of owning real estate. By earning the SRES designation, the REALTOR has demonstrated that they have the requisite knowledge, experience and expertise to be a seniors real estate specialist and counselor.

Members offer their clients the benefits of: education & ongoing updates on senior RE issues, the national prestige of the SRES Designation, sources of direct senior Website/Internet Referral clients plus access to Contemporary Senior Housing from the "Active Senior Builders Group", a division of SAREC. All this along with custom designed quarterly newsletters full of specific housing data for their mature clients.

For more information about Seniors Real Estate Specialists call the REALTOR who sent you this, call 800-500-4564 or visit our website www.seniorsrealestate.com.

7. Referral Program

Here's an **easy** and **rewarding** way to help a client while you make a few bucks for yourself:

If you know someone who is either making payments or receiving payments in a seller-financed real estate transaction, you could help them protect their investment and eliminate a lot of hassles. Just refer them to Noteworld for professional account servicing. When referrals come from a Senior Real Estate Specialist, we'll waive their setup fee and service their contract free for the first 90 days.

Here are the three easy steps:

1. **Tell your sellers about the benefits of NoteWorld.com's account servicing.**
2. **Request their permission to be contacted by NoteWorld.**
3. **Fill out the form below.**

When we sign them up for account servicing, YOU will receive **\$50** for each referral. Refer just four contracts a month, and you'll increase your income by \$200 a month.

Use a copy of this form for each referral:

NOTEWORLD SERVICING REFERRAL FORM	
Your Information	
First Name: _____	Last Name: _____
Address: _____	
City: _____	State: _____ Zip: _____
Phone Number _____	Email Address: _____
Information of the Person Being Referred	
First Name: _____	Last Name: _____
Address: _____	
City: _____	State: _____ Zip: _____
Phone Number _____	Email Address: _____
Date You Told Them About Our Service	
Month: _____	Year: _____
Type of property involved in transaction: <input type="checkbox"/> Land <input type="checkbox"/> Home <input type="checkbox"/> Business	
Relationship: <input type="checkbox"/> Business Associate <input type="checkbox"/> Friend <input type="checkbox"/> Relative	
Send your referral to: NoteWorld Membership Services 1001 Pacific Ave, Suite 300 Tacoma, WA 98402	
You may also fill out this form online at http://www.noteworld.com/referral.cfm For more information, call us at 1-877-334-3026 . We want to talk to you today.	