Owner Financing 101

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Introduction

Buying a home is a huge component of the American dream. But that dream has seemed out of reach for many people who have blemished credit or simply can't amass a decent down payment from their 9-to-5, paycheck-to-paycheck lives. Sure, they shoulder a fairly hefty monthly rent — often an amount equal to or greater than a mortgage payment — but finding an extra couple of hundred a month to sock away is nearly impossible. Even if they could scrounge $200 every month to save it would take nearly five years to get $10,000. And, by then, average home prices will probably require $20,000 down, right? It's a no-win situation.

Not necessarily. Owner financing provides an avenue for buyers with no credit history, shaky credit history, or no down payment to grab their piece of the American dream. Owner financing allows homeowners to offer part or all of the home sales price with or without a mortgage on the property.

While home financing options may seem like a smorgasbord of choices, owner financing may be the best bet for people who don't qualify for traditional loans, don't have the cash reserves needed to put money down or pay closing costs, or must get into a home quickly.

Beyond personal residences, owner financing allows new and seasoned investors an opportunity to control a property with little to no money down and build their investment portfolio.

Also, owner financing doesn't just benefit buyers. If you are a seller, you may find that offering owner financing opens up a huge market of potential buyers and moves your property fast.

If owner financing is a new concept to you, you may wonder how and where do you get started. Your mind may be brimming with unanswered questions about every aspect of owner financing — from the different types of owner financing to the steps in an owner financing transaction. Where can you find answers to these ever-important questions that will take you from an interested observed to an active and successful investor? This book, of course!

This book is arranged in 11 chapters to answer your owner financing questions in logical progression. You can read it straight through, cover to cover, or jump around to get the answers to the questions that are at the forefront of your mind. Let this book be your guide as you navigate the always exciting world of owner-financed real estate.

Chapter 1: What is Owner Financing?

Owner financing, also called seller financing or seller carryback financing, is when all or part of the purchase price is carried by the seller. In other words, the seller agrees to lend money to the buyer to purchase and close on the property. Essentially, the seller plays the role of the banker and carries back the loan. But for all intents and purposes, owner financing operates as a traditional loan with the buyer sending regular (usually monthly) payments to the lender (in this case the seller).

Usually, the buyer will need to offer a down payment, the amount of which is negotiated between buyer and seller as in any normal real estate transaction, but not in all cases.

Many people believe that owner financing can only take place when the property is owned outright. That’s not necessarily true. It doesn't matter if the property has an existing loan, except to the extent that the existing lender might accelerate the loan upon sale due to an alienation clause. Instead of going to the bank, the buyer gives a financing instrument to the seller as evidence of the loan and makes payments to the seller.

If the property is free and clear, the seller might agree to carry all the financing. If so, the buyer and seller agree on the specifics, including down payment (if any), interest rate, monthly payment, and the loan term. The buyer then pays for the seller’s equity in installments. The security instrument is generally recorded in the public records, which protects both parties.

While there is no rule of thumb on a standard down payment percentage, many sellers want a sufficient down payment to protect their equity. Down payments can vary from very little to 30% or more. Sellers feel the buyer’s down payment safeguards their equity because buyers are less likely to go into foreclosure if they've invested a lot of money upfront.

Because most purchase-money transactions are negotiable, sellers and buyers may negotiate the terms to their individual needs and desires, subject to usury laws and other state-specific regulations.

The main benefit of owner financing is the flexibility. You’ve heard the old saying, “Everything is negotiable.” Well, nowhere is that more true than in an owner financing scenario. Buyers and seller may negotiate interest rate, payment amount, 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. Seldom, if ever, can a buyer negotiate any of these items with a lender.

Commercial lending is a largely “you take what you get” proposition with the buyer finding a lending program with preset provisions, then applying to qualify for the most desirable set of terms.

If you are a true lover of the art of negotiation, you will truly enjoy owner financing, either as buyer or seller. Because of the variations on the way loans can be structured and repaid, you'll find yourself constructing unique and individualized loan programs that fit your needs and that of the other parties. Enjoy the flexibility of trading any element of the terms in exchange for the other party's compromise on a different element.

What Are the Different Types of Owner Financing?

Owner financing comprises many variations. Some of the more popular ones are land contracts, promissory notes/mortgages, and lease purchase agreements. Let's look at each.

Land contracts: In a land contract situation, the buyer usually puts a down payment on a property and agrees to pay off the sales price over a specified length of time at an agreed-upon interest rate. Usually, a buyer pays offer a certain amount or makes payments for a certain number of years and then refinances the balance with a traditional mortgage. Land contracts do not pass legal title to the buyer, but give the buyer equitable title. Equitable title can be described as a sort of temporarily shared ownership. When the seller is paid off with the refinanced loan or the buyer makes final payment, the buyer receives the deed.

Promissory notes/Mortgages/Deeds of Trust: Sellers can carry the mortgage for the entire balance of the purchase price (less the down payment), which may include an underlying loan. The seller charges interest on the balance. If there is an underlying loan, this type of financing is called an "all-inclusive mortgage" or "all-inclusive trust deed" (AITD). The seller receives an override of interest on the underlying loan.

Another way this can work is when the buyer takes a first mortgage loan against the home and gives the seller a second mortgage note for the balance of the purchase price less the sum of down payment and first mortgage loan. In other words, the seller is carrying a junior mortgage. The buyer takes title subject to the property and obtains a new first mortgage. The buyer receives a deed and gives the seller a second mortgage for the balance of the purchase price, less the down payment and first mortgage amount.

Here is an example of how this works. Let's say you inherited a home from your grandmother. The house is free and clear and you don't necessarily need a lump sum of cash for the property. A prospective buyer approaches and asks if you'd consider owner financing. He just finished medical school and his student loan burden simply won't allow him to qualify for conventional financing.

You agree on a $250,000 purchase price. His parents "gift" him $25,000 to put 10 percent down. He asks you to carry the mortgage of $225,000. The buyer makes payments to you at a mutually agreed upon interest rate and amount.

A variation on that might involve our young doctor purchasing the house for $250,000 and wanting to secure a bank loan. However, because the bank wants 20 percent down,

that is $50,000, he asks you to hold a $25,000 second mortgage to make up the remaining down payment of $25,000. The bank offers the buyer a $200,000 first loan mortgage. He puts $25,000 down and you hold a $25,000 second mortgage subordinate to his new $225,000 first mortgage. The buyer now makes a monthly payment to the bank for a first loan and to you for the second loan.

Lease Option or Lease purchase agreement: When a seller sells on a lease purchase agreement, he or she actually gives equitable title to the buyer and leases the property to the buyer for a certain period of time. When the lease purchase agreement is fulfilled (the lease ends), the buyer receives title and typically obtains a loan to pay the seller, after receiving credit for all or part of the rental payments toward the purchase price.

These are all complex examples that will be explained in detail throughout this book. Once you learn how to apply these principles, you, too will be able to buy or sell properties using owner financing.

Chapter 2: How Does Owner Financing Benefit Both Buyers and Sellers?

Many people make the mistake of thinking that owner financing is beneficial only to one party in a real estate transaction, usually the buyer. It's almost as if they think the other party got "hoodwinked" into using owner financing. You can almost hear them screech with glee, "We got the seller to carry back!"

That's simply not the case. Both buyers and sellers can benefit enormously from owner financing. Of course, this type of financing does seem to be more attractive in some situations over others. In situations where owner financing is an option, but traditional lending is desired or preferred, the homeowner may not have the impetus to make this allowance. However, with difficult-to-sell houses, owner financing may be the one thing that gets the house sold and allows the seller to move on.

In Which Situations Does Owner Financing Seem Most Attractive?

Owner financing is perhaps at its most attractive in buyer's markets. When sellers are having trouble selling due to excess inventory, tightened credit and lending restrictions, owner financing widens the pool of potential buyers by offering a more lenient qualifying and buying situation.

How Does a Buyer Benefit From Owner Financing?

As mentioned in the introduction, home ownership is a near universal desire. It's certainly part of the American dream. However, recent economic times have created a situation where that dream travels farther and farther away, especially for first-time homebuyers.

Owner financing can keep that dream within reach for many individuals and family throughout the nation. Even beyond private citizens, many real estate investors specifically look for owner financing situations when they are searching for properties.

Owner financing tends to be one of the easiest, quickest, no-hassle ways to acquire real estate. Let's take a look at some of the major benefits of buyer property with owner financing.

Owner financing offers easier qualification. Many buyers are simply unable to comply with the rigid requirements necessary to qualify for a conventional mortgage. Buyers may have poor credit due to late payments, collections, or even a past bankruptcy. They may be back on their feet, but required to pay for these past "sins," for years afterward. Due to their checkered past, the buyers may not qualify for some of the best rates available or, worse, not qualify at all. Also, inability to qualify with those stringent lending guidelines doesn't make people bad credit risks. The self-employed or newly employed have difficulty proving their income or proving a track record of income.

Even people who have just one or two things in their personal history or financial situation that don't make them ideal bank customers can feel like the door to homeownership is shut to them. Things like no credit history, a divorce, or recent immigration to this country can work against them in traditional lending scenarios. Owner financing overlooks these hiccups and gives buyers a chance to buy a home.

With owner financing, sometimes the owner doesn't even demand a credit check. Even in cases where the seller insists on reviewing a buyer's credit report, sellers tend to be much more flexible and less stringent than those observed by a traditional lender.

Owner financing offers financing variations. Banks and traditional lenders tend to offer one size fits all funding. You can choose from a fixed rate, an adjustable rate, and, well, that's usually about it. When it comes to owner financing, the sky can be the limit when it comes to financing options. The financing may be structured with low initial monthly payments with a larger balloon payment three, five or 10 years in the future. You can choose interest only, fixed-rate amortization, less-than-interest, and various permutations arising therefrom. As long as the buyer and the seller agree to the structure, then it's an acceptable way to create the loan.

Owner financing offers down payment variations. Contract terms are completely negotiable between the two parties. You don't have a lender demanding a certain percentage down (or any percentage for that matter). Like most other things when it comes to owner financing, the down payment is negotiable. You don't have a mortgage company arbitrarily telling you that "It's 10 percent or nothing." If the seller wants a larger down payment than the buyer can handle, the seller may be willing to accept creative down payment terms such as a balloon payment within 12 months or periodic lump-sum payments toward a down payment.

Owner financing can be economical. The various mortgage and loan origination fees can add up fast. When a traditional lender is out of the picture, buyers don't have to pay loan or discount points. No origination fees, processing fees, administration fees or any of the other assorted miscellaneous fees that lenders routinely charge allows buyers to save money on closing costs. Owner financing may save the buyer from four to 10 percent of the total loan price. The buyer may also save on mortgage insurance and other closing costs, too.

Owner financing helps move properties quicker than traditional financing. Think of traditional financing as a camp cook stove and owner financing as a microwave oven. Obtaining loan approval, closing a real estate transaction, and transferring the necessary fees may take 30 days or more. Owner financing normally moves much faster. Because the parties are not waiting on a traditional lender to process paperwork, buyers can close faster and obtain possession of the property earlier over a conventional loan transaction. Agreeing on the terms tends to be the lengthiest process. Once that is accomplished, the transaction can close thereafter. The buyer gets into the home sooner and the seller begins getting cash in hand quickly.

Owner financing helps buyers establish a solid financial base. The old catch-22 of credit is no one wants to extend it to you if you don't have a good credit history, but how can you get a good credit history when no one will extend it to you. Owner financing can give novice buyers the leg up they need. Whether buying a property from a friend or family member or from a willing seller, owner financing provides the firm financial foundation many young people need to create a bright future.

How Does a Seller Benefit From Owner Financing?

As mentioned before, owner financing isn't a unilateral proposition on the part of the buyer. Sellers also can benefit from offer owner financing and carrying back. In fact, owner financing can help a seller profit and establish a very wise investment. Especially in instances where the seller has substantial equity and doesn't require a lump sum payment, owner financing can be an ideal way to go.

Let's take a look at some of the key seller benefits.

Owner financing widens your pool of buyers. The pool of buyers you get with traditional lending is a different and, yes, smaller group of people than those who are attracted by owner financing. The number of potential buyers can increase by as much as 400 to 500 percent when the owner is willing to carry the note or take back a mortgage.

Some buyers, including first-time homebuyers and savvy investors, only look for properties that advertise "owner financing." It's tough for some people to qualify for a conventional loan. The self-employed (even those with perfect credit) aren't capable of navigating all the traditional lending guidelines. Also, for folks who are watching every penny and know that bank loans can costs as much as four percent of the loan amount, owner financing may be their only hope to get into a home.

Owner financing may result in a higher sales price. Offering owner financing may put sellers in the position to ask full list price or even more. Think about retail outlets like *Best Buy* or *Circuit City.* When they offer attractive financing terms for electronics and appliances, they aren't necessarily discounting the price. In fact the price isn't even negotiable when the terms are attractive. Car dealers, furniture stores and other consumer outlets also offering attractive financing, and when they do, the price is set much higher. The buyer is less concerned with price, and more focused on how much they have to put down, and how much they monthly payments are.

Owner financing may offer tax breaks. While tax consequences depend on specific circumstances, a large capital gain may result in a big tax bite. Capital gains mean the property has appreciated in value and the seller is making a profit. The government may take as much as 20 percent of the sales profit. Owner financing may help reduce this tax because the gain is spread over time rather than in a lump sum. Sellers may pay less taxes on installment sales by reporting only the income received in each calendar year. Taxes are paid as the payments are received. Spreading a large gain over time may prevent being moved 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 you a chance to reinvest in something that provides tax shelter.

Owner financing provides recurring income. Mortgage payments that come to the seller may increase his or her cash flow (on a periodic basis), resulting in spendable income.

Owner financing may result in a higher interest rate. Owner financing can carry a higher rate of interest than a seller might receive in a money market account or other low-risk types of investments. Seller financing interest rates are usually 1.5 to 2.5 percent over conventional home loan rates and 4 to 5 percent over money market saving accounts. Over time, the buyer makes payments of principle and interest to you seller. Instead of putting your cash in a CD or money market fund at five percent, you could earn 9 percent on the loan.

Owner financing may sell a house more quickly. When properties don't sell using conventional methods, offering owner financing can help you stand out from the pack and move a difficult-to-sell property that might just languish on the shelf.

Owner financing may help you close more quickly. Traditional lending transactions take longer to close. Banks and mortgage brokers generally require an appraisal, which can take weeks to complete, and an inspection. When inspection reveal defects, even minors ones, the lender might demand time-consuming repairs despite the fact that buyer is unconcerned with the findings.

Owner financing can be a relatively safe investment. If you've found a responsible and reasonably creditworthy buyer who puts a substantial down payment into the property, the investment should be fairly secure. You may find other investments with higher returns, but they tend to carry higher risks as well. By offering owner financing, you'll get a monthly income and relatively high interest rate, and your investment is protected by real property. If the buyer defaults, you foreclose.

Are there any Drawbacks to Owner Financing?

Owner financing is, on the whole, a very beneficial arrangement, especially for the buyer. The flexibility of constructing a variety of payment options (such as interest-only or balloon payment) and negotiating a mutually favorable rate is hard to beat. Plus, for those with shaky credit, the ability to rebuild your financial life on a firm foundation, by making regular and timely mortgage payments, is extremely valuable and can help boost your credit score.

The major drawback for buyers arises when a seller only wants to finance in the short term, say two to five years. At the end of that time, you will be required to refinance the loan and repay the balance. If you haven't put yourself in a position to qualify for a traditional loan and are denied the refinance, you'll have difficulty paying the seller per the terms of your contract.

The drawback for the seller is that if the buyer defaults on payments, the seller may have to go through a costly and lengthy court process to get the property back.

Chapter 3: Can You Use Owner Financing When You Need Cash from the Sale?

We've already discussed that in an owner-financing scenario, the seller is assisting the buyer by acting as "the bank," financing all or part of the sale. If you are the seller, you are literally carrying back financing on the property instead of a financial institution or other third party.

Let's assume you are a seller and you'd like to offer owner financing because you know that it will widen your pool of buyers and allow you to sell more quickly. However, you need cash out of the sale or you don't want to take payments over a long period of time. Does that shut you out of using a great strategy like owner financing? Not necessarily. That's because a large market exists of investors who buy owner-financed notes for cash.

I know what you are thinking. "Sure, plenty of folks will buy my note for pennies on the dollar. That kind of help I don't need!" You don't necessarily have to take a big discount of 30 or 40 percent to sell your note. Competition among note investors is fierce and your discount may be substantially smaller than you might initially think.

For the sake of round numbers let's assume that you have a single family house priced at $100,000. It's been on the market for four months. You've had lots of unqualified lookers, but no offers and, frankly, you are getting a little exasperated. You drop the price 10% to $90,000 just hoping to move the property. Finally a qualified buyer surfaces, but the guy wants down payment assistance and has asked that you pay a big portion of the closing costs. Total costs to you add up to 7% of the sale.

Had you started right off the bat offering owner financing many of your unqualified lookers might have been able to purchase the property at full price and without you shouldering the closing costs. Take a look at the table below and see how each scenario stacks up for you.

Traditional Sale		Owner-financed Sale
$90,000	Sales Price	$100,000
- $4,500	Down Payment	- $5,000
$85,500	Amount Financed	$95,000
-$6,300	Buyer Assistance	$0
-$3,500	Additional Costs	- $3,500
$75,700	Gross Seller Proceeds	$91,500
$0	Note Discount	(15%) - $14,100
$75,700	Net Seller Proceeds	$77,400

In this scenario, you actually netted more by offering owner financing, plus you sold the property in one month rather than four, getting your cash much sooner.

Remember, owner financing benefits both parties. Plenty of buyers desperately want to get into a home of their own. They have the down payment and the income capacity to make the monthly payments. (Chances are they are paying the same amount or more right now in rent payments.) However, for whatever reason, they can't qualify for a conventional loan.

If you are a seller who doesn't need the lump sum payout and prefer this investment to the stock market, mutual funds, or passbook savings accounts, that's great. But don't let your need for cash now prevent you from exploring owner financing as a way to sell properties.

Chapter 4: What Are the Steps in an Owner-Financed Real Estate Transaction?

Despite the fact that owner financing offers a tremendous number of variables, in most cases the terms (sale price, size of the down payment, interest rate, monthly payment, and loan term) differ very little from traditionally structured loans.

The loan must pay off within a term that both parties find favorable, usually from 10 to 30 years. Longer terms require buyers to pay more in interest.

If sellers are willing to carry for a short time, but require the cash within three to five years for instance, the loan may be structured with a balloon clause. A balloon requires the buyer to pay off the balance of the loan before the regular maturity date (e.g., 30 years).

When structuring the offer to purchase, buyers should keep in mind that the payment to the seller will contain not only principal and interest, but also real estate taxes and property insurance, as well as assessments, utilities and property maintenance in some cases.

If buyers can shoulder these obligations, they can become homeowners. Property ownership is the nation's largest investment activity. It provides income tax deductions to buyers and allows them to take advantage of appreciation and equity.

How Do You Structure an Owner Financing Sales Contract?

The terms of the sale are up to the buyer and seller and whatever they agree on becomes the basis for the contract. As mentioned before the terms of sale seldom vary from those you encounter in conventional or traditional lending scenarios.

The main difference is the flexibility in allowing terms to fit unique or individual circumstances. For example, in an owner-financing scenario, the payment due date can be set for whenever the two parties choose. Rather than the tried-and-true first of the month, a buyer who is paid monthly on the 15th might want a payment due date of the 20th of the month. So be it.

Do Owner-Financed Transactions Require Different Documents?

Not really. In most cases, the transaction is recorded on a mortgage, deed of trust, or a real estate installment land contract. In many states, a mortgage or deed of is the most likely choice for the sale of residential property for the buyer, since he gets title to the property. For this form of sale, the seller deeds the property to the buyer who, in turn, signs a note back to the seller and secures it with the property on a mortgage or trust deed, that become a lien on the property.

What Steps are Involved in an Owner-Financed Sale?

To paraphrase Gertrude Stein, "A sale is a sale is a sale." Every real estate sale requires that the intent of the parties be clearly defined. The negotiation that takes place between the buyer and seller will establish sales price, expected condition of the property, and any other considerations important to the parties.

The document used to outline these intentions is the Purchase and Sale Agreement or the Earnest Money Agreement.

The Purchase and Sale Agreement is so basic and integral to the process that an escrow closer cannot proceed until buyer and seller have agreed to the contents and signed this document. "Template" Purchase and Sale Agreements, containing boilerplate verbiage and blank addenda, usually can be found at office supply stores. Should a dispute arise later or a document surfaces that differs from the Purchase and Sale Agreement, it is generally held that the original intent of the parties is controlling.

Deviations from the original Purchase and Sale Agreement (either during the closing or after the fact) can only be accomplished by the agreement of all parties to the transaction in writing.

Once all terms have been agreed upon, the buyer delivers the offer to the seller along with earnest money to bind the agreement. If there is more than one seller, all must agree and accept the funds to bind the agreement. The Purchase and Sale document is then delivered to the designated escrow closer along with the earnest money.

Depending on the state in which you live, the seller may be required to provide the buyer with a disclosure listing the condition of the property before the closing can take place. If so, this should be done early in the process. Remember, speed is one of the benefits of owner financing, if the parties get caught up in squabbling over condition or repairs, the entire transaction can get derailed. The buyer may want to have a home inspector examine the property for major defects. Electrical, pest or roofing inspectors may also be called in.

Before the closing can be scheduled and the transaction finalized, the buyer needs to obtain proper insurance in accordance with the requirements of the Purchase and Sale Agreement. The closing agent 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 prior to the buyer'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).

When it's time to close the transaction, the closing agent (escrow company, title company, or attorney) brings together the property from the seller in exchange for the

purchase price from the buyer. The agent is generally an independent third party, who has a duty to see that both parties are fulfilled, or the transaction fails.

If the property is not owned free and clear and, depending on the terms of the sale, the loan may be paid at closing from the down payment. Or, the loan may continue in force with the seller paying the obligation (just as he receives payments from the buyer). Another option is 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 any conventional transaction, the purchase price is made up of the earnest money specified in the Purchase and Sale Agreement (already paid and held in escrow), the remainder of the down payment, and the loan documents that represent the rest of the sales price. At this time, the closing agent inspects the title to the property to ensure it meets the requirements of the Purchase and Sale Agreement, and takes signatures from the buyer and seller. Furthermore, the closing agent drafts checks to pay off liens as necessary, determines insurance is in force, pays taxes as necessary, and prepares lien documents for recording.

Both parties, buyer and seller, may come to a single table to sign and exchange documents (a "table" closing) or, more typically, the parties come at different times to perform their separate responsibilities (and “escrow” closing).

As the final element of a closing, the closing agent records the sale in county records and disburses 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.

It’s best to use an independent escrow collection agent to collect the payments, disburse the funds, and convey the property on payoff of the balance.

Who Is Involved in an Owner-Financed Transaction Besides the Buyer and Seller?

As you might have guessed real estate agents aren’t required and may not participate in an owner-financed transaction. Other than the buyer and the seller, the transaction may require the services of an attorney, closing agent, and/or title company representative, depending on what area of the country you reside in.

Either the buyer or the seller may wish to consult with an accountant, especially if the property is not a principal residence, but rather an income property.

The sale may also involve appraisers, home/well/termite inspections, or other necessary experts.

How Is the Servicing of a Loan Handled in an Owner-Financed Transaction?

Contrary to what you might expect, if you are the seller in an owner-financed transaction, you don't happily cash your checks every month and go on your merry way. The loan requires some "servicing," either by you or by an independent account service provider.

If you plan to self-service the loan, the buyer will make a payment to you and you will bring forward the payment history and new balance. According to federal tax code, you are required to provide at least annually an accounting (for the buyer's tax information) and to provide the amount of interest paid during the year.

This can be a fairly straightforward process, if the payments are always exactly on time, for exactly the right amount. Using a predetermined amortization schedule, you can show the progress of the account over time as each payment is checked off.

Things get a little sticky when the buyer is a late payer or wants to overpay his obligation. Then you might want to consider engaging and independent account service provider to handle the servicing for you. In addition to maintaining the accounting and the required interest reporting for tax purposes, an outside service provide may also:

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

If you are interested in finding an outside servicing provider, look for a company with the sophisticated software necessary to perform the complicated pay and reporting functions you need. Because account 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
- Print payment coupons for buyer or auto-debit buyer's account and electronically send payment to seller's account
- Record an annual history and submit the required IRS tax information filings
- Distribute account among heirs should the seller pass away, including distributing portions to multiple heirs in varying percentages

Chapter 5: How Do You Find Good Owner-Financing Candidates?

The topic of finding good candidates for owner financing is really all about finding good property candidates… period. Sure, some people will advertise "seller will carry" or "owner financing." However, others might not and, upon first asking them will say they aren't interested in holding any mortgages. Your job, however, is to present that option to them and outline the benefits. Many people say "no," because they don't understand owner financing or don't think it's possible since they already have a loan on their home. Educate the seller and see if you can't turn that immediate "no" into a "Hey, maybe that is a good idea!"

Therefore, this chapter is all about find good property candidates in general. In the next chapter we'll talk about how you ask that seller to carry the financing.

The individuals most likely to be open to owner financing tend to be motivated sellers. Perhaps they've had a job transfer and need to sell their home. Maybe they've already found their next home and moved in, thinking their former home would be an easy sale. It's languished on the market for six months and those "double mortgage payments" are stretching them to the breaking point. For whatever reason, motivated sellers want to move on and are open to creative ideas that put YOU in their property.

Locating these motivated sellers is an art that takes years to master. Finding motivated sellers requires advertising, marketing, salesmanship, and, like any business, keeping your nose to the ground. Over time, wise investors establish a referral network, which allows them to find more deals with less effort.

Many who start out in real estate investing with a focus on owner-financed properties quit without ever buying their first property. They go through the motions of looking for deals for a few weeks or months, and then decide it doesn't work. They forget that finding motivated sellers is similar to a salesperson's finding that first customer—it takes persistence and hard work.

What Makes a Seller Motivated?

Motivated sellers want or need to sell their property quickly. They have a problem that needs to be solved. Typically, any real estate problem can be solved with time, money, or effort, but the motivated seller is lacking in any one or all three of these areas. Couple that with emotional situations that motivated sellers are often in and you have a person who wants out NOW!

Some of the issues that motivate people to sell include:

- Divorce

- Lack of concern
- Inexperience with real estate repairs
- Time constraints
- Death of a loved one
- Job loss/job transfer
- The headaches of being a landlord
- Financial problems

Can you see how someone facing one or more of these issues would be willing to possibly carry the financing to get you in their home?

How Do You Find Motivated Sellers?

Within this chapter, you'll find a grab bag of ways to find people in one or more of these "motivating" situations. Make a commitment to try all of them. Go back to the ones that work best for you.

For some of the methods outlined below, you may take a farming approach to finding your motivated sellers. Successful real estate agents use *"farming"* to increase their business activity. They pick a neighborhood or two and focus their marketing efforts within that area. You should try the same technique. Start with a neighborhood that is relatively convenient for you. If you decide you want to do drive-arounds, focus on your farm area.

Over time, you may expand your farm area, but stay within areas that contain the type of homes you plan to purchase.

Ways to Locate Property Candidates

- Classified ads (placed by you or others)
- Real estate agents
- Drive the area
- Open Houses
- Direct Mail
- Flyers and door hangers

- Magnetic car signs
- Referrals
- Scouts

Classified ads: An obvious, yet often overlooked, place to look for deals is in the classified ads. These can be print ads in your local newspaper or on the Internet on sites like Craig's List. Whichever you use, follow the same approach when identifying and approaching motivated sellers.

Be prepared to make a lot of calls, because finding properties is a numbers game. Do not waste much time with each seller; just ask basic questions to gather information about the property and the seller's needs. Most people you call cold will not be responsive. Don't take it personally; just keep calling. Remember that each time you hear a no, you will be one call closer to a yes, and you will be learning along the way. If you live in a large metropolitan area, start with the ads for the areas you know. If you live in a more rural area, call every ad in the newspaper.

Within the ads, you'll find three distinct categories: Private owner or FSBO ads, those placed by real estate agents, and those advertising properties "for rent." All three can provide you with valuable information and/or opportunities.

Definitely call on the ads that are for sale by owner. (They don't all say "for sale by owner," but you will learn to detect these by other clues) You will notice that real estate agents place many of the ads. Most areas require that real estate agents identify their licensed status within the ad. However, agents often ignore that requirement. You do not need to call on most of those ads. We'll discuss a better way to deal with real estate agents later in the chapter.

If you are not inspired to call on every ad, then at a minimum, call on the ads that specifically say "*owner financing*" or "*owner will carry.*" Because not everyone knows that they are willing to hold a mortgage (that is, not until you explain it to them!), you may also want to look for other key motivating phrases. Examples of these key phrases are *must sell, fixup, needs work, handyman special, vacant, motivated,* and so on. Unusually long ads listing every detail about the property are probably from inexperienced or motivated sellers, so these ads also warrant a call.

As for real estate agent ads, believe it or not, many are teaser ads designed to get you calling about a particular type of house or neighborhood in which the agent works. Agents often pull the old bait-and-switch. Once you call, they try to get you into their office so they can show you other properties.

If the ad is for a property in one of your target neighborhoods, then call the agent for a different reason—to let this agent know that you are looking for owner-financed properties. Call on all of the ads that advertise fixer properties in your target areas and

ask for the agents' e-mail addresses and fax numbers. Send these agents a brief letter, alerting them that you are an investor and that you are looking for owner-financed properties. Send this letter to no fewer than 25 real estate offices in your first month of doing business. This letter will get the agents calling you for properties, rather than the other way around.

Another way to find deals is by calling the classified ads offering houses for rent. Most cities have more properties for rent than for sale. One reason is that some people become accidental landlords for one reason or another. For example, they may have inherited the property from their parents, or the owner may be recently widowed and their spouse had handled the properties. These people rent out the properties because they don't know what else to do with them.

Calling rental ads can be lucrative, because some landlords are simply tired of dealing with tenant and property management issues. These landlords may want a way out of handling their problem property. You just don't know what the landlord's needs are until you ask, so consider calling on these ads for rent. Just pick up the phone and say, "I saw your ad in the paper for a property you are renting. I am an investor. Are you interested in selling the property?" If the answer is no, give these landlords your name and telephone number and ask them to call you when they decide to sell. Also, ask them if they know any other landlords in the area who may be interested in selling. Making a lot of telephone calls does not excite most people, but the telephone can make you a lot of money.

Anytime you embark upon a concentrated call plan, you need to have a strategy for handling the return calls you hope to get. Unless you have a business office, set up a separate telephone line in your home to handle incoming calls. If you are not available during the day to answer calls, have the calls forwarded to your cell phone (Don't even consider *not* having a cell phone.) If you are working full-time at another profession, use a voice mail that screens out unmotivated or partially sellers. For example, the message could say: "Thank you for calling Real Estate Solutions, Inc. If you are calling about a house for sale, please leave your name, telephone number, the property address, and why you are selling." This message separates the truly motivated sellers from the marginally motivated sellers who are simply looking to shop their properties. You can also use a live call center if your budget permits, such as www.patlive.com.

When calling others, or receiving calls, it makes sense to develop a script to use—especially when you are new to the business. Be honest with sellers and let them know you are not a large company. It is okay to gather information about the property and establish that the seller is motivated. However, it is best to minimize the discussion. Use the call to set up a personal meeting.

Real estate agents: Real estate agents can be either a great source of potential deals or a big stumbling block, depending on how you deal with them. They are among the most informed people regarding properties for sale, and they have access to more information

than investors do. Agents also have many contacts and may know of potential deals that are not advertised on the MLS (called pocket listings).

Much of the information that was once exclusively available to MLS subscribers is now available to anyone with Internet access. However, consumer real estate sites are not typically as good as the sites real estate agents can access. The agents-only sites provide better search engines and more data; they are also usually updated more frequently than consumer sites. Although the gap has narrowed, real estate agents still have the upper hand in watching market activity.

Before we talk about how real estate agents can help you find good owner-financing candidates, let's talk a little bit about the real estate profession in general.

In most states, a person must be licensed as a broker to list property. A listing is an agreement between the seller and the broker that permits the broker to sell the property for a fee. In most cases, this fee is generally about 6 percent of the sales price. The broker who signs this agreement with the seller is called the listing broker or sometimes the managing broker.

The listing broker usually hires several agents (sometimes called salespersons) to help sell their listed properties. An agent, like a broker, must be licensed to sell real estate. In most states, however, only a broker can list a property. Thus, if the agent finds a buyer for the property, the listing broker and the agent split the commission for the sale. While a broker and an agent are different, this book refers to them synonymously as *agent.* (Note: Each state has its own requirements for agent commissions, so learn about your state's requirements.)

Agents can also represent buyers or sellers in different capacities, such as buyer's agent/broker, seller's agent/broker, or transaction agent/broker. Some states actually require attorneys to provide services that are offered by agents in most of the country. It pays to understand the various agency relationships allowed in your area.

The word REALTOR® is a registered trademark term reserved only for members of the local board of Realtors, which is affiliated with the National Association of Realtors. The boards are private, self-regulating agencies that govern rules of conduct for their members. Most agents belong to one or more local boards; membership is usually a requirement to obtain access to the MLS computer system.

Real estate agents can earn additional designations. Typically, serious agents will undergo continuing education to earn such titles as Graduate Realtor Institute (GRI), Council of Residential Specialists (CRS), or a multitude of others. When evaluating potential agents, ask about their credentials and why they chose a specific educational track. Of course, formal education is only one way to assess your agent's value and does not guarantee that the individual has the skills you need.

A buyer’s agent represents a buyer looking for properties. Most listing agents will offer a co-op fee to any buyer’s agent who procures a buyer to purchase the property. This co-op is a part of the listing agent’s commission.

The buyer’s agent’s loyalty and representation belong to the buyer, although the listing agent pays the buyer’s agent. Because buyer’s agents usually procure the buyers to make the sale, they are often referred to as the selling agents.

Using a good buyer’s agent will help you find a lot of deals. The agent can check the MLS for new properties for sale on a regular basis. Also, ask your agent to search through the MLS for the motivation buzzwords, such as *must sell, needs work, estate sale, divorce, rehab,* and so on. These buzzwords tend to identify someone as a motivated seller.

Although a buyer’s agent can be an excellent source of leads, don’t use the agent as your primary source of leads when you get started. Agents are businesspeople and their time is valuable, so they may not be willing to spend much time with new investors. Busy agents do not want to waste their time with a beginning investor making frivolous offers that don’t get accepted. In a strong market, they can work with plenty of qualified conventional homebuyers. They don’t need to deal with creative offers and nothing-down, pie-in-the-sky promises.

While this view does not always represent reality, it is how most agents think. As a beginner, you will get discouraged dealing with a buyer’s agent who possesses this attitude, so make sure you approach your agent in the right way.

When meeting or working with a real estate agent, observe these ground rules.

- Dress nicely. You want to look “money.”

- Be respectful of the agent’s time. For example, ask the agent to have an assistant fax or e-mail you the listings you are looking for.

- Drive by the properties you are interested in before asking the agent to show you the inside of each property.

- Don’t come off as a hotshot, but do let the agent know you intend to buy more than one property and can offer repeat business. If you intend to sell the property retail, offer the agent the listing (and, of course, ask for a discount on the fee for this listing).

Drive the area: Spend a few weekends driving around a selected area. At first, your goal is to learn about the area, the style of houses, and the average prices. It is not necessary to begin your investment career by learning every square mile of a large metropolitan area, but it is important to learn the value of typical homes in your target areas.

While you are driving around neighborhoods, remember to keep a sharp lookout for vacant, ugly houses. How can you tell if a house is vacant? Look in the window! Of course, you should use a fair amount of discretion; this practice may get you shot, bitten by a dog, or arrested. First look for the obvious signs of vacancy: overgrown grass, no window shades, boarded windows, newspapers, garbage, mail piled up, etc. If you are not certain whether the property is vacant, knock on the door. If the owner answers, be polite and respectful and ask if he or she is interested in selling. In many cases, the home may be a rental property, so ask the occupants for the name and telephone number of the owner. Obviously, you should not visit these properties alone, especially at night.

If the property is vacant, ask the neighbors if they know the owner. Most neighbors are helpful, for they know ugly houses hurt their own property values. In addition, ask the mail carrier who knows all of the empty houses on the block. Leave a business card and write down the address of the ugly or vacant property'. When you get home, look up the name and address of the owner. Finding the owner of a vacant house can be difficult, which is why the persistent people who find the information make the most money. To determine the name of the owner, call your local tax assessor's office or look up the deed recorded with the county land records.

Contacting the owner takes a little more digging. Try speaking with the neighbors or asking the post office for a copy of a change-of-address form on file for the property. Online services such as http://www.infousa.com will search public databases, such as the Driver's License Bureau and the Department of Motor Vehicles, for a small fee.
Some cities, towns, and counties will tag a house with code violations. This is often a sign of a neglected or vacant property. Ask your city if you can obtain a list of such properties or find where this information is publicly recorded.

Open houses: Visit open houses and for-sale-by-owner (FSBO) properties on weekends. Speak directly with the owners and their agents. Pass out your business cards. Make friends. Word of mouth and referrals are a big part of any business. Take a good look at the property and its physical features. After going to a couple dozen open houses in the neighborhood, you will get to know the value of the properties and the different styles of houses.

Direct mail: Direct mail marketers are masters at working the numbers game. They mail postcards, flyers, brochures, and catalogs by the tens of thousands to prospective customers. Believe it or not, direct mail success is about 1 percent. That means a 99 percent failure rate! Here's a little secret: you can get filthy rich on a 1 percent success rate in direct mail.

Postcards are the cheapest and most effective way to cover a neighborhood. Go to the post office and buy a couple thousand postcards. Take them to a printer and have a simple message printed on the postcard, such as "We Buy Houses." You can also do the entire process online at http://www.USPS.gov. Don't expect to get all of the calls at once; sometimes people call months after receiving your cards. Try mailing to the same people two or three times a year. You may get as many calls the second or third time around.

The technique described above would be defined as a blind mailing to a targeted area. You might also consider mailing to specific lists, such as out-of-state owners (these could be motivated landlords or job transferees).

The names of these people can be purchased from a mailing list broker. Look in your local phone book under "Mailing List Companies." You should expect to pay 10 to 30 cents per name. In addition, keep a running list of the vacant houses, people who call on your ads, and other leads. Mail postcards to these people on a regular basis.

When it comes to direct mail, many novice investors wonder exactly what the mailing piece should look like. Marketing companies have done exhaustive studies on the most effective color, size, and wording of marketing pieces. In other words, the particulars that get people to respond to one postcard over another. While this information is somewhat useful, don't get caught up in it—the most important part of marketing is repetition. Keep sending the mail until the recipients ask to be taken off your list or a postcard comes back marked deceased; then find out who the heirs of the estate are.

Flyers and door hangers: In addition to sending postcards, blanket the neighborhoods you choose with other marketing materials such as flyers and door hangers. When funds become available, consider more aggressive advertising, such as bus stop benches and supermarket shopping carts. When homeowners in the area are thinking of selling, they may call you before listing their property with an agent. By saving these people a real estate commission, you may be halfway to your desired purchase discount.

Don't spend your time passing out flyers and door hangers; rather, hire kids to do it for you. Go back and check to see if the job is done properly before you pay them. Instruct them not to place anything inside a mailbox; rather, put materials inside a screen door or fence, so as not to run afoul of postal regulations.

Door hangers are more expensive than flyers, but they are easier to distribute.
Carry door hangers and flyers in your car when you cruise neighborhoods. Whenever you see people in their yards or a for sale-by-owner sign, stop and talk with the owners, then hand them a flyer.

Magnetic car signs: You can get magnetic signs to place on your car, truck, or van, making it a traveling billboard. We've seen entire vans and trucks with "We Buy Houses" all over them. These investors may deduct the entire vehicle as a marketing expense on their income taxes.

A helpful hint: Other unrelated businesses may be marketing their products or services in the same neighborhood using the same advertising means. Offer to split the expense to share your message. For example, if a pizzeria is distributing single-sided flyers, offer to pay for the printing if your message can appear on the back of the flyer. Also, check with local companies that send coupon mailers in bulk. It is much cheaper to mail information when multiple advertisers are involved.

Referrals: As an individual you can cover only a limited amount of ground looking for bargain properties. Because your greatest profit is made at the purchase end of a transaction, it makes sense to enlist others to help you find deals. In fact, you will find that after a few years in the real estate business, your greatest source of deals will be from referrals.

To obtain referrals, you need to pass out contact information. That means getting a nice business card. No, get a really nice business card. Don't be cheap and use the basic white ones from Office Depot, and don't even think about making one on your computer. When you are dealing with a $200,000 asset, look professional. Don't be shy about spending $100 or more on your business cards.

Your card should be double-sided, with a complete message about what you do. Your business should have a catchy name that tells what you do. CTM Investments tells people nothing, but Real Estate Solutions, Inc. tells a lot more. In addition, form a corporation for your business as soon as possible.

Start by passing out your business cards to everyone you know, including business contacts. Let them know what you do, hand them your card, then ask, "Can you think of anyone you know who has a property they are having trouble selling?" The best salespeople always use this technique—you should, too.

Other people who should get a business card are those who are out working in your target neighborhoods each day. Mail carriers, delivery people, contractors, insurance agents, city building and zoning inspectors, carpenters, and painters all could provide referrals. Introduce yourself to these people and explain that you are looking for properties that may have been on the market for some time.

Scouts: You can offer people a referral fee for information leading to a property you purchase. This amount can be anything from $500 to $1,000, depending on how good the deal is. A friend who just stumbled across information about properties will be happy to comply. If you are looking for real scouts, however, it will be difficult to keep them motivated if they only get paid when you buy a property.

What Types of Properties Tend to be Distressed?

We've talked a bit about motivated sellers and the types of life situations that may make them open to owner financing. Now, let's take a look at a couple types of properties that might make good owner-financing candidates.

Probate properties: Every year, countless people die owning real estate in your city. Often, these properties are in a state of disrepair, because the owners neglected them during their final years or because they sat vacant after their death. When someone dies with real estate in his or her name, the ownership does not automatically vest in the heirs of the deceased's estate. The deceased's will must be processed through a court proceeding known as probate.

If the person who passed away is elderly, the property may be owned free and clear. The heirs may not need a lump sum of money and could be open to an owner financing arrangement. This may be particularly attractive if the property is in disrepair. The typical heirs to an estate are no different than the average person; they have no experience in fixing or selling real estate. Grieving heirs don't want to spend months renovating grandma's house then listing it for sale. You may be able to walk in and negotiate a bargain price and owner financing.

The easiest place to find probate properties is in the newspaper. The obituaries can be cross-referenced with real estate records in your county. If your county tax assessor has free online listings of properties, run the names of the deceased through the database to find a match. Once you have a match, contact the local probate court to find out the name of the administrator of the estate. Even though particular situations may not present a deal for you, administrators can keep your name on file in case they are the administrator of other estates.

Foreclosure properties: *Chasing foreclosures* is slang for following properties through the foreclosure process while attempting to entice the owners to sell.

Foreclosures, at first thought, might not seem to be owner financing candidates. However, foreclosures fall into a special category of owner financing called "buying subject to." In this scenario, you simply "take over the payments." You may give the seller something for his equity or you might just pick up where they quit paying. It's owner financing in that you are using the mortgage and loan that was obtained by the seller, not putting your own financing in place. We'll talk more about "buying subject to" in a subsequent chapter, but for now let's talk about foreclosures in general.

Foreclosure properties can be the best or the most frustrating source of leads. The information is public, so every seminar junkie in town is competing with you. To work the foreclosure market successfully, you must understand how the foreclosure process works.

Foreclosure is the legal process of the mortgage holder taking the collateral for a promissory note in default. The process is slightly different from state to state, but there are basically two types of foreclosure: judicial and nonjudicial. In mortgage states, judicial foreclosure is commonly used, while in deed-of-trust states, nonjudicial foreclosure is the most common. Many states permit both types of proceedings, but standard practice in most states is to use exclusively one method or the other.

Judicial foreclosure is a lawsuit that the lender (mortgagee) brings against the borrower (mortgagor) to get the property. About half of the states use judicial foreclosure. Like all lawsuits, foreclosure starts with a summons and a complaint served upon the borrower and any other parties with inferior rights in the property. (Remember, all junior liens, including tenancies, are wiped out by the foreclosure.)

If the borrower does not file an answer to the lawsuit, the lender gets a judgment by default. A referee is then appointed by the court to compute the total amount (including interest and attorney's fees) that is due. The lender then must advertise a notice of sale in the newspaper for four to six weeks. If the total amount due is not paid, the referee conducts a public sale on the courthouse steps. The entire process can take as little as 3 months and as many as 12 months depending on the volume of court cases in that county.

The sale is conducted like an auction, because the property goes to the highest bidder. Unless significant equity is in the property, the only bidder at the sale will be a representative of the lender. The lender can bid up to the amount it is owed, without actually having to come up with cash out of pocket to purchase the property.

If the proceeds from the sale are insufficient to satisfy the amount owed to the lender, the lender may be entitled to a deficiency judgment against the borrower and anyone else who guaranteed the loan. Some states (e.g., California) prohibit a lender from obtaining a deficiency judgment against a borrower.

In nonjudicial foreclosure, many states permit a lender to foreclose without a lawsuit, using what is commonly called a power of sale. Rather than a mortgage, the borrower (grantor) gives a deed of trust to a trustee to hold for the lender (beneficiary). Upon default, the lender simply files a notice of default and a notice of sale, which is published in the newspaper. The entire process generally takes about 90 days. The borrower usually has a right of redemption after the sale. (See the following section on redemption rights.) In some states, mortgages also contain a power of sale.

A few states permit strict foreclosure, which does not require a sale. When the proceeding is started, the borrower has a certain amount of time to pay what is owed. Once that date has passed, title reverts to the lender.

Many states permit a borrower to "cure the loan" before the date of sale. This process simply requires paying the amount in arrears, plus interest and attorney's fees. It is certainly more desirable for a defaulting borrower to reinstate a loan rather than pay off the entire principal balance. Most deed-of-trust states permit the borrower to reinstate the loan before the sale.

Some states give a borrower the right to redeem the amount owed and get title to the property back after the sale. The length of the redemption period varies from state to state. Obtaining a deed from the owner during the redemption period gives you the right to redeem the property.

The easiest way to deal with a foreclosure is to get the owner to deed you the property (buying subject to). Once you have the deed to the property, you are the owner. You can now try to negotiate a discount on the amount owed to the foreclosing lender. Many lenders will not deal with you unless you have written permission from the owner, because releasing such information may violate Fair Credit Reporting Laws. It is a good

idea to get a written authorization or a power of attorney from the seller along with the deed. Check with your state law for the proper form.

Visit your local courthouse to find names of property owners in foreclosure. Better yet, subscribe to one of the local foreclosure listing services. These companies gather this information each week and sell it for a reasonable fee, saving you a great deal of time. The information you want to buy is the list of people in foreclosure, not properties that have been already foreclosed and have been taken back by the bank. Check your local phone book and ask other investors in your area which services are reputable.

If the homeowner is too far along in the foreclosure process when you locate him/her, you may not be able to buy “subject to” and stop the foreclosure.

Finding good deals is the linchpin of all real estate investing. Don’t go it alone at first. Have a seasoned coach by your side. Visit www.realestateinvestortraining.com to learn how one-on-one coaching can help you.

A special note on taxes.

Owner financing will not completely eliminate the capital gains taxes associated with a property sale, but it can accomplish two things. First, it transforms a lump sum payment into installments, preventing the taxes from being paid upfront. The taxes are deferred over time and paid only as the money comes in. Secondly, the money that would normally go directly to the IRS earns the seller interest, as part of the interest-earning mortgage. By the time the principal and interest are paid and the loan is completely settled, the final tax burden may be reduced substantially.

While you don’t want to give tax or investment advice, remind senior sellers that they can use owner financing as an estate planning tool. When you ask for owner financing, recommend that they talk with their accountant or attorney to verify the benefits you have outlined.

Chapter 6: How Do You Value the House?

It is extremely important to establish the value of a property before making an offer. Remember, that owner financing in itself can be a huge concession. With favorable terms, you may be able to offer the owner very close to his asking price. However, you don't want to overpay — even with owner financing.

Base your offer on what the house will sell for after necessary repairs. Remember to learn the area first, and buy in your "farm area" when possible. Always take a conservative approach until you gain experience in dealing in a particular market. Start with a few neighborhoods within a subdivision that contain similar houses, because dealing with similar houses makes price comparisons much easier.

Should You Use an Appraiser?

An expensive but accurate way to determine the value of a home is to hire a licensed appraiser. The appraisal will cost you around $300. This amount is cheap compared to what you could potentially lose, but appraisals can be costly if you are making multiple offers. It may be worthwhile to pay an appraiser on your first purchases to verify your assumptions of value (but not until you have the properties under contract). In addition, follow appraisers as they inspect the properties and ask a lot of questions to learn how they arrive at their figures.

Basically, licensed appraisers look at the three most similar houses in the vicinity that have sold recently. They then compare square footage and other attributes. The number of bedrooms and baths, age of the property, improvements, physical condition, and the presence of a garage will affect the price, but square footage is usually the most important factor.

As you might expect, there are exceptions to this rule. For example, the style of house, its location and proximity to main roads, and whether it has a view or beach access will greatly affect the value. For the most part, however, if you leave these issues aside, square footage, number of bedrooms and baths, and physical condition are the most relevant factors.

Can You Do Your Own Appraisals?

Doing an appraisal yourself is not that difficult. You start by accessing information about houses sold recently. Until now, access to this information was limited to licensed real estate agents through the Multiple Listing Service (MLS). In today's Information Age, this data is available through various channels such as the county tax assessor, Internet Web sites, or paid providers.

Armed with information about properties sold in the area, you can drive by these houses and compare them with the subject property. You will not be able to see the inside, so you need to adjust your numbers a bit. Also, public records may have inaccurate

information about square footage, additions, number of beds and baths, and basement versus above-ground living space. In addition, public records do not offer much detail, and the property may have been improved or expanded after it was built.

All of these variables aside, you can still assess the style of property, whether it has a garage, its general condition, and appearance. Only look at houses sold in the area within the past six months.

Keep in mind that seasons affect sales prices. Most people prefer to buy in the summer when their children are out of school. Additionally, if you are in a resort area, prices may fluctuate drastically between the summer and the winter.

How Can You Get Comparable Sales Figures?

A practical but less accurate way to establish value is by asking a real estate agent for comparable sales or “comps.” If the property is listed or you are using a buyer’s agent, agents will gladly provide this information free of charge. Some listing agents will have prepared a written comparative market analysis (CMA) for the property. You cannot always rely on the MLS information about the inside, however, because agents’ property descriptions tend to be exaggerated. Furthermore, the information on the comparable properties that agents give you may only contain the ones they want you to see. The lesson here is to never rely solely on an agent’s comps or CMAs but do your own due diligence.

If the property was refinanced in the past year or so, take a look at the seller’s appraisal. Keep in mind that some appraisers will inflate the value of the property if they are in close with the mortgage broker handling the refinancing. This practice is legal within limits, because the appraiser is required to determine property value based on certain guidelines. Sellers want a high appraisal, so their appraiser will employ the highest comps. A person fighting a high property tax assessment can instruct the appraiser to find low (while still conforming) comparable sales.

There is an old saying among real estate vets that a house is often its own best “comp.” If a particular house has been listed on the local MLS longer than the average listing period, chances are the house is priced too high. A seller may show you an appraisal from a refinance process six months ago, showing a price even higher than that. Don’t be fooled the market will determine what a house is worth. Thus, if a house is appraised for $200,000 and has been sitting on the market for six months, the obvious conclusion is that it’s not worth $200,000. In short, be careful of appraisals that don’t jibe with reality.

Keep in mind that certain features may not necessarily raise the value of the property, but may impact the appeal and, ultimately, the salability. For example, renovating a kitchen should not affect the appraisal value of a property, because it doesn’t add living space or functionality. But if the kitchen looks horrid, the house is not in marketable condition and will attract fewer buyers, take longer to sell, and command a lower price.

Also, keep in mind that bedrooms and baths on the main level add more value than bedrooms and baths in a basement or attic Thus, while a finished basement may add some appeal and functionality, it may not raise the appraisal value of the property by much, Whether it is worth finishing a basement depends on a lot of factors, including what is customary for the area. For example, a new ranch house with a walkout from the basement will have much more value with a finished basement than a three-story 100-year-old Victorian.

All of these variables will impact the market value of a property. Once you have an idea of the market value or after repaired value (ARV), you need to determine the price that you are willing to pay.

No magic formula works in every market, in every neighborhood, for every house. Keep in mind your ultimate goal with regard to the property. Do you plan to keep it as your primary residence or perhaps find a tenant and use it as a rental? Maybe you want to lease option it to someone else. Your ultimate goal can guide you to the right sales figure.

Chapter 7: How Do You Ask a Seller to Give You Owner Financing?

You've found and valued the property. Now what? You need to talk to the homeowner to find out what he wants, share what you want and possibly make a deal. In other words, you need to *negotiate*.

Negotiating the right price and/or terms for your properties is the most important part of the profit-making process. Many people are either afraid to negotiate or inept at the negotiating process. Other so-called investors pay too much for a property and then are left with no way to make a profit other than the "greater fool" theory. Learn to negotiate a good purchase price quickly, or you will face a tough road ahead.

Asking for owner financing can be particularly tricky, especially if a real estate agent is involved. If you ask the agent if the owner will finance, you very likely will get an automatic "no." That's probably because the agent never asked and doesn't know, so he defaults to a negative response.

Other real estate agents disregard owner financing or discourage sellers from accepting the option. In all honesty, they are probably uneducated on or inexperienced with owner financing and, by virtue of their own ignorance, assume that it will be too complicated and/or put their seller's investment at risk.

If the house if a FSBO and you ask the seller directly about "carrying back," you'll probably get rejected before the full sentence has escaped your lips. Sellers often dismiss owner financing because nobody has explained the benefits or proposed owner financing as a way to sell the home.

Think of it this way. Most sellers are just regular folks who don't sell a home every day (more like once every six years which is the national average). The typical seller's knowledge is limited to conventional practices where the buyer goes to the bank and gets a mortgage. However, when homes aren't selling or when traditional lender guidelines are tightened, people may become more open to owner financing.

Let's talk about dealing directly with owners and then discuss some special tactics to use with real estate agents.

What Should You Do First?

This may sound overly simplistic, and in some ways it is, but your very first job is to find out what the seller wants.

The necessity of speaking to motivated sellers, and motivated sellers only, can't be overstated. Talking to sellers who are marginally motivated is the biggest mistake

beginning investors can make. Every minute you spend speaking to an unmotivated seller is time wasted.

You must speak to the seller and find out what he or she wants. Don't burn precious hours driving by the house and looking for comps without even talking to the seller first. Many novice investors spend countless hours researching the property, the needed repairs, the taxes, and other information without first finding out the seller's motivation.

Never leave your home before speaking with a seller over the telephone. Gather as much information as you can, asking the six basic questions: who, what, where, when, how, and why? Listen for clues. Sellers won't always tell you what they really want, so you have to dig a little and be patient.

Once you have established that someone is motivated, dig deeper. Find out exactly what makes this seller tick. Why does this person need to sell? By when does the individual need to sell? Is price more important than terms? What will the seller do with the proceeds? You need to get these questions answered before you even consider making an offer—even before going to see the property. Instead of jumping right in with tough questions that may offend the seller, start by asking a few questions about the property.

Don't be too concerned with the physical aspects of the property when talking with a seller on the phone. Your goal is to determine whether the seller is savvy enough or motivated enough to accept owner financing. Talk about the weather, sports teams, how much you hate politicians, etc. When you sense the seller is opening up a bit, ask the following questions:

- "Why are you selling?"
- "How long have you owned the property?"
- "What did you pay for it when you bought it?"
- "When do you need to sell it by?"
- "Have you listed it with a real estate agent? Why/Why not?"
- "What are your plans after you sell?"
- "After paying all the closing costs and paying off your loan, what is the minimum amount of cash you need in your pocket?"
- "What will you do with the proceeds from the sale of your house?"

Continue to develop your phone skills and experiment with new questions. You need to communicate in a way that works with your personality. No one can tell you all the perfect things to say for each situation. Just be yourself; develop rapport and zone in on

what the seller needs. The best salespeople are those who find what their customers need and present their product in a way that fulfills those needs.

Successful investors are essentially problem solvers. Problem solvers are among the highest-paid individuals in the world. The problems homeowners face may seem insurmountable to them. With experience and practice, however, you will learn many approaches to solving their problems. It is just a matter of time until you, the investor, will earn a profit while helping homeowners solve their problems in an ethical way.

Just for practice, record your telephone conversations with motivated sellers (as long as it's not illegal in your state). Use these recordings to improve your sales pitch. Track your results, and you will soon find an effective approach for making your calls.

How Do You Introduce a Dollar Figure?

The short answer to this question is: You don't! Let the seller make you an offer. Most novice investors make the foolish mistake of always making the first offer. While in some circumstances, this approach may be appropriate or desirable, if your offer is too low, the seller may be offended. Let the seller make the first move. "Mr. Seller, what is the best deal you can offer me on this property?" This statement puts the pressure on the seller who may be afraid of driving you away by asking too much. Whatever your prospect offers, you ask him or her to do better. Henry Kissinger was the master of this technique. He would routinely send back proposals without reading them, saying, "You can do better."

Once you get a contract accepted at the price you like, it may still be too much. Leave room for error or for things you overlooked. Always have an inspection clause in your contract that allows you to dicker with the seller and to renegotiate if necessary. Please understand—we are not advocating that you beat up people after you agree on a price. However, sometimes you will discover problems with the property that were unknown to either party or that the seller conveniently forgot to tell you about. As a real estate agent friend used to say, "All sellers are storytellers!"

Remember, however, that you may not get much of a discount because you plan to ask for owner financing. That brings us to our next question.

Which Is More Important to the Seller: Price or Terms?

You never know until you ask. In some cases, price isn't everything. You need to know what it is that motivates your particular seller. Some sellers want the highest price, but many just want their problems solved quickly. That's where you can truly help. Here are some ways to do so.

Offer a fast closing. Owner financing sometimes provides the very fastest closing. Couple that with a contract that contains few contingencies and your seller's ears will often perk up. If the seller says, "A real estate agent told me the property is worth more,"

you respond with, “Does the real estate agent have a buyer ready to close next week?” Sometimes offering a contract with no contingencies is your strongest offer, especially when dealing with real estate agents. Of course, a real estate contract with no contingencies is risky, because you will lose your earnest money deposit if you fail to purchase the property.

Purchase “subject to” the existing mortgage. Chances are the seller has an existing loan on the property. Offer the seller the cash difference between the purchase price and the seller’s loan balance. At the closing, you take the title subject to the existing mortgage. You make the monthly payments directly to the seller’s lender and pay off the balance of the mortgage when the property is eventually sold. Even if you are buying the property with “subject to” conditions, you can pass these savings on to the next person who buys the property from you. Another benefit of the “subject to” transaction is that it allows you to close without a third-party lender, which translates to a faster closing.

No matter how creatively you structure your deal, keep one hard and fast negotiating rule in mind. If you make a concession, get something in return. This strategy is one of the most underused in the negotiation game. If the seller asks for more money, you ask for more time. If the seller asks for a shorter closing date, you ask for the appliances. Never give a concession without getting something in return.

How Do You Introduce the Subject of Owner Financing?

Now that you think you understand the seller’s motivations and the amount of money he or she would like to get from their property, you should introduce the subject of owner financing.

Don’t be surprised if you get an immediate “no.” Most people need to be educated about the benefits. You might say, “Mr. Smith, you’ve told me you don’t need a lump sum from this property since it was a rental. I was wondering if you might consider holding the note for me.”

If the seller initially balks, outline some of the benefits such as higher sales price, recurring income, fast closing, and higher interest rate. You might say, “If you carry the note, I could offer you your asking price, rather than the discounted price we’ve discussed. We could structure the loan at a mutually agreed upon interest rate and you’ll receive monthly payments from me. While I’m no financial expert, I believe that could save you on capital gains taxes. You might want to check with your accountant to confirm that.”

Remind the seller of any drawbacks he’s experienced by not offering owner financing thus far. “You did say the house has been on the market for six months, didn’t you? I know you are anxious to move to Phoenix and retire. With owner financing we can move very quickly.”

Reinforce the pluses, including your own creditworthiness if applicable. “My FICO score is exceptional and I’m putting a substantial down payment into the property. If you take the lump sum, you might find other investments with higher returns, but they tend to carry higher risks as well. By offering carrying the note for me, you’ll get a monthly income and relatively high interest rate.”

A special note on working with owners in foreclosure:

When making contact with homeowners in foreclosure, you may not be able to telephone them first. (If they aren’t paying their mortgage, isn’t it possible they aren’t paying the phone bill either?) That means your first contact may come after you knock on the door. This is not only gutsy, it is risky. You may be dealing with a bitter, belligerent person. More than likely, you will be dealing with people who are not being honest with themselves about the situation.

Don’t try to bully the sellers into giving you the deed. Just let them know you are available, give them your business card, and check back from time to time. The more you follow up, the greater the chance that you will make a deal. At some point, the sellers in foreclosure will face reality, and they will usually sell to the first person who comes banging on their door. The more you stay in touch, the greater the chance that you will be that person. (Note: Before you get a deed from a seller in foreclosure, you may need to have a written contract with certain disclosures mandated by the law of the state. At this printing, those states include Arizona, California, Colorado, Nevada, Maryland, Minnesota, Missouri, New York, and Washington; several more states are considering similar legislation.)

How Do You Handle Real Estate Agents During the Negotiation Process?

Dealing with real estate agents can be difficult when looking for owner-financed deals. Agents prefer homebuyers with cash for down payments. They also prefer to work with buyers who have good credit and conventional buying power. The agent’s priority is getting a commission with as little hassle as possible. Most agents have never conducted a creative real estate transaction with an investor. These agents are not very receptive to unusual offers. Most agents equate a nothing-down offer with a buyer who is not serious. Here are some things you can do to get an agent’s attention and streamline the process.

Offer reasonable earnest money. You cannot present an offer with a $50 earnest money deposit and expect an agent to take you seriously. Expect to pay at least $500 to $1,000 earnest money, depending on the purchase price, to get the agent’s (and seller’s) attention. If you are concerned with losing your earnest money, consider using a promissory note.

Offer a short closing date. Another way to get an agent’s attention is to offer a fast closing, and few transaction close faster than those using owner financing. Nothing makes an agent more excited than the thought of a commission check in ten days. When

deciding between two offers, the agent will usually advise the client to accept an offer with more earnest money and a faster closing over a higher-priced offer.

Present creative offers in person. When you present an offer to an agent, the agent then presents it to the seller on your behalf. If you present a creative offer (like most owner financing offers), the agent probably will not represent your offer to the seller in an enthusiastic fashion. As stated previously, agents do not like creative offers; they like conventional offers from solid buyers. If you want the owner to understand all the benefits of your offer, insist on personally presenting the offer to the seller.

Appeal to the agent's greed. Let's face it. Real estate agents are in the game to make money, just like people in other businesses. If you offer agents an opportunity to make money out of the transaction, you will get their cooperation. If you present an offer that does not provide enough cash to pay the agent, then the agent has no reason to cooperate with you. For example, if you present a nothing-down offer on a listed property, how will the agent receive a commission? You must include a means to pay the agent, even if you pay out of your own pocket.

Fax preliminary offers first. Technically speaking, all offers presented by agents must be made on state-approved contracts. But don't waste time filling out a contract offer until you have preliminary approval. Most agents are willing to present any written offer to the seller. Simply summarize your offer in writing and fax it to the listing agent. Once you have an oral approval, take the time to fill out a contract and deliver an earnest money check. Never put up earnest money until your offer is accepted. Fax the offer with a copy of an earnest money check with originals to be delivered "upon acceptance of contract."

Most of all don't be bullied by uncooperative agents. Stand up for yourself. Some agents are unethical and will refuse to present your offer. These agents may lie, telling you that your offer was rejected when, in fact, it was never presented. If you suspect the listing agent is lying, go over that person's head to the managing broker of the office. If the managing broker is uncooperative, deal directly with the seller (unless, of course, you are also an agent). Be polite, but firm, and do not hesitate to report any unethical behavior to your state's agency responsible for regulating real estate agents.

If your seller agrees to owner financing, make sure the loan carries no due-on-sale clause, so the property can be resold to another investor on owner-carry terms. Also, the loan should be "nonrecourse," which means that it prevents a judgment against the buyer if the loan is in default.

The operative language is: "Seller's sole recourse in case of default shall be against the property, and there shall be no personal recourse against the borrower." Another way to limit your liability is to have a corporate entity, such as an LLC or corporation, sign for the obligation.

Knowing how to find and navigate owner financing transactions comes with experience. Practice what to say to sellers and create a detailed script for yourself. If scripting isn't your forte, get a coach to help you with that aspect. Go to www.realestateinvestortraining.com to learn more about coaching.

Chapter 8: How Do You Handle Owner Financing as a Seller?

It's easy to see how owner financing is an attractive proposition for buyers. But what if you are a seller? Owner financing can mean a faster sale, higher sales price, and steady income at a better than conventional interest rate.

Offering owner financing will set your property apart. Few sellers relish taking on the role of the bank, but that number is larger than it was even just a few years ago. That's because financial institutions have tightened lending requirements. That free flowing spigot of cash has been essentially turned off. Buyers are having trouble finding mortgage money and sellers are having trouble finding buyers.

When selling a property prominently advertise your willingness to carry a note. That's should keep plenty of interested parties crossing the threshold. But even if you happen to get a willing buyer who had planned to obtain a traditional loan, you can outline the benefits of owner financing and see if he or she is intrigued enough to pursue that path.

You'll want to emphasize the flexibility of owner financing with all terms negotiable between both parties.

Tell the buyer that he or she can get into the home much faster with less stringent qualifying and down payment requirements and flexible closing costs and loan terms and rates.

Help the buyer see the benefits. Ask them:

- Wouldn't you like to get into this home in the quickest and easiest way?
- Wouldn't you like to establish or re-establish your credit?
- Would you be interested in taking a tax deduction for all or part of the interest paid on your home loan?
- Wouldn't you like to buyer a home for less than or equal to the cost of renting the same house?
- Wouldn't you like to avoid all the traditional "renter" problems?

Once you have an interested buyer, here are some ways for you to handle owner-financing with little or now risk.

1. Be sure to check your buyer's credit and get a copy of their work histories. You can offer owner financing (understanding that many people may have a hiccup or two in their backgrounds), but still be selective about the person you choose.

2. Get a substantial down payment. The more money invested in a deal, the less like the buyer will walk away. As a rule of thumb 10 percent is the bare minimum and 20 percent is desirable.

3. Let a professional service the account. It may be worth the monthly fee to have a professional organization handle all bookkeeping, tax records, late notices, and other time-consuming tasks.

Use the following lists as “cheat sheets,” for selling with owner financing.

If you own your home free and clear, you should:

1. Negotiate and acceptable purchase price with the buyer.
2. Prequalify the buyer.
3. Ask the buyer for permission to speak with their lender. When speaking with the lender, ask what type of credit rating the buyers have and what interest rate the buyer would qualify for if they were obtaining a loan from that institution. Typically a seller-financed interest rate should be slightly above the market rate. (Sellers are not in the business of financing, and if the buyers could go out and get a loan from a normal lender, they would. The seller should be compensated.)
4. Negotiate an interest rate and loan term with the buyer.
5. Calculate the mortgage payments. Several computer programs will do this for you as well as give you a running total of the amount of interest and principal paid and the remaining balance.
6. Sign a formal agreement listing the price, loan amount, interest rate and terms.
7. Open escrow with a title company or hire a real estate attorney to handle the paperwork.

If you still have an existing mortgage on the property, you should:

1. Negotiate and acceptable purchase price with the buyer.
2. Identify the loan balance on the current loan.
3. Determine how much you are willing to finance, either the entire loan less the down payment or a small portion that represents the gap between the buyers' down payment and amount of their new loan (possibly 5 or 10 percent).
4. Hire an attorney or escrow officer to handle the paperwork for the wraparound.
5. Continue to make your payments on your original loan.

Chapter 9: What Do You Need to Know About Buying "Subject to"?

Two types of seller-financed sales are the owner-carry sale and buying subject to the existing loan.

An owner-carry transaction or installment sale occurs whenever the seller takes less than all cash for the purchase price. Keep in mind that all cash does not necessarily mean you paid cash out of your pocket; it can also mean borrowed money. The less of the purchase price you have to pay, the better the deal becomes—even if you flip the property to another investor. The ideal scenario would be if the seller owned the property free and clear, then took a small cash down payment and a note for the balance of the purchase price. In the real world, however, this rarely happens.

Buying a property "subject to" an existing loan is not a complicated process. You need to know what it is and how to explain the benefits to the seller. Furthermore, you should be aware of some strategies that can help you keep the loan from being "called." You'll be surprised how quickly your real estate investment activities can grow if you don't have to get new loans on every property you purchase.

When the initial buyer buys and finances the property, he or she signs a note stating that they owe the lender a certain amount of money. The deed of trust or mortgage outlines how the lender will take back possession or sell the property if the buyer doesn't pay the note as agreed upon. The individual borrowing the funds is the one personally liable on the loan. If the collateral that backs the note, when sold, is not sufficient to cover the debt, the borrower must make up the deficit from his own pocket. When you buy a property without obtaining a new loan ("subject to"), you take over ownership and agree to pay the loan as it was originally structured and agreed upon. This involves the seller transferring title without paying off or requiring you to formally assume the existing loan.

However, for many years now, lenders have included a "due on sale" restriction in the mortgage or deed of trust securing the original loan, allowing the lender to call the balance owed immediately due and payable. That means that anytime the original owner sells or transfers any interest in the property to someone else, the lender has the right (but not necessarily the obligation) to require full payment of the loan immediately rather than continue to installment payments.

When the due-on-sale clauses were initially adopted, interest rates were fairly high, much higher than the old loan rates. Lenders had a vested interest in forcing a new loan — more money!

In recent years, with historically low interest rates, there's little impetus to enforce the due on sale clause. For the most part, unless something causes the lender to sit up and

take notice (like defaulting on payments), lenders generally won't realize that a transfer has occurred.

Some misinformed real estate "professionals" will tell you that transferring ownership of a property without notifying the lender is illegal. At the time of this writing, no such federal law exists, although the state of North Carolina was considering mandating such a disclosure. Remember that the lender has the *option* to call the loan due but won't necessarily do so.

If you are focusing on wholesaling or "flipping" owner-financed properties, you shouldn't be overly concerned about the very unlikely event of a lender calling a loan due. Because you will have title only for a short period of time, this issue is (at least to you) wholly irrelevant. You will have sold the property long before the lender discovers the transfer and decides to initiate foreclosure proceedings. However, check your state law to make sure it does not require written disclosure to the seller or to the seller's lender.

Taking a property "subject to" the existing mortgage can be a scary proposition for a seller. You have the deed, but haven't assumed the loan. The loan stays in the original homeowner's name. You hold his or her credit rating in your hand. You control the property and the seller trusts you to continue making payments on it. If you don't continue the payments, you lose the property and any equity in it. However, no personal liability exists for you beyond loss of the property.

The types of homeowners who will be most open to a "subject to" transaction are those who are in some sort of trouble. These motivated sellers may be behind on payments, actually in foreclosure or have absolutely no equity.

Remember, that you are very likely dealing with people who are in very desperate situations and will agree to almost anything. Don't abuse that power and rush them through the process. Explain everything that you are doing and outline the benefits to them. Tell them that you will make the full payments on the due date as required by their lender and will do so to maintain your interest in the property and preserve any equity that you build. In doing so, you will improve their credit. If the person is worried about getting the obligation off their credit report, you can include a clause that states you agree to refinance and pay off the seller's loan within a certain amount of time.

When taking "subject to," be sure that you:

- Get a power of attorney so you can deal with the seller's lender for payoff information, or in case you did something wrong with the execution of the original deed and cannot get in touch with the seller

- Get the seller's payment booklet or last monthly statement and send in a change-of-address form, so the statements get mailed to you

- Have the seller sign a "CYA" acknowledgment about the fact that you are not assuming the loan, which will remain on the seller's credit report until you pay it off

If you can buy a property subject to the existing loan, you will save thousands of dollars in loan origination costs, closing costs, and other garbage fees. Ideally, you could find out what the seller wants to net in cash from the transactions, then pay the seller that cash and have him or her deed you the property subject to the existing loan. Of course, the total purchase price would have to be low enough for you to make a profit. If the property is in foreclosure, it won't be difficult to convince the seller to deed you the property in exchange for cash and your promise to make up the back payments on the loan and continue making payments.

The problem, however, is convincing a seller who is current on loan payments that you will make payments after the seller deeds the property to you. Remember that, once the seller deeds you the property, the seller has no recourse if you fail to make the payments on that loan. His or her credit will be adversely affected if you fail to make timely payments. So your issue becomes: "How do you convince the seller to deed you the property?" The issue for the seller is: "How do I know you'll make the payments?" The seller wants finality—to have the loan paid off completely and removed from his or her credit report.

You could start by simply telling the seller your intentions— that you will fix up the property and sell it to a retail buyer, at which time you will pay off the seller's loan. In the meantime, you will continue making payments. If your word is not good enough, simply insert a clause into the purchase contract that states:

Purchaser agrees to satisfy seller's loan with ________________ bank loan #__________ on or before __________ , 200_, and further agrees to make timely monthly payments required by said lender, including tax and insurance escrows as they become due. This clause shall survive closing of the title.

The payoff date should be at least six months out, preferably one year. Of course, the seller's legal recourse is to sue if you don't perform, given that the seller has no recourse against the property. If the seller is savvy enough (or concerned enough) to understand the legal position, offer a second mortgage on the property. This mortgage is for a nominal amount, such as $10, but states that your failure to make payment on the seller's underlying mortgage places you in default of the second mortgage. Thus, if you failed to make payments, the seller would have the right to foreclose against the property to get the title back.

Another way to make the seller feel more secure would be to set up a third-party escrow with a collection company. This company would collect payments from you each month, send them to the lender, and send a copy to the seller. A more practical way to accomplish the same task would be to set up a bank account with a direct deposit to the lender. The bank would send the seller duplicate copies of the bank statements each

month. Many banks also have online automated banking services, which require only the borrower’s loan number and Social Security number. Either you or the former owner can log in and make or verify payments online.

If the seller won’t hand over the deed to the property, consider using an installment land contract. This creates a wraparound transaction in which you make payments to the seller, and then the seller makes them to the bank. This is similar to the way banks handle car loans; they hold title as security for payment until the loan is paid off. For tax purposes, an installment land contract is a sale, but it puts the buyer in a weaker legal position. If the seller refuses to convey title when you tender the balance of the purchase price, you must sue the seller in court. We’ll talk more about land contracts in the next chapter.

One last item to discuss when it comes to buying “subject to” is insurance. You must carry insurance on the property and the seller’s policy will only remain in force for 30 days after the transfer. You can write the insurance company that holds the existing policy and ask them to add you to the policy. If you do this, remember to follow up in a couple of weeks and change the policy to a "renters" policy rather than a homeowner's policy. Alternatively, you could obtain a new policy in both your and the seller's name. Your last and least attractive option is to get a second policy, but then you will be making double premium payments.

One other approach to handling the insurance conundrum involves using a land trust. In this situation, the homeowner would be the beneficiary of the land trust and you would be the trustee. The trustee carries out orders and controls the property. As the trustee, you would write to the lender explaining the change and request all correspondence be directed to you (the trustee). You could then change the insurance policy. To protect your interest in the property, beneficial interest would also be assigned over to you.

When and if we get back to a scenario where interest rates climb, lenders may begin to sit up and take notice of who is making the payments on loans. The best way to stay under the radar is to make payments on time, every time.

What Are Some Tax Issues on “Subject to” Deals?

If you buy a property “subject to” an existing loan and sell the property on an installment land contract or lease/option, what are the tax ramifications?

Part One: Determining Your Basis

Your tax basis is basically what you paid for a property. If you pay a seller $2,000 and take a deed subject an existing loan of $189,000, your basis is $191,000. Basically, your basis in a subject to is cash paid to the seller, plus existing loan you are taking over. If you also paid money for back taxes and mortgage payments that would also be part of your basis. So, if in the above example you paid $3,000 to the lender to cure the back payments, your tax basis is $194,000.

Part Two: Figuring Out Your Gain

If you resell the property for cash, the gain is easy to figure out – sales prices less your basis, less your sales costs (broker fees, closing costs, etc). If you resell the property on a lease/option, you haven't really sold it at all, since a lease/option is generally not considered a sale until the tenant exercises the option to purchase. During the period of the lease, you would be taking depreciation, so there's a recapture of that depreciation when you sell at 25%.

If you resell on an installment land contract (aka "contract for deed"), it IS a sale, even though title does not pass to the buyer. Thus, your gain is the sales price on the contract, less your tax basis. This is considered an "installment sale", so your taxable gain is based on the cash received, plus any principal received in the year of sale. When the buyer pays off the balance of the contract, you have a gain in that tax year for the balance of principal received.

Part Three: The Interest

This part of the equation always gets people confused. In our example above, you bought a property from Sally Seller subject to the existing loan. You then sold it on a land contract to Barney Buyer. Who "owns" the property? For federal income tax purposes, there were two sales – from Sally to you, then from you to Barney. So Barney would be deducting the interest he is paying on schedule "A" of his federal income tax return as the "equitable owner".

This appears confusing because YOU have the deed and Barney does not. It is also even more weird because Sally Seller's lender is sending a form 1098 for the annual mortgage interest to the IRS in Sally's name! Don't let that fool you... the basic rule of the interest deduction is that the person who has an ownership interest in the property, uses it as his principal residence, and actually makes the interest payments is the one who is entitled to the deduction. So, in this case, Sally Seller neither owns the house nor makes the payments – she does nothing. Barney Buyer is the "equitable owner", which gives him an ownership interest. And, Barney is also actually making the interest payments, which he can deduct.

One last part of the equation – the interest YOU are paying on the underlying loan. If you buy subject to and sell on a wraparound, you are collecting payments from Barney Buyer and continuing to make payments on Sally's underlying loan. The interest YOU pay is deductible as an offset (business interest) against the interest income you are collecting from Barney Buyer.

Chapter 10: What You Need to Know About Land Contracts

People often confuse the land trust and the land contract, using the terms interchangeably as if they were the same thing. In this chapter, we'll discuss the difference between the two and specifically explain how land contracts are used by investors for creative financing.

What Is a Land Trust?

A land trust is a revocable, living trust primarily used for privacy purposes in estate planning and asset protection. It is used to take title to real estate to provide anonymity for the owner. It can also be used with a trust assignment wherein the seller deeds the property to the trust, making himself the beneficiary. The beneficial interest (ownership) of the trust is then assigned to a third party, such as an investor/buyer. This is known as a "land trust assignment."

What Is a Land Contract?

A land contract is a written agreement between buyer and seller. It can also be considered a financing tool in which both parties agree upon the sale of a property under installment payments. The property remains titled in the seller's name until the buyer completes all payments under the contract. Depending on your state, this arrangement may be called trust deed, contract for deed, deeds of trust, notes, or installment land contract. No matter what you call it, land contracts allow buyers to "borrow" from the seller rather than pursuing bank financing.

A land contract has many of the benefits of the other owner financing strategies discussed within this book. While many sellers "think" they want a cash sale, quick and inexpensive land contracts help them sell without the stringent requirements, stress, and time investment of bank financing. Sellers then receive monthly income at a good interest rate while retaining title to the property.

In today's "subprime mess" mortgage market, financing has become very difficult, particularly if the investor wants to buy with just a small down payment. Jumbo loans for investors have become so expensive they are almost prohibitive.

Both the land contract and land trust can be effective tools for acquiring a property with owner financing to preserve the existing financing. If a seller of a property has a low, fixed-interest rate loan, a transfer of the ownership subject to the existing loan can allow the buyer to take advantage of this favorable financing without having to get new financing or qualify for the existing loan.

The only pitfall with this kind of transaction is that the underlying loan can be called due by the lender under the "due on sale" provision of the mortgage. While not a likely

scenario if the loan is being paid on time, investors want to make this transaction as "stealth" as possible so as not to raise any red flags. Using the land trust and/or and the land contract can be very effective ways to quietly transfer ownership and preserve the low-interest rate loan. Thus, the land contract and land trust are extremely effective tools for the investor to learn about and implement to increase their profitability in today's market.

What Are the Main Parts of a Land Contract?

Contracts vary and the order may differ, but for the most part the following items will be included within any land contract:

- Parties to the Contract
- Legal Description
- Price and Payment Terms (including taxes and insurance)
- Buyer’s Responsibilities
- Seller’s Right to Mortgage
- Seller’s Responsibilities
- Assignment of the Contract
- Default

Parties to the Contract: Parties are listed at the beginning of the document and are the individuals entering the contract. The person selling may be called seller or vendor. The buyer may be called purchaser, or vendee. The contract typically lists the sellers name first and buyer, second. Also included at the top of the document is the date of the contract. This is an important element as interest begins to accrue starting from this date. Therefore, when the first payment is due, one month’s interest usually is already owed since it is paid in arrears.

Legal Description: The seller conveys a specifically described parcel of land. The legal description of the property must appear exactly as in the deed. The city, village, or township is noted, as is the county and state. It will usually read something like “Lot 25, Block 21, Harris Subdivision, County of Barrington, State of Illinois.” This designation comes from a plat map that was previously filed in the county records. If the description is more complicated than a simple lot and block or government survey description, simply photocopy the description from the previous and insert it into the land contract.

It’s important to note, too, that along with the actual dirt the seller conveys other things — anything permanently fixed to the property. Make sure you have verbiage that reads something like this: “Including any buildings, easements, tenements, hereditaments, improvements and appurtenances.

Price and Payment Terms: In this area, you should include these figures and dates:

> Total purchase price: Sometimes called “consideration,” the purchase price is the figured negotiated between buyer and seller for the property. Because land

contracts are a form of owner financing and therefore valuable in and of themselves, the purchase price may be higher than a figure negotiated for bank-financed sale.

Down payment: Again, this can be negotiated between buyer and seller. Many sellers who are willing to give owner financing want to see a larger down payment (say, 10 or 20 percent) on the part of the buyer. It provides a measure of security to the seller (money that doesn't have to be collected in the future) and demonstrates a solid commitment on the part of the buyer. Some very creative investors may try to propose non-cash down payment alternatives such as cars, boats, or jewelry. Depending on your seller, this may be an option.

Beginning balance: That is, the amount of the purchase price less the down payment remaining. The balance decreases every month the buyer makes his payments. If you are the seller, it's a good idea to provide the buyer with a printed amortization schedule to show him or her how his balance reduces as he or she makes timely payments.

Periodic payment: While normally buyers make monthly payments, the period between payments is negotiable between the two parties. Some sellers may be willing to take bimonthly, semi-annual, or annual payments. If the payment is the "garden variety" monthly payment, the amount will be about 1 percent of the beginning balance. Therefore, after subtracting the down payment, if the buyer owes the seller $100,000, the payment will probably be about $1,000. As you might expect, the smaller the monthly payments the longer it takes to pay off the land contract and vice versa.

Payment due date: This is the date when the first payment is due. Depending on the periodic payment structure agreed upon by the buyer and seller, this also indicates when subsequent payments are due. In other words if the buyer is paying monthly and the first payment is due on the 10th of the month, every month thereafter on the 10th the seller expects payment.

Grace period: Anyone who owns a credit card knows what a grace period is. It's the time period, usually no more than a few days, during which if a payment is not made the creditor (buyer) will not be deemed to be in default. Some land contracts include a grace period, as well as a late fee if the payment is not received on time or within the specified grace period. Clauses allowing for grace period and late fees typically are included in the miscellaneous provisions section at the end of the land contract.

Balloon payment: A balloon payment signifies that a lump sum, final payment is due on the contract. Balloon clauses specify a due date for this final payment and if the buyer fails to make the payment when required, he or she will be deemed in default of the contract.

Interest rate: The interest rate will be noted on the contract in annual terms, such as 10 percent. For each payment, interest is calculated for the payment period by multiplying the interest rate by the balance due and then dividing the annual interest amount by the number of payments to be made each year. This number (total interest for the period) is then deducted from the payment. The remainder of the payment goes toward the principal and is deducted from the remaining principal balance on the contract.

For ease of example, let's use some round numbers. Imagine you purchased a property on a land contract. The price was $110,000 and you put $10,000 down, leaving a balance of $100,000. The monthly payments are $1,000 at 10% interest rate. The interest portion of your first payment will be $833.33 ($100,000 X .10 ÷ 12 monthly payment per year). The principal portion of the payment is $166.67 ($1,000 - $833.33). The remaining principal balance on the contract after the first payment will then be $99,833.33 ($100,000 - $166.67).

Taxes and insurance: Like many other things with the land contract, the person responsible for paying taxes and insurance is negotiable. Some commons options for handling this are:

1. Buyer pays taxes and insurance. This is the most common option.
2. Seller pays taxes and insurance, then adds the amount paid back to the contract balance. Because the prompt payment of taxes and insurance, ensure the value of the property sold under the land contract, many sellers want the peace of mind that comes from paying these obligations themselves. Should the buyer fail to pay insurance, how could the seller hope to collect payments on a home that was destroyed by a hurricane, for example? In this option, the seller pays the taxes and insurance and then adds the costs to the balance of the land contract (frequently called "add backs") at the time of payment. The monthly payment is adjusted to cover about one-twelfth of the estimated taxes and insurance. These larger payments are treated as if the full amount was for principal and interest. That being said, the contract balance drops more quickly than normal. However, when the tax and insurance bills comes due and the seller pays them, the amount spent is added to the contract balance. The result is that the balance having been reduced more than normal due to larger payments is then adjusted to a higher level after the add backs.
3. Buyer pays monthly payment of which a "portion" (usually one-twelfth of the annual tax amount and insurance premium) is deposited to an escrow account held by the seller for the purposes of paying taxes and insurance. Seller then pays both out of this account. This option is similar to that used by conventional lenders who calculate payments to include PITI (principal, interest, taxes, and insurance). And, just in a conventional lending situation, if the escrow account is ever too low to adequately cover the tax and insurance obligation, the buyer is notified and asked to remit a new and larger escrow portion along with the next monthly payment.

Buyer’s Responsibilities: The buyer is obligated to protect the property’s value until the entire debt is discharged. The contractual clause is critical since the property value is what keeps the buyer making payments. Should the buyer ever default and be foreclosed upon, the property value enables the seller to sell the property to another buyer without taking a loss.

The land contract should specify that the buyer notifies the seller any writing before “committing waste,” which is defined as neglecting the property or permitting it to be used in a way that lessens the value. The clause should also require seller notification before the buyer removes, changes, or demolishes any buildings or improvements on the premises in a way that may diminish the value of the property.

Seller’s Right to Mortgage: The seller has the right to borrow against any remaining equity in the property. Previously we used an example of a $110,000 house in which the buyer puts $10,000 down. If the seller owns the property free and clear, he or she has the right to collect $100,000 (the remaining equity). The seller may borrow money from a lender who puts a senior lien on the property (ahead of the buyer’s interest) for up to $100,000. However, let’s imagine that the buyer’s great uncle died and left him a windfall. He or she may want to pay off the property immediately rather than continue to make monthly payments per the contract terms. The seller must always be in a position to convey the deed when the buyer makes the final payment, whether that happens in one year or 30 years. That’s why sellers can never owe someone else more than the buyer owes them. Said differently, the seller can’t owe more on the property that he or she is owed.

To protect the buyer from any debts the seller may have against the property, the buyer must be provided a notice of any such mortgage and its terms in a certified letter. The buyer also has the right to pay on any debt for which the seller is in default. Should that happen, the buyer’s payments on that note will be deducted from the monthly payment the buyer owes to the seller.

Seller’s Responsibilities: When that final payment is made on the contract, the seller must convey the property by signing over the deed. At the time the deed is delivered, the seller often also delivers an abstract of title or a title insurance policy showing that the property is free and clear from any lien the seller may have remaining on the property. The party responsible for paying for this insurance should be agreed upon in the terms of purchase.

The buyer is responsible for recording the deed for a nominal fee. The deed shows as a matter of public record that the buyer is the new owner of the property.

Assignment of the Contract: In most cases, the seller has the right to assign his or her interest in the land contract. Once exception could be if the seller is still making payments on the property and that contract restricts his or her assignment ability.

On the other hand, the buyer, too, may have the right to assign his or her interest in the contract, but only with prior written permission from the seller. This provision exists

because the seller may have agreed to the sale based on certain characteristics of the buyer. For example, the seller may have accepted the sale price and contract terms because the buyer had an exceptional credit rating on significant longevity at his place of employment. If the buyer proposes a new person be responsible for paying the seller his or her monthly payment, the seller has the right to know the circumstances and approve the situation in writing.

The buyer's assignment to a new purchaser usually does not release the initial buyer from the obligation to perform under the contract in the event the new buyer fails to live up to the original land contract's terms.

Default: Defaults may be defined as failure to do things such as make timely payments, properly maintain the property, adequately insurance the property or pay property taxes as they come due. If the buyer fails to perform a significant part of the contract and the seller notifies the buyer in writing of the exact nature of the default, the seller may have the right to consider any and all payments already made on the contract as rental payments by the buyer. Because many states have specific guidelines regarding default, please check the laws in your jurisdiction or consult with an attorney. If the default continues, the seller has the right to declare the full remaining balance due and payable. If the default is not cleared up and the contract paid in full, the seller may initiate steps to regain possession of the property. Any enhancements or improvements made by the buyer become the property of the seller.

Most contracts end with a section covering miscellaneous provisions such as where payments and notices should be mailed and an affirmation of the state laws that govern the contract. Boilerplate provisions in a pre-printed land contract are fairly standard. Pay special attention to any provisions added to the end of the contract. Read them carefully and enforce as necessary.

The final step is to have the contract signed and notarized by a licensed notary. This must be accomplished for the contract to be recorded in the records of the county where the property is located. It's wise to have two individuals available to witness the signing of the contract and to attest to that fact with their own signatures.

What Are the Best Ways to Structure a Land Contract?

As you can see by now, selling on a land contract is yet another owner financing option that provides great benefits for sellers and buyers. Sellers usually move their properties quickly and for a good price. Buyers can get into a home more quickly and inexpensively than using conventional financing, provided that conventional financing is even an option for them.

If you are considering selling your property on a land contract, you should take steps to carefully construct the document. The way you plan and write a land contract can impact the future sales value of the property.

How Do You Value the Property for the Purposes of Setting a Purchase Price?

While it's true that most things, like price, are negotiable between buyer and seller with regard to owner financing, the figure needs to have some basis in reality. Some objective standards should be used for the purposes of a negotiation "starting point."

Valuing the property can be accomplished in a couple of different ways. A real estate agent should be able to perform a market analysis on the property complete with two or three comparable sales (comps). Comps used should be properties comparable to the subject property in the near vicinity that have recently sold. To get a true picture of value, you might want to get a few of these analyses from different real estate agents. Averaging three or more analyses should give you a good idea of what the property should sell for.

Real estate agents usually perform these analyses free of charge since they are competing for the listing. Choose agents who represent most of the listings in the area in which the property is located. You'll know who they are just from watching the signs. When you see "Mary Jones" pop up frequently, it's a good bet she's an area expert. Ultimately list with the agent with whom you have good rapport.

You can also hire an independent appraiser to do a complete property appraisal, which also will include at least three comps. Using a professional appraiser will cost money, but the resulting report will carry more weight with a buyer and usually represents a more accurate picture of true market value.

How Much of a Down Payment Should You Require?

Ten percent of the selling price is probably the bare minimum you should consider and more is preferable. Owner financing in and of itself is a huge concession and benefit to the buyer. Asking him or her to demonstrate a commitment to the deal in the form of a higher down payment is just good common sense.

Remember, too, that you may wish to sell your land contract in the near future. A larger down payment gives the buyer more equity and a lower balance, two things that increase the contract's secure and salability. A secure contract that has been in existence for a longer period of time is considered more valuable. Individuals and companies who purchase contracts look for older (seasoned) contracts that evidence a buyer who is a safe risk.

At What Rate Should You Set the Interest?

At a minimum the interest rate should equal mortgage rates currently charged by traditional lending institutions. Ideally, you can charge a rate one to two percent higher in recognition of you holding the note. Please be aware that there are legal maximum rates specified in many states on land contracts between individuals. Please check with the laws in your state or consult with an attorney.

What, Then, Is the Applicable Monthly Payment?

One percent per month of the unpaid balance is a good rule of thumb. Therefore in our example of a $110,000 property with $10,000 down, the balance due is $100,000 and the monthly payment would be $1,000. Added to the $1,000 would be one-twelfth of the estimated taxes and insurance.

For small-price-point land contracts (say, $25,000), monthly payments of more than one percent of the balance is generally required.

To determine the term of the land contract, given the interest rate and payment amount, contact a title company or use an amortization calculator that you can find on the Internet.

The handling of taxes and insurance follows the procedures outlined in the "main parts of the contract" section. In the same way that lending institutions require the buyer to pay one-twelfth of the estimated taxes and insurance to ensure that money is on hand to pay these obligations, so should you implement the same process. Since your contract will run over a period of time, it's likely that both property taxes and insurance will increase sometime during that term. Be sure to include a clause in the contract that allows you to increase the payment when this occurs.

How Should You Handle Underlying Debt?

You do not necessarily have to pay off your present mortgage to sell your property on a land contract. As the seller, you usually can continue to make your monthly payments in the required amount, just as you did prior to the land contract sale. This original obligation may be called the "underlying debt," since it existed before the debt created on the more recent sale of the same property. Your land contract payment should exceed your current mortgage payment (underlying debt) by at least 25%.

Check the mortgage on the underlying debt to see if a "due on sale" clause applies that requires you to pay off the debt if you resell the property.

How Should the Land Contract Be Amortized?

The term that the land contract is scheduled to run is called the amortization. Amortization depends on the balance, the monthly payment, and the interest rate. The higher the interest rate and the smaller the monthly payment, the longer the straight amortization, which is why a balloon payment is sometimes included. Shorter amortizations (10 or 20 years) are more common and preferred to the traditional lender's 30-year amortization. Balloons may be set for five or 10 years from the contract's inception.

What Should You Look for in a Buyer's Credit History?

Because you will be holding the note like any traditional lender, you have the right to confirm that the buyer has adequate income to repay the land contract. You can request references, verify employment and annual income, and obtain a credit report showing how promptly the person pays current debts.

Be aware, however, that many people who are attracted by owner financing and willing to pay the resulting higher sales prices and interest rates may not have a robust credit history. Use your judgment and consider increasing the down payment and periodic payment requirements to give you a measure of security.

How Do I Protect the Privacy of the Land Contract?

If for whatever reason the buyer or seller does not want the full details of the land contract to be part of the public record, a Memorandum of Land Contract can be drafted, signed, witnessed and notarized.

The Memorandum signifies to the public that some sort of sales agreement exists on a certain property, but conceals the full details of it. An added bonus is that a memorandum filing (usually a one-page document) is generally cheaper than recording a land contract.

How Do You Convert Your Land Contract to Cash in the Event You Need Money?

Even if your land contract isn't set to pay you off for five or 10 years in the future (as in a balloon) or 30-years in a fully amortized situation, you can still get cash by selling the note. If you just need a small amount of money for a short-term goal, you can sell a portion of the payments, say one-year's worth (after which you would resume receiving the payments) or you can sell the entire contract and get a lump sum payment. You will take a discount but you could receive up to 95% of what is due on the contract.

The benefits of converting all or part of your land contract to cash are many. First, you receive a lump sum of cash to accomplish something important to you: Starting a business, funding a college education, or taking an around-the-world trip. Plus, you have a lot of stress and worry removed from your shoulders. The burdens of collecting payments and servicing the contract go out the window. And, all the fears about whether your buyer will continue to perform (making payments and covering the taxes and insurance) and/or whether he will wreck or ruin the property are erased.

Chapter 11: What's Your Next Step?

As we've outline in the past 10 chapters, having the seller finance the sale, even in part, is the best way to purchase a property. Owner financing does not require bank qualification, credit, personal liability, or garbage fees. Realize that, if you don't have loan costs involved in the transaction, you can afford to pay the seller a higher price.

There are many benefits for doing an owner-carry installment sale as opposed to conventional financing for both the buyer and seller. Sometimes the advantages inure to the benefit of one or the other, but in most cases the transaction is "Win/Win" for both parties. Let's recap by looking at some of those benefits.

Benefits for the Seller

Most sellers of real property insist on the highest price and all cash. Sellers want a fast closing with little hassle. Sellers also want to pay as little taxes as possible on the gains incurred. In many cases, the seller can have most of his needs satisfied by an installment sale rather than a traditional cash sale. Let's look at these needs one by one.

1. Highest Price. There is no doubt that a seller can insist on and receive the highest price when offering flexible owner-finance terms. In many cases, the seller can receive more than the fair market value of the property by offering these "soft" terms. People are always willing to pay a premium for non-qualifying financing.

2. Cash. Nearly ever seller says he wants all cash, but few need it. What the typical seller wants is the most net cash from the deal. Often, the seller has to pay closing costs, title insurance, broker fees and the balance of the existing financing. In addition, there may be capital gains tax due to Uncle Sam. In many cases, the sale of a property by an installment sale (particularly a "wraparound") will net the seller more future yield than any source from which the cash proceeds were reinvested.

3. Fast Closing. Nothing holds up a sale more than new lender financing. In some areas of the country, it can take months for a buyer to qualify and close a new loan to purchase your property. Since most standard real estate contracts contain a financing contingency, you may end up back at square one if your buyer does not qualify. Furthermore, if your house is not particularly nice or unique, it may take you some time to even find an interested buyer. Since you are competing with all of the other houses for sale, you may need to spend thousands of dollars in paint, new carpet and landscaping just getting the house ready for the market.

There are very few "assumable" loans and few sellers are offering "soft terms." Thus, an owner-carry sale makes your house unique. Furthermore, an owner-carry transaction can be consummated in a matter of days, since there is no appraisal, underwriting, survey or other nonsense involved. In many cases, you will be able to sell the property yourself, saving thousands in real estate broker's fees.

4. Tax Savings. On an installment sale, so you only pay gains to the extent you receive payments each year. This can be particularly advantageous if you have owned the property for several years. Furthermore, you can combine the installment sale with an I.R.C. §1031 Tax-Deferred Exchange for further savings.

As you can see, the installment sale provides many advantages to the seller of real property. Let us now turn to the advantages for the buyer.

Advantages for the Buyer

1. Easy Qualification. The buyer, in many cases, prefers an installment sale to conventional financing because it does not require traditional bank income and credit approval. The buyer may have poor credit because of a divorce or recent bankruptcy. He may be self-employed and cannot prove income. He may be new to his job and cannot meet strict lender guidelines. Even if he could qualify for a loan, the rate will be astronomical if he has poor credit. Furthermore, few conventional lenders offer fixed interest rate loans to people with a poor credit rating.

As you can see, there are dozens of reasons why a buyer cannot (or will not) qualify for a conventional bank loan. The installment sale becomes the perfect solution for him.

2. Credit Rating. An installment sale may give the buyer a chance to improve his credit rating by owning a home and making payments timely.

3. No Loan Costs. One of the biggest benefits for the buyer is not having to pay the costs associated with conventional loans. Points, origination fees, underwriting charges, appraisal, credit reports, title insurance and the plethora of other "junk" fees charged by conventional lenders can amount to thousands of dollars at closing. The buyer is free from these with an owner-carry installment sale.

4. Fast Closing. A buyer can close and move into a property within days, since there is no third party lender holding up the transaction.

Despite the elevated purchase price and interest rate, there are many benefits to a buyer who engages in an installment sale transaction.

We'll close this book with a reminder that in real estate investing, there's always more to learn. So, keep up your education. When new opportunities are presented to learn something, embrace them. If you think a particular book, home-study course, or training is expensive, ask yourself, “Compared to what?” You will lose more money with a mistake than you will spend learning how to avoid one.

Remember, any time you spend studying is time well spent. Don't buy something just to use it as a paperweight that collects dust. No matter what the price of a book, seminar, or training program, it is always worthwhile if you put it to use and make money. However,

the corollary to this statement is also true: a $20 book is a waste of money if you don't apply anything you learn from it (or if you don't ever read it!).

Congratulations and good luck in your real estate investing endeavors. Study hard, apply yourself and above all make offers to purchase. You can't buy a property by studying everything about it. Too many people suffer from analysis paralysis when approaching a potential deal. They spend so much time going over minute details that they fail to take action. If you look at a potential real estate deal long enough, you will find enough reasons to talk yourself out of it for fear of losing your money. Of course, risk exists in every venture, but don't procrastinate forever. Take a chance and just do it.