# Seller Financing or the Purchase Money Mortgage: Getting the Deal Closed in Uncommon Times

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1. The purchase money mortgage happens when the seller gives the buyer a personal mortgage and loan.

2. Instead of the buyer obtaining the funds from an institutional lender the seller provides the loan for a agreed upon interest rate and money amount and fixed or adjustable rate.

3. The term is negotiable but often is less than the traditional 30 year mortgage.

4. Although this has not been a common avenue for financing a transaction since the 1970's or any downturn when a buyer cannot qualify for a traditional lender's mortgage, the purchase money mortgage has been used in several arenas when necessary.

5. Seller's can often command higher sales prices as explained from Chapter 3 of Finding the Uncommon Deal:

**The Negotiation**

· Avoid trying to negotiate a cheaper purchase price for the property. Remember: You are asking the owner to give you the property in return for future payments, and you are attempting to obtain homeownership that you would not otherwise be able to afford. For such benefits, offer to pay at least the asking price—if not more—in order to seal the deal.

· If you are seeking seller financing, you can also expect or even offer to pay an above-average interest rate in exchange for the seller's loan. However, make sure that you agree to an affordable price and a reasonable payback time period so that the seller does not wind up taking the property back.

6. Trusting that the buyer can pay. Or never trust that the buyer can pay and do a credit check, obtain two years tax returns and a guarantor if possible and an asset search and employment verification to make sure you will not wind up in foreclosure court.

7. Servicing the loan: Payments are due monthly or as otherwise agreed and the seller is responsible for collecting payments.

8. As Danny Ramrattan of the Adam Leitman Bailey Foreclosure Group explains "If the buyer defaults in making payments, Seller can commence a foreclosure proceeding.

9. Even after a foreclosure auction has happened you will still need to evict the purchaser.

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# FINDING THE UNCOMMON DEAL

Includes an Online Guide to **Laws & Practices in All 50 States**

A Top New York Lawyer Explains How to Buy a Home for the Lowest Possible Price

ADAM LEITMAN BAILEY

# Chapter 3: Buying a Home with Little or No Money Down and Obtaining Seller Financing

Capitalism makes for the most creative vehicles for transferring land. The engine for this creativity is need. While buyers need a place to live, sellers may need to pay off a mortgage, move to a bigger house, make a profit, or perhaps even do all of the above. The more desperate a seller becomes, the greater a buyer's chances of handing over little money in exchange for a home. The methods discussed below do not apply to transactions where financing will be received from third party private lenders, but rather from the sellers themselves. Using governmental and private lending programs with little or no money down options may result in higher fees, but otherwise they follow the traditional guidelines in the financing chapter of this book. We are therefore talking about owner financing here.

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## PUTTING LITTLE OR NO MONEY DOWN

Desperate times can lead sellers to especially desperate measures. Of course, every seller would prefer to have the buyer's down payment made at the signing of the contract of sale and for the full purchase price to be paid at closing. But that does not always happen. Sellers cannot rely on receiving a down payment in a weak real estate market; however, many still manage to sell their homes in their preferred price range. In a weak real estate market, buyers who would not normally qualify to reach their goal of homeownership can leverage the market's down conditions to buy a home with little or almost no money down.

For little money down deals with federal government financing or other third party lenders, the fees may be higher but many of the terms remain the same as in any market transaction.

To put little or no money down on a deal with seller financing, you may need to be more willing to negotiate on other terms, such as the purchase price, the interest rate, and the condition of the home. Because negotiating on such terms will not usually be to your advantage, you should only seek such a deal if you are unable to purchase the home with money down or if you are a home investor using other people's money to make a profit from flipping, reselling, or renting the properties purchased.

Some investors use the no money down strategy without even asking the seller to give them a mortgage. They obtain the money to pay for a loan or to take out a second loan based on the equity or value of the home being purchased, or even from the equity or amount that can be borrowed from another home that they may own. These methods are extremely risky and only experienced investors or those with a high level of risk tolerance should use them under the guidance of qualified advisors who have completed these types of deals before.

The anatomy of the little or no money down deal requires the seller to finance your purchase of the property in exchange for your agreeing to pay equal to or above the asking price—and many times, to also pay an above-average interest rate on the loan that the seller provides to you. Instead of paying rent to an owner and receiving nothing aside from immediate shelter for your payments, the no money down purchase allows these monthly payments to go toward paying off the purchase price. Rather than monthly rent, these become mortgage payments.

## The Little or No Money Down Negotiation and Process

The essence of the little or no money down negotiation starts with teaching the seller why it is a good idea to accept your offer to purchase the home with little or no money down and with the seller personally financing the transaction. If you fail to make the promised monthly payments, the seller can recover the property and put it on the market again. Once you explain this concept to the seller this may help to soothe his or her fears of the risk involved in this type of transaction. Also, you should promise the seller that as soon as you have enough savings, improved credit, or garner enough equity in the house, you will attempt to obtain a conventional mortgage from a traditional bank.

When sellers possess their own loans and mortgages that they want to pay off, it is even harder to convince them to fund your purchase. For states where they're used, an attorney should be involved as soon as you

obtain an accepted offer. In desperate situations especially, your scam radar should be raised. So, a qualified attorney can prove essential in completing the deal. The seller may not want to pay for an attorney, but either way it remains extremely important for you to have your own attorney to make sure that you obtain absolutely clear possession of and title to the land. For information on how to select your attorney please refer to Chapter 14, *Finding and Utilizing an Aggressive Attorney.*

When buying a home with little or no money down, it remains extremely important to follow the suggestions in this book that apply in every type of home purchase. This especially includes securing an engineer or inspector to analyze the home's physical makeup. Budgeting is even more important in home purchases with little or no money down; it is crucial for you to have a thorough understanding of your finances and what you can afford before entering into this type of purchase. As important, you must be aware of the continuing costs of carrying a home, such as real estate taxes and repairs. Do not throw money away for the sake of calling yourself a homeowner. Again—if you cannot afford the payments, then rent and save your money until you can afford to do so properly.

## Earning Credibility and the Seller's Trust

This type of negotiation usually goes much more smoothly when dealing with relatives or friends who understand your personal financial situation. When dealing with strangers, explain that you are both cash and mortgage poor and back this up with credible reasons. As sympathetic as you want your situation to seem, you also want to appear responsible enough to convince the seller to take a gamble on you. Give reasons for any poor credit—whether it was the unfortunate adventures of your youth, the loss of your job, the divorce that left you with nothing, the bad business venture, or whatever truth applies. At the same time, make sure that you separate your past misfortunes from the present day. Today you have a steady job and are reliable. In the past, you were unlucky. Many sellers will be willing to root for and assist you as the underdog to reach your dreams; you just have to persuade them that the bet on you is a reasonably safe one.

## The Anatomy of the Deal

Avoid trying to negotiate a cheaper purchase price for the property. Remember that you are asking the owner to give you the property in return for future payments, and are attempting to obtain homeownership that you are otherwise not able to afford. You will be turning your rent payments

into ownership equity, so you should offer to pay at least the asking price for the property—if not more—to seal the deal. This approach is your best chance of capturing the seller's attention. The seller will want to hear you out for at least a few moments to learn why you want to pay the full asking price or more.

In exchange for your paying the full price, the seller will act as your bank. You will make monthly payments to pay for the entire property, and will need to figure out how many months it will take you to pay off the mortgage loan that the seller is personally providing. Of course, the shorter the time you offer for the payoff period, the better your chance of convincing the seller to go along with it. Make sure that you agree to an affordable price and a reasonable payoff time period so that the owner does not wind up taking the property back.

Make it clear to the seller that you will agree to put all terms in writing, including how fast you will move out of the property if for any reason you cannot afford to make the payments. The personally obtained mortgage from the seller—which in some states is called *the purchase money mortgage*—has given hundreds of thousands of buyers their first homes. While it is not the most common method of purchasing a property, it is still a method that many buyers credit for having allowed their dreams to come true.

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## MY STORY: BUYING A HOME WITH NO MONEY DOWN

Peter always admired his father-in-law, Jerome, and aspired to have a life just like the one Jerome had obtained. Like Jerome, Peter became a teacher and married another teacher, Lorna. To fulfill his dream, he wanted to own a home just like the one Jerome owned in the suburbs. Though both Peter and Lorna were in love with the house and the town in which it was located, they unfortunately found—based on the prices of similar homes in that area—that they would not be able to comfortably afford the traditional down payment at the time they were looking to move.

Retired from teaching and desiring to live upstate permanently, Jerome, and Lorna's mother, Amy, were actually looking to sell their suburban property. They became discouraged when they learned how prices had crashed and how slowly homes moved on and off the market in their town. But paying taxes for two homes was not an option on two teachers' retirement plans and occasional tutoring and substituting. Jerome and Amy also wanted to rent a place in the city to spend more time with their children.

Since I knew all the parties involved, I came up with a plan that I believed would benefit everybody. Peter and Lorna could purchase Lorna's parents' home with no money down and make monthly payments on a personal loan from Jerome and Amy. Although Peter and Lorna had difficulty saving for a down payment to purchase a home on his salary and tutoring jobs, he and his wife had perfect credit and could easily make the monthly payments. In fact, Peter would be paying almost the equivalent of his current rent for his apartment in Queens, New York through his monthly home payments. Peter and Lorna's payments wouldslowly pay down the loan over 30 years.

Peter and Lorna would become homeowners in a beautiful neighborhood, while Jerome and Amy could retire to the country and rent a place in the city, paid through the monthly payments received from their daughter and son-in-law. To top it all off, Jerome and Amy got out of the deal without having to pay a broker or trouble themselves with open houses and strangers tramping through their home. Without this arrangement, Peter and Lorna would still be renting today. And Jerome and Amy could still be paying taxes on two properties. Everybody except brokers came out ahead on this deal. This past December everyone became doubly blessed as Lorna gave birth to a baby girl named Isabella Rose.

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## CHAPTER SUMMARY AND INSIDER TIPS

### FINDING YOUR LITTLE OR NO MONEY DOWN HOME

- Do the necessary budgeting to figure out exactly how much you can comfortably afford to spend on the home purchase. Looking at what you could pay in rent is the best vehicle for determining what you can pay the seller each month in a purchase where you are not putting any money down and are obtaining seller financing. However, owning a home will incur additional costs such as insurance, property taxes, maintenance, and repairs, which must also be considered in your budget.
- As far as furnishing your new home, make sure you at least have enough money for a bed, and most likely, a couch. However, frugal purchasers understand that the entire home does not need to be furnished in one day. America's third president, Thomas Jefferson, took 40 years to build and rebuild his own home, called Monticello, in Virginia.
- When you visit potential homes, try to get a feel for how desperate the seller is to sell, as desperate sellers may be more willing to accept a little or no money down transaction.

## Coming to an Understanding with the Seller

- Once you find the home you would like to purchase and can afford, approach the seller with your offer. Start by explaining why it is a good idea to accept your offer to purchase the home with little or no money down and, if applicable, with the seller also personally financing the transaction.
- You will also need to explain why you are unable to afford the traditional down payment amount and/or to qualify for a traditional loan. Inform the seller that although you are cash/mortgage/credit deficient, you have credible reasons for this and are now a fiscally responsible person.
- Assure the seller that should you fail to make the promised monthly payments, he or she will be able to recover the property and put it back on the market. The seller should know that you would put all terms in writing, including how quickly you would move out of the property if for any reason you could not afford to make the payments.
- You can also promise the seller that as soon as you have enough savings, improved credit, or enough equity in the home, you will attempt to obtain a standard mortgage from a traditional bank.

## The Negotiation

- Avoid trying to negotiate a cheaper purchase price for the property. Remember: You are asking the owner to give you the property in return for future payments, and you are attempting to obtain homeownership that you would not otherwise be able to afford. For such benefits, offer to pay at least the asking price—if not more—in order to seal the deal.
- If you are seeking seller financing, you can also expect or even offer to pay an above-average interest rate in exchange for the seller's loan. However, make sure that you agree to an affordable price and a reasonable payback time period so that the seller does not wind up taking the property back.
- Contact an attorney that has experience representing buyers in little or no money down home purchases as soon as you receive an accepted offer. It is extremely important for you to have your own attorney to make sure that you obtain absolutely clear possession of the land.