

Top Ten Tips for Structuring Seller Financing

How to Maximize the Value of Your Note!

Hi, Brad Mirtes here. I created this free report to provide you with insight and perspective on structuring the terms of your "Seller Financed Note". It is critically important to structure the note properly in order to maximize the value of the note should you decide to sell it at a later date. Additionally, be sure to keep all of your documentation in a safe place. The process of selling your note can be expedited if you have copies of the Security Instrument, Title, Sales contract, Payor Credit Report, Closing Statement, Bill of sale, Insurance and Prior Mortgage Info.

Benefits

Seller/Owner Financing can provide benefits for both the seller and buyer of real estate. The process starts in achieving balance between creating terms that will sell the property and terms that will sell the note.

- From the seller's perspective, seller financing attracts a much larger pool of interested buyers. Some of the interested buyers will not fit the narrow criteria required to obtain traditional financing. A properly structured seller financed note provides a diverse set of buyers the opportunity to own real estate. Seller financing allows the seller to obtain a higher price because of their willingness to extend financing terms to this type of buyer.
- From the buyer's perspective, seller financing affords the opportunity to own real estate. It also means they do not have to pay costs that are associated with traditional financing from a bank. An additional benefit to the buyer is that a privately held mortgage will not show up on a credit report. (*Provided the seller doesn't use a service provider.*) This allows the buyer more flexibility in obtaining other types of loans.

Common Mistakes

- Creating terms that complete the sale of the property, but result in a note that does not hold its value.
- Not referencing the Top Ten Tips listed below as a guide when structuring the note.
- Not getting multiple bids on the note.

The Strategic Objective - Get more for your note through multiple offers. Competition will drive up the price of your properly structured note.

Top Ten Tips for Structuring Your Note for Maximum Value

1. Down Payment

This is the most important part in creating a note. Get a minimum down payment of 10%, 20-25% is ideal. The down payment decreases your risk and makes it much more difficult for the buyer to stop making payments. The risk of foreclosure is diminished greatly. At closing, document the down payment (also make a copy of the check) in the closing documents with the title company or attorney. If you decide to close on your own, deposit the down payment to your bank as a single deposit. Also, do not accept the down payment in cash. Provide an auditable trail of the full amount paid including down payment and mortgage note. Lowering the purchase price by only recording the note balance may lower the property taxes for the next owner, but it dramatically reduces the value of the note.

2. Credit Score

This is critical. The credit score is a measure of their past financial performance. This is the primary indicator used to determine how they will pay the note after you sell it. Additionally, you may consider checking the total dollar value of their debt to see if they have the income and/or the equity necessary to pay the note and still meet their other financial obligations. It is a measure of the potential risk and the terms of the note should be adjusted according to that risk. My best advice to you is not to lend to anyone with a credit score under 650. Notes sold to payors with scores under 650 are sellable, however, you'll take a hit in the value of the note. Get a signed document allowing you to check their credit.

3. Interest Rate

A typical seller financed note should have an interest rate that is 2.50%-3.50% points **higher** than what the banks are offering to their best qualified customers. For example, a seller holds a note with a balance of \$100,000 with 120 monthly payments of \$1,110.21. If an investor wants 9% yield and the rate is 6%, the offer is \$87,641. If the note rate is 4%, the offer would be \$81,623. Now watch this, if the note rate were 8%, the offer would increase to \$95,274. It is obvious from this example that setting the interest rate properly will have an enormous impact on the pricing of the note.

4. Amortization

This is the time period it would take for the note to fully pay out and reach a zero balance. Generally, shorter amortization periods bring a higher price for the note. Avoid interest only loans, these loans never amortize and require an alternative source of financing to replace them. Additionally, set up the loan with monthly payments. Monthly payments are more widely accepted and easier for a note servicing company to track, should you decide to use a servicing company.

5. Balloon Date

The balloon date is the specific date the note balance is to be paid in full. Balloon payments are an effective means for shortening the duration of the loan and will raise the value of the loan. The balloon payment should be set at a time when it is feasible that the loan could be refinanced using traditional lending. A good rule of thumb is to set the balloon date at one third of the amortization duration. For example, a 360-month amortization, would have a balloon date set at 120 months from the start date of the loan. This provides sufficient time to reduce the balance and for the property value to increase, which gives your payor a realistic chance to obtain other types of financing, including traditional financing. A shorter balloon time requires a shorter loan amortization.

6. Pay History Documentation

Documenting the actual pay history accurately can be the difference between getting your note sold or not. Accept checks or money orders (never cash) as payment. Make copies of the checks and deposit in your bank account. This simple step increases the confidence of the note buyer.

7. Personal Guarantee

When the buyer of your property is an organization (not an individual) get a personal guarantee. Have the head of the organization personally guarantee the transaction. This will have an immediate negative impact on the pricing if there is not a personal guarantee. Many buyers attempt to sign as an LLC, Corporation, or Limited Partnership specifically to avoid personal liability.

8. Do Your OWN Due Diligence

Do not rely on realtors, attorneys, opinions or hunches when it comes to your money. Create the terms of your note that are most beneficial to you.

9. Amount and Note Type

Loans amounts range from \$10,000 to \$500,000. Most note buyers focus on 1st Lien performing notes. 2nd Lien notes are sellable, but at great discounts. When you structure your note, structure it as a 1st Lien note. Non-performing notes are sellable, the terms are usually re-negotiated. **Please don't hesitate to call if you have a non-performing note you'd like to sell.**

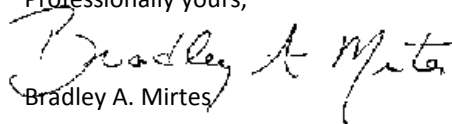
10. Note Seasoning

Typically, the preference for note seasoning (how long someone has paid you) is at least one month. A note seasoned for at least one year is more desirable.

I hope that these tips will help you maximize the value of your note. If done correctly, you will realize the most equity possible should you decide to sell your note at a later date. Your satisfaction is my No. 1 goal! I'll provide you with: Multiple Offers, Fast Closings, No Out-of-Pocket Expenses, Competitive Top Dollar Offer, Strong Financial Backing and Fair Business Practices.

For further questions or if you are interested in getting **multiple** Tier 1 priced quotes for your mortgage note, contact Brad Mirtes at 615-601-1830 (text or call) or send an email to brad@bradmirtes.com. To simplify your efforts, go directly to: www.bradmirtes.com/mnow.pdf and download the PDF. Just fill it out and email it to the email address at the top of the PDF. If you have use an iPad or other Apple products go to: www.bradmirtes.com/mnow.php

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Bradley A. Mirtes