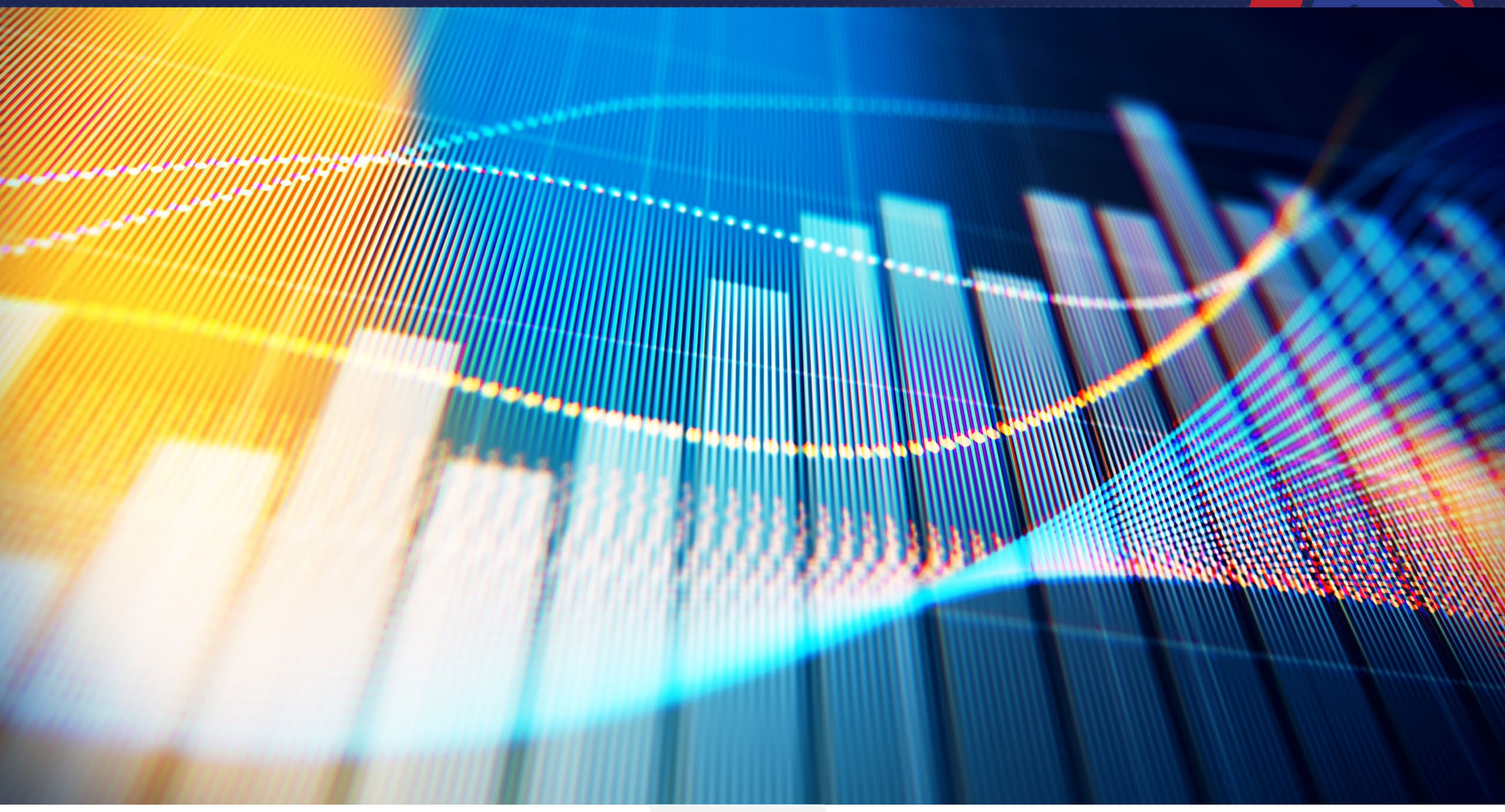

6 REASONS TO SELLER FINANCE YOUR INVESTMENT PROPERTIES

Seller financing is one of several viable ways to finance a home. Investors like to offer seller financing to potential buyers as an investment strategy in lieu of renting out their properties. There are many reasons property owners choose seller financing over being a landlord and here are 6 reasons to do so.

1. NO MAINTENANCE

Seller financing shifts maintainance responsibilites from the investor to the buyer, reducing these costs. Furthermore, property owners have a higher incentive to maintain property than renters, meaning that even in the event of foreclosure the investor is left with a more marketable property.

2. NO TAXES

Transfering ownership of the propery also shifts the tax burden to the buyer. The buyer will be responsible for all property taxes.

3. NO LATE NIGHT CALLS

It is wonderful that the phone will never ring at 2am. No landlord wants to deal with the emergency leak, but that is part of being a landlord. With seller financing, those calls will never come in again. It's not your home so the owner will need to figure it out on their own. *TIP: Most home owners don't have a readily available list of people to call for issues they might be having in their home. Create a list of your preferred contractors and trades people and give it to the buyer when they first move in. The buyer will appreciate the referral if the time comes, you will gain favor with your contractors, and it also keeps you in the loop on the property's overall condition.*

4. ABILITY TO WRAP THE MORTGAGE

After the new buyer takes over the property, an investor has the ability to go to another lender and pull out a percentage of the equity in the home, hence, wrap the mortgage with another mortgage. Example: Investor "seller" buys a fixer upper for $50,000 cash and puts $25,000 into the property for repairs for a total of $75,000 all in. The investor then sells the property for $100,000 with 10% down. The investor receives $10,000 cash and the seller finances the property for $90,000. Once everything has gone through, the investor turns to a lender and pulls out a loan for $75,000 (the initial investment amount) and keeps the difference between the payment they received from the homeowner and the payment they make to their lender. Therefore, the investor pockets $10,000, is making a residual income for the duration of the loan, and has their initial investment money back to start the process all over again.

5. POTENTIALLY 20 – 30 YEARS OF UNDISRUPTED INCOME

One of the primary drawbacks of renting your property is turnover. A broken lease, extended vacancy, or truant renters can cause losses that may take several years to recover.

While there is always a chance of a default on a loan (we will address this shortly), seller financing typically attracts those with a serious interest in owning the property. With seller financing, an investor will get paid as long as the mortgage is in place without having to take care of the property.

6. WORST CASE YOU TAKE BACK OVER

I honestly believe that some investors out there using the seller financing strategy are praying that homeowners default on their payments. I am not saying that these investors are bad people, I am saying that they understand what they do very well. Let us take a look at an example of a worst case scenario: *An Investor "seller" finances a property to John "homeowner" at a price of $100,000. John puts 10% down ($10,000) and finances $90,000. John moves into the property, fixes up the kitchen for his wife and spruces up the landscaping. Five years into the payments, John defaults on his loan, is unable to make the payments, and ends up moving out of the property. The investor takes back over the property that has most likely appreciated in value and markets the property for another potential buyer. Buyer Cindy comes along and buys the property from the investor at $110,000 with 10% down payment. The investor now gets an $11,000 down payment and payments plus interest on $99,000 for a 20 to 30 year duration. In total, the investor would get John's down payment plus all of the interest John paid over 5 years minus some holding cost, rehab, and closing costs due to the transition of John moving out and the investor wanting to find another buyer. The great thing is that the investor gets to start the gravy train all over again with a new buyer at a high price.*

In conclusion:

Seller financing can be a great option for some investors, but keep in mind that every situation is different. For instance if an investor already has a high income, it might not make sense for them to use a strategy that generates more income. Another drawback to seller financing is that at the end of the term/loan you are left with nothing, while a landlord still owns a property. I personally think this is offset by not having the hassle of tenants, maintenance, and turnover, but once again every investor's investment strategy must be customized to their personal investment goals.

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