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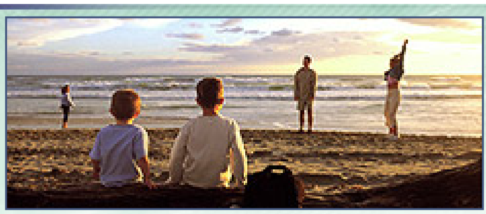

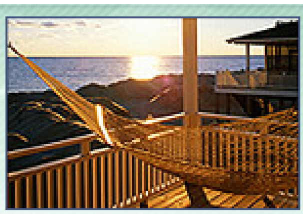

Selling Your Home - Seller Financing

What is seller financing?

Seller financing is when a seller helps to finance a real estate transaction by taking back a second note or even financing the entire purchase if the seller owns the home free and clear. Usually sellers do this when a buyer has difficulty qualifying for a conventional loan or meeting the purchase price. Seller financing differs from a traditional loan because the seller does not give the buyer cash to complete the purchase, as does a lender. Instead, it involves extending a credit against the purchase price of the home while the buyer executes a promissory note and trust deed in the seller's favor. These special circumstances must be acceptable to the lender who makes the first mortgage on the property. The necessary paperwork is prepared by the title or escrow company after the terms are worked out between the buyer and seller.

If you are a seller considering such an arrangement, it is critical to thoroughly evaluate the creditworthiness of the buyer first. Fear of default makes many sellers reluctant to take back a second. But seller financing can bring a higher price plus complete the sale sooner in some situations. For more information, contact the Internal Revenue Service for a copy of its Publication 537, "Installment Sales." Order by calling (800) TAX-FORM.

How are the rates set for seller financing?

The interest rate on an owner-carried loan is negotiable. Ask your agent to check with a lender or mortgage broker to determine the current rate on institutional first (or second) loans. Seller financing typically costs less than conventional financing because sellers don't charge loan fees (points). Interest rates on an owner-carried loan will also be influenced by current Treasury bill and certificate of deposit rates. Sellers usually aren't willing to carry a loan for a lower return than they would earn if their money was invested elsewhere.

What are the benefits of seller financing?

Seller financing offers tax breaks for sellers and alternative financing for buyers who can't qualify for conventional loans. If you are a seller, the risks you face are the same as those facing any lender: Is the borrower a good credit risk? Will the property hold enough value over time to allow for the repayment of all loans made against it? You should run a full credit check on the borrower, require hazard insurance on the property and include a due-on-sale clause. There also are financing, disclosure and repayment-term requirements that need to be met. It is wise to consult a lawyer when putting together this kind of transaction.