CA$H NOW SELLER FINANCING

OR HOW TO MAKE THE SALE WHEN THE BANK SAYS "NO"

A MUST READ FOR REAL ESTATE PROFESSIONALS AND INVESTORS SEEKING FINANCING FOR EVERY SALE

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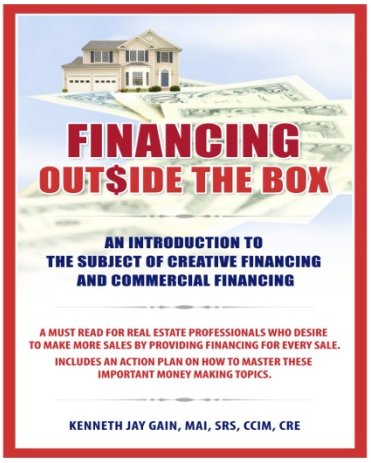
INTRODUCTION

This booklet is a prequel to my forth coming book, ***"Financing Outside the Box, an Introduction to the Subject of Creative Financing and Commercial Financing".*** For almost 20 years prior to the Mortgage Meltdown that began in 2007, the United States enjoyed an unparalleled period of "*easy mortgage money*". During this period of time, interest rates were generally declining and the requirements to qualify for a loan were getting easier and easier (*and therefore ultimately responsible for the Mortgage Meltdown*). Because of this long period of "*easy money*", there now exists a whole generation of Real Estate Professionals and Investors who don't know how to buy and sell real estate ***"When the Bank Says No"***.



But it wasn't always like this. When I began my real estate career in Fairbanks, Alaska in 1962, there was very little bank financing available and most of our transactions were made using what is now referred to as **Creative Financing**. Unfortunately, what many of us Old Dogs learned as Young Pups has now become a lost art. In an effort to help those not familiar with **Creative Financing**, in 2008 I wrote a booklet called ***Financing Outside the Box*** and published it on my website. You can still download a free copy of this booklet at **www.Cash4You.net.** However, I believe there is a need for an updated and more comprehensive treatment of the subject of **Creative Financing** and that's why I am currently writing the full book ***Financing Outside the Box***.

Because I am a full time Real Estate Counselor and Private Mortgage Investor, and only a part time author, I don't expect to complete this book until late 2011. For this reason, I decided to focus on one of the more important **Creative Financing** techniques to provide something useful that Real Estate Professionals and Investors can start using now, and therefore I have written this booklet on ***CA$H NOW SELLER FINANCING™ .***

I hope you find the information in this booklet useful!

Chapter 1
TODAY'S FINANCING DILEMMA

In the future, when we look back on Mortgage Financing in 2011, we will say, "***It was the best of times and it was the worst of times***!" We will say this because in 2010 and 2011 we have enjoyed the lowest mortgage interest rates in the memory of any living person. But in spite of these incredibly attractive rates, many Buyers cannot qualify for a loan and many properties are not financeable.

Just a few years ago, anyone with a pulse could get a loan. With the Mortgage Meltdown that has occurred over the last several years, 386 Lenders have gone out of business or have quit making loans[1]. The Lenders that remain have gone back to traditional lending practices and only want to make loans to Borrowers who have good credit, who can verify their income and who can make a down payment in an amount greater than was required in recent years. For these reasons, there are many Buyers who want to buy real estate but don't qualify for bank financing. Likewise, there are many properties that don't qualify for financing.

> *"A banker is a fellow who lends his umbrella when the sun is shining and wants it back the minute it begins to rain".*
> **Mark Twain**

Let's take a look at some of the major reasons why properties will not qualify for financing. While the following list is not totally inclusive, it does outline some of the major reasons, why Lenders reject properties:

- The property is too old.

[1] According to the website www.ml-implode.com

- The property is in poor repair.
- The property is located in an older neighborhood.
- The property is dependent upon on site utilities (w*ell and septic tank*).
- The property is not of conventional construction.
- The construction of the property has not been completed.
- The improvements don't conform to the zoning.
- The property has too much land (*many Lenders don't like to make loans on residential properties, situated on more than 5 acres of land.*)
- The land value is too high in relationship to the value of the improvements.
- The property is located in a remote location (*In many cases, urban underwriters interpret this as being anywhere that is not on a paved road. Obviously, in rural areas, our definitions are somewhat different*)
- The property has been contaminated or is subject to potential contamination
- The property is of the wrong type (*e.g. gas stations, vacant land, recreational property, hotel/motels, bars ,restaurants, junk yards*):

The foregoing examples are some of the reasons that the property may not qualify for financing. However, even if the property is

acceptable collateral, it is possible that the Borrowers may not qualify for financing. Some of the more common reasons that Lenders reject Borrowers are as follows:

Lenders like Borrowers who fit into their "*cookie cutter*" concept of a perfect borrower and therefore will often reject Borrowers who:

- The Borrowers' income is not high enough to meet Lenders required payment ratios (*i.e. certain programs require that the home payments, including taxes and insurance, cannot exceed 28% of Borrowers' income*).

- The Borrowers' total payments, including house payments and other bills, exceed some ratio (*a common figure for this ratio is 33% of total income*).

- The Borrowers' down payment may not be in the proper form. Unacceptable down payments include:
  - The down payment may have been borrowed.
  - The down payment may consist of an exchange of other real property or personal property.
  - The down payment may consist of Borrower's services such as sweat equity.

- The Borrowers may be self-employed.

- The Borrowers may have had a recent change of job or profession.

- The Borrowers may obtain too much income from rentals.

- The Borrowers may own too much real estate.

- The Borrowers may have had past credit problems.

- The Borrowers may have recently moved and haven't yet sold their old home.

- The Borrowers may have had a recent divorce.
- The Borrowers may be employed in seasonal occupation.

As you can see from the above, there are many reasons why banks reject properties and reject Borrowers!

Now, I would like you to take a minute to think about the following questions:

1. **Have you ever listed a property that did not sell?**
2. **Have you ever had a transaction "*DFT*" because the Lender didn't like the property?**
3. **Have you ever had a transaction "*DFT*" because the Buyer didn't meet the Lender's credit standards?**
4. **Have you ever had a Seller of an "*un-financeable property*" say they would only sell for cash?**
5. **Have you ever had a Seller reject an offer using "*Seller Financing*" because the down payment didn't provide enough cash?**
6. **Is it now more difficult to earn a comfortable living depending only on sales that can be financed by Banks under today's conservative loan underwriting?**
7. **Would you have better served your clients and made more money if all your answers had been NO?**
8. **Would you like to know how to sell a property when "*The Bank says No"?***

Chapter 2
IN THE BEGINNING—FINANCING BEFORE BANKS

In the beginning there was land, and eventually man evolved *(or was created, depending upon your philosophy*). In any event, in the early prehistoric days, humans roamed the land searching for food and shelter without any elements of ownership. Eventually groups settled into certain productive areas and began defending them against outsiders, thus creating the first elements of ownership and private property rights.

I don't think anyone knows (*or at least, I don't*) where the concept of private property ownership began, but the best evidence suggests it may have been somewhere in ancient Mesopotamia (*part of modern day Iraq*) or perhaps China. In any event, eventually private property rights were recognized, and along with them came the rights to use, lease, sell or bequeath.

In the early days, most transactions were undoubtedly transfers upon death to heirs (*bequests*). But eventually someone decided to sell their property (*perhaps childless land owners*), but since it had value, they obviously wanted something in return. Since these early transactions occurred before the invention of money, they were undoubtedly barter transactions. When you pause to think about it, you will realize that **barter is really the basis of every transaction**. This is true because every transaction is based upon the human desire to dispose of something in order to acquire something else. (*Money just makes the process easier, but doesn't change the basic motivation*).

Perhaps the first barter transaction involved an exchange of a farm for a hut in the village or an exchange of a hut in the village for a herd

of goats. Unfortunately, history does not record the first transaction, but I think you get the picture.

Eventually there was a situation in which a property owner had property of value, but was unable to find a willing Buyer with something of equal value. Therefore the sale would have been made by accepting something of value now and a promise to deliver something of value in the future. Since money had not yet been invented, there were of course no banks or Lenders. **So the first financed transaction involved *Seller Financing*!**

Always remember these two principles. The following two principles are the basis of every real estate transaction and are the foundation of **Creative Financing**:

1. **Every transaction is based upon the principle of barter or exchange.**

2. **Every financed transaction is based upon a promise to transfer something of value in the future.**

DO NOT FORGET THESE PRINCIPLES!

Use of These Principles in Today's Market Place: I believe that the phrase that best describes real estate financing today is, "***Triple lock the barn—the horses have been stolen.***" After years of making stupid loans that should not have been made, the pendulum has now swung back to the opposite extreme. While I believe that sound underwriting of loans is necessary for a stable market, I am now hearing of bureaucratic rules that make no sense. (*But what can you expect*

when over 90% of all residential loans involve a government entity to insure or buy the loan). While interest rates are now at a 50 year low, they are very difficult to qualify for.

But the great news is that there are still Buyers wanting to buy real estate and Sellers wanting to sell real estate, if someone can show them how to finance the transaction. One advantage of being an Old Dog (*unfortunately there aren't many advantages*) is that I have seen this before. In the early 1960's when I began my real estate career in Fairbanks, Alaska, there was little third party financing available, so most of our transactions involved **Creative Financing** and we made a living by remembering and applying the two principles described above.

Chapter 3

SELLER FINANCING ALWAYS MAKES THE SALE!

Buyers love *Seller Financing*! The fact that they deal directly with Sellers rather than a bank reduces closing costs, protects privacy of the transaction, and allows for flexible underwriting as well as creative structuring meeting the needs of both Buyers and Sellers. Also because no third party approval is required, closings are faster.

If you have any doubt about Buyers loving ***Seller Financing***, try this test: ***Prepare two ads on the same property with identical wording in the text of the ad, and then on one ad use whatever headline you like and on the other one use the headline "Seller Financing" or "Owner Will Finance" and see which ad gets the most phone calls***. For Sellers who are looking to convert their real estate equity into an investment in a known asset with an interest rate higher than CD's or bonds, ***Seller Financing*** is an attractive alternative.

> ***EXPLODING THE MYTH***
>
> Many people mistakenly believe that only FREE & CLEAR properties can be sold with ***Seller Financing.*** As I will show in Chapter 9, **this is simply not true!** But even if it were, approximately 33% of all Owner Occupied Homes are owned FREE & CLEAR (*according to 2005 Census Bureau Data*)

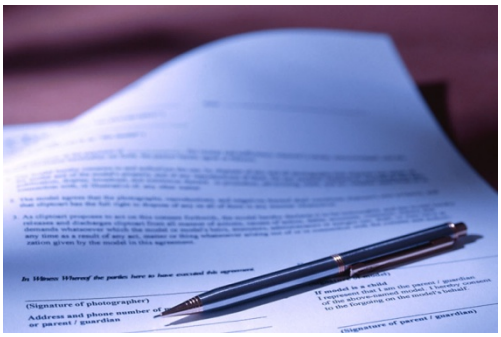
In my experience, any property can be made more appealing to Buyers through the use of ***Seller Financing,*** because Buyers find it an attractive alternative. In addition to making any property more attractive, there are certain properties such as mobile homes, raw land, recreational properties, unfinished construction, or properties of unconventional construction (*or in poor repair*) that can only be sold

through the use of ***Seller Financing***. The major problem with ***Seller Financing*** is that often it does not provide enough cash to meet the Seller's needs. But I will explain the solution to that issue in Chapter 5.

In the balance of this chapter, I will address the essential elements involved in creating a Seller Financed transaction:

The Down Payment: An important element of a Seller Financed transaction is the down payment. Due to the fact that the Buyers in many such transactions have less than perfect credit, the down payment is far more important than it is in conventional financing. With larger down payments, the Seller Financed Note is more secure and as result can be sold for a higher price. The goal in every Seller Financed transaction should be to try for a down payment of at least 10%. But remember, the advantage of ***Seller Financing*** is that it can be very flexible and creative. Therefore, the down payment can be in any form, can consist of anything of use or value to the Sellers, or can be anything of use or value to the licensee (*as all or part of the commission*).

Financing Documents: The difference between the selling price and the down payment is the ***Seller Financing***. The Sellers are entitled to the same legal protection as a Lender and therefore the unpaid portion of the purchase price will be represented by a Promissory Note outlining the amount owed, the terms of repayment, and the interest on the unpaid balance. This Promissory Note is then secured by a Deed of Trust, Mortgage or Contract for Deed (*depending on which state the property is located*) pledging the property being purchased as security for the Note. However, security does not have to be limited to only the property being purchased. If the down payment is low or if the Buyers have weak



credit, it is possible to secure the Seller Financed Note by other property owned by the Buyers or perhaps their relatives.

Collection Escrow Instructions: The final financing document is the Escrow Collection Instructions to the bank or escrow company that will act as neutral agent for both Buyers and Sellers. This enables them to collect the payments from the Buyers, remit them to the Sellers, calculate the interest and unpaid principal balance, and provide the required annual reporting to the Internal Revenue Service. Also, the escrow company holds the reconveyance documents to remove the Deed of Trust, or Mortgage from title after the Note is paid. In the case of a Contract for Deed, the Fulfillment Deed should be held by the escrow company.

Casualty Insurance on the Property: I am constantly amazed at how many improved properties are sold using ***Seller Financing*** without requiring the Buyers to insure the property for its full replacement cost, and without naming the Sellers as Loss Payees. In the last nine years we have had five properties, on which we had purchased Deeds of Trust, burn to the ground. Fortunately, we had enforced the provisions of the Deed of Trust requiring the Buyers to carry insurance naming us as Loss Payees. This is such an important issue, that no Seller should sign the documents transferring ownership of the property until the Buyers have provided an Insurance Binder for the full replacement cost of the property and showing the Sellers as Loss Payees.

Real Property Taxes: Although all Deeds of Trust, Mortgages and Contracts for Deed, require the Buyers to pay the real property taxes before delinquent, and provide that failure to do so is a default on the terms of the agreement, many Buyers fail to pay the real property taxes until they are threatened with foreclosure. Fortunately, in most jurisdictions it takes several years before the Government forecloses on the property, thereby eliminating the property as security for the Seller Financed Note. However, it is something that can and does happen. Even if the Sellers foreclose, it is a very unpleasant surprise to do

so and find that several years of property taxes are past due. The best way of resolving this issue is to register with a Tax Reporting Service so that the Sellers receive notification when taxes are due and when they have not been paid.

Mortgagee's Title Insurance: In most transactions, the Sellers pay the premium to provide the Buyers with Owners Title Insurance, but neglect to insure their own interest. One of the real bargains in title insurance premiums is the simultaneous issue of a Mortgagee's Title Policy that insures the Sellers' title interest in the Deed of Trust against the property. While the losses to Sellers through poor title do not occur often, they do occur. Therefore, I can think of no reason not to always have the Sellers purchase a simultaneous issue Mortgagee's Title Policy.

The Devil is in the Details: The above is a brief explanation of the process of creating Seller Financed transactions. In the next chapter I will discuss each legal document and each issue in greater detail.

CHAPTER 4
DOCUMENTING SELLER FINANCED SALES

I ended the last chapter discussing some of the issues in Seller Financed Sales and made the closing observation that **"The Devil is in the Details."** In this chapter, I will discuss some of the details of creating properly documented Seller Financed transactions. Most of the time you will have a reasonably documented transaction by just giving the title company the economic details and letting their attorney prepare the paper work. However, you can always do a better job for your client if you really understand more about the important details.

The Promissory Note: The first document used in all Seller Financed transactions is the Promissory Note. Every Promissory Note will state the amount of the unpaid debt, the interest rate

charged on that debt and a description of when and where the payments are to be made. Remember, payments don't have to be monthly; they can be made annually, quarterly, or on any other schedule agreed to between Buyers and Sellers. There are some significant elements that may not be included in the Promissory Note unless specifically requested. Some of the more important of these include:

Late Payment Penalty: Unless you specifically request it, very few title companies will provide for a late payment penalty. My experience has convinced me that a late payment penalty does provide a major incentive for on time payment, and if the payment is late, at least the Sellers collect extra income for waiting. The first decision in creating a late payment penalty is to decide on the grace period. Most banks, on residential transactions, allow 15 days. My firm uses 10 days on Commercial Loans and I know of one private local Lender who uses 4 days. Any payment made during the grace period is not subject to a late payment penalty, but payments not made during that period

should be subject to some penalty. The banks typically charge 5% of the payment. We charge 10% on our Commercial Loans and I have seen penalties as high as 25% of the amount past due.

Penalty Interest: Although not typical in residential transactions, many Commercial Loans provide for penalty interest in addition to the late payment penalty, if the loan becomes delinquent for a longer period of time, such as 30 days. For example, in our Commercial Loans, if the loan becomes delinquent for more than 30 days the base interest rate is increased by 5%. This is a fairly typical provision in many Commercial Loans and I know of one Lender who doubles the interest rate if the payment is more than 4 days late.

Who is Guarantying the Note: It is important to be sure that the person signing the Note is personally guarantying that payment is made. In the case of corporations, LLC's, and certain other entities, the person signing the Note may be doing so only in their official capacity. In that case, the Note is only guaranteed by the corporation or LLC, (*which may be an entity with very limited assets)* although the owner may be a person with a high net worth whose financial strength was a factor in accepting the purchase offer. Any time the Buyer is an entity rather than an individual, it is a good idea to have the Note signed on behalf of the entity and then guaranteed by key officers and owners. It is also important to carefully read the Note to be sure that it is a Note providing for an unconditional guaranty of payment rather than being written as a "*Non-Recourse Note*," in which case the only remedy is foreclosure on the property.

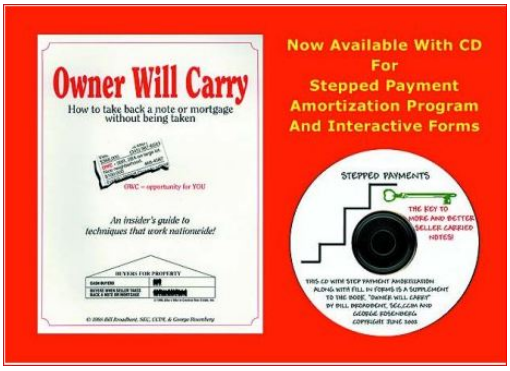
Interest Rates: Make certain that when setting interest rates that you're making an "*apples to apples*" comparison. In a conventional, conforming transaction, the Buyers must meet high credit standards and the required payments on the Note must be less than the underwriter's determined percentage of income. One of the advantages of ***Seller Financing*** is that it allows flexibility and as a result, the Buyers' credit may not be perfect and/or the

required payments may be a major portion of their income. Therefore, the interest rate should be commensurate with the risk involved. Persons with poor credit do not deserve the same low rate that is available to persons with excellent credit. It is also important to remember that as a result of the Sellers providing ***Seller Financing***, the Buyers' closing costs are usually lower than with a conventional loan. Therefore, Buyers don't mind paying a little higher interest rate. I commonly see Seller Financed transactions with an interest rate of 2% to 4% more than the prevailing rate on conforming bank loans.

Beware of Usury: Traps for the unwary are usury laws which vary significantly from state to state. Although it is my attorney's, and my opinion, that in Alaska, a Seller Financed transaction is an installment sale for which there is no usury limit, your state is probably different. Failure to comply with the usury laws can cause total forfeiture of all interest and additional penalties**, so be sure to check with an attorney on this issue!**

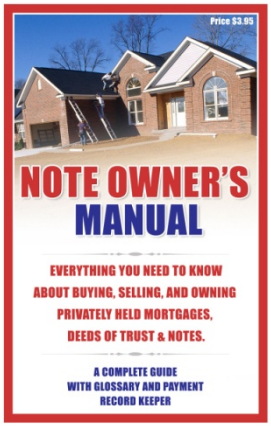
The Note is an Enforceable Instrument by Itself. Although Notes are usually secured by a Deed of Trust or Mortgage against the property sold, it is important to remember that the Note, by itself, is an enforceable legal document. This may not mean much if the Buyers have a low net worth, but in a transaction where wealthy people sign the Note it is sometimes advantageous to merely sue on the Note rather than foreclose on the property. Although 99% of the time, Sellers will use the right to foreclose on the property as the protection for non-payment, **it is a good idea to prepare the Note as if it were the only document being used!**

To Learn More: To learn more about the subject of ***Seller Financing***, I strongly recommend the book, ***Owner Will Carry***, written by real estate experts Bill Broadbent, SEC, CCIM and George Rosenberg. You can order a hard copy of this book at http://creativesolutionsinc.net/products.html or you can buy an eBook version at www.papersourceonline.com/e-books-more/owner-will-carry/.



Chapter 5
CA$H NOW SELLER FINANCING

In most cases, the Sellers need (*or at least want*) all or a substantial portion of the equity in the property they are selling to purchase another property. Assuming a typical down payment of 10%, a 6% selling commission, and a 1% closing cost, leaves only 3% of the selling price as net cash to the Sellers and many times that amount is insufficient to meet their needs. Fortunately, there is an answer to this dilemma.



FREE NOTE OWNER'S MANUAL

In addition to resolving the Seller's cash needs, another important issue is educating the Seller about how ***Seller Financing*** works.

To assist you in this task we have written a consumer manual for Sellers on the subject of ***Seller Financing.***

You can download a **FREE** copy of this booklet at

CashNowAK.com

Use *"CA$H NOW SELLER FINANCING™"*. With this technique, a property can be made more marketable by the Sellers providing ***Seller Financing***, which Buyers love, while at the same time getting the Sellers the cash they need. The solution involves a simultaneous sale of the Seller Financed Deed Note and Deed of Trust or Mortgage or Contract for Deed to an Investor at the closing table. Therefore, the Sellers are only financing the sale for the minute or two that it takes to close the second escrow in which all or a portion of their Note is purchased by the Note Investor for cash.

A Typical Example: A typical example would be the sale of a modest older home that does not qualify for conventional financing. Assume a sale price of $135,000 with $13,500 down payment, and Sellers taking back a Seller Financed Note for $121,500 at $1093.17 per month, including 9% interest with a final balloon of approximately

$86,300 due in 10 years. At first glance, a 9% interest rate may seem high in the current market, but I see Seller Financed transactions all the time at 8% to 10%. Because the Buyers often don't qualify for conventional financing, and even those that do, are saving on closing costs, are able to deduct interest on tax returns, and because the transaction is easier and faster, they are willing to pay rates on Seller Financed transactions that are typically 2% to 4% more than the rate on institutional conforming mortgages.

There are Many Options. For the Sellers who need all or part of the equity from their property in cash, there are a number of options available. Four typical options that would work in this example are as follows:

CA$H NOW – Option 1: The Sellers could sell 119 payments for $71,850 **CA$H NOW**. With the down payment that means they would receive $85,350 **CA$H NOW**, plus they would receive the $86,300 balloon in ten years.

CA$H NOW – Option 2: If the Sellers needed more cash, they could sell 119 payments and 50% of the balloon for $84,350 **CA$H NOW**. With the down payment that means they would receive $97,850 **CA$H NOW**, plus they would receive the remaining $43,150 balloon in ten years.

CA$H NOW – Option 3: They could also sell the Note for the $121,500 full face value payable as $60,750 **CA$H NOW** and an additional $60,750 in 75 months. With the down payment that would be $74,250 **CA$H NOW** and with the $60,750 installment due in 75 months, that's a total of $135,000.

CA$H NOW – Option 4: If the Sellers needed as much cash as possible now, they could sell the entire Note for $97,300. With the down payment that's a total of $110,800 **CA$H NOW**. **Usually, sale of the entire Note is the worst option, but it is usually better than reducing the price low enough to find an all cash Buyer.**

Other Examples: The above examples assumed a free and clear property, but of course if there were debt, part of the proceeds from the sale of the Note could be used to pay that off with the Sellers receiving the remainder. Other examples based upon different scenarios are shown in Chapter 9.

Contingent Sales: Sometimes a Seller may not want to sell the property unless they are sure they can sell the Note for enough cash to meet their needs. In that case, you can write the Earnest Money Agreement contingent upon selling the Note for sufficient **CA$H NOW.**

Chapter 6
HOW MUCH IS A SELLER FINANCED NOTE WORTH?

We are commonly asked, "*How much is my Note Worth?*" That is a question that is as hard to answer as, "*How much is my house worth*?" Neither question can be answered without having more information.

There are many factors that affect the value of a Note. These include the type of property, the amount of down payment, the Buyer's credit rating, the interest rate on the Note and how fast is amortizes. In a typical real estate transaction there is nothing that the licensee can do about the type of property or the Buyer's credit rating, but by knowing the factors that do influence value, you can make your client's Note worth more. The major factors within your control are trying to maximize the down payment (*Don't overlook other sources of down payment such as trades, loans from insurance policies, etc.*), increasing the interest rate and shortening the payoff period with a faster amortization and/or balloon payment (*assuming that there is a credible source of funding for the balloon payment*).

The factors that influence the cash value of a Seller Financed Note are shown in the following chart:

VALUE	NOTE MATURITY	PROPERTY TYPE	LIEN PRIORITY	EQUITY	INTEREST RATE	BUYER CREDIT
HIGHEST	Short Amortization Period	Owner occupied single family, duplex to 4-plex, or condo	1st	25% +	Above Market	Good
↓	Longer Amortization with Balloon (See Note Below)	Rented single family, duplex to 4-plex, condo, or mobile home less than 20 years old on permanent foundation Commercial & Apartments	2nd	20% +	Market	Average
↓	Longer Amortization without Balloon	Mobile homes more than 20 years old on permanent foundation. Other improved properties[2]	3rd	15% +	Below Market	Poor
↓		Mobile Homes on Rented Land or Improved Vacant Land[3]		10% +		
LOWEST						

NOTE ON BALLOON PAYMENTS: The Dodd-Frank Act—Title XIV, Section 1401 (2) (E) prohibits balloon payments on Seller Financed sales of residential properties unless licensed as a mortgage originator. Since most such transactions involve **intra-state commerce rather than inter-state commerce**, I seriously question the Constitutionality of the prohibition. But I am neither a judge nor an attorney, **so check this out with your attorney.** This Act does allow interest rate adjustments after 5 years, "*subject to reasonable annual and lifetime limitations on interest rate increases*."

In Chapter 9, I outline how I intend to cope with this Act even though I doubt that it is Constitutional.

[2] **Special use properties such as motels, restaurants, and interim uses or recreational cabins and mobile homes with land but without permanent foundations.**
[3] **Subdivided lots improved with all weather roads and all utilities necessary to develop.**

Chapter 7
TWO COMMISSIONS FROM ONE CLIENT

A great advantage of **CA$H NOW SELLER FINANCING™** is that it provides the opportunity to earn two commissions from one client—which I call a **2fer**. Our experience in working with Licensees shows that about 50% of Licensees who refer Notes to us for sale, then represent the Seller who then becomes the Buyer of a larger move up property. By solving a Seller's cash needs in selling a "*Hard to Sell*" property, the Licensee usually earns the respect of the Seller and is therefore most likely to be the Licensee selected to find the move up property.

Let's look at another example of the creative use of **CA$H NOW SELLER FINANCING™**. Assume Buyers who don't quite qualify for the home they want, but could qualify for a loan $15,000 smaller if they can add $15,000 to the down payment. However, in qualifying the Buyers, the Smart Licensee would have asked the **Magic Question**: ***"What do you own that you are willing to sell to buy the real estate you want?"***

In response to the **Magic Question**, it is learned that the Buyers are receiving monthly payments on a $19,832 Seller Financed Note from the sale of a recreation lot. By assisting them in the sale of that Note for $15,082 the Buyers now have the additional $15,000 to buy the dream home they want. **By using this creative solution everyone wins!**

Chapter 8
CLOSING THE TRANSACTION

The process of **CA$H NOW SELLER FINANCING™** is actually quite easy. The best way is to write the Earnest Money Agreement with a contingency clause making the sale subject to the Sellers getting an acceptable **CA$H NOW** offer for a simultaneous sale of all or part of the Note. Assuming that the Note Investor's offer is acceptable, the Note Investor typically works with the closer to purchase the Note for the agreed **CA$H NOW** price at closing.

Of course this requires a working relationship with an experienced and reputable Note Investor willing to purchase Notes in simultaneous closings. Virtually every community of any size has one or more such investors. If you don't know one already ask other folks in the real estate profession, escrow officers at title companies or employees of local escrow collection companies.

If that doesn't work then contact Bill Mencarow at **http://www.PaperSourceOnline.com** . Fill out the contact form on the site and tell Bill about the type of property and its location and he will help you. Bill maintains a directory of Note Investors and probably knows more people in the industry than anyone else. While at the **PaperSourceOnline.com**, browse the site. Bill has a great blog, publishes a great newsletter and sells some great books including the book **Owner Will Carry that** I recommend in Chapter 4.

Of course if the property being sold is located in **Alaska** or if the Note is serviced by an Alaska escrow collection company, I hope you will consider our firm. Our website for Real Estate Professionals is http://www.Cash4You.net and our website for Note Sellers is http://www.CashNowAK.com . Our email is kgain4cash@msn.com and our phone number is **(907)279-8551.**

Chapter 9
SOME EXAMPLES

In Chapter 5, I listed several options of selling the Note listed in that example, but to give you a better idea of how ***Seller Financing*** in general works, and specifically how **CA$H NOW SELLER FINANCING™** works, I have prepared the following examples that are representative of various situations likely to be encountered:

The Assumptions: For the purposes of these examples, we will assume a single family residence with a value of $200,000 that is sold with a down payment of $20,000 and the Seller carrying back a Note for $180,000. As discussed earlier, I commonly see Seller Financed Notes with interest rates from 2% to 4% greater than the rate on conforming loans. On the date that I prepared these examples the rate on conforming loans was 5%. Therefore, I am going to assume an 8% interest rate, which would result in a monthly payment of $1,320.77, based upon a 30 year amortization.

As I noted in Chapter 6, a Note with a balloon payment prior to maturity is worth more than a long term amortizing Note. I also mentioned that the Dodd-Frank Act would appear to prohibit balloon loans. While I question whether or not the Constitution will allow Federal regulation of **intra-state** transactions, for purposes of these examples I am going to assume 30 year amortization for residential properties. Even if Dodd-Frank is applicable, it does allow for an interest rate increase after 5 years that is reasonable (*but fails to define reasonable*). Even if a balloon is allowable, I would not structure the Note to require a balloon for 7 years. The reason is that if it isn't likely that the outstanding loan balance is 75% or less of the property value, it may not be possible to refinance the property. After 7 years the balance on the original $180,000 Note will be amortized down to $166,460. And if we assume that the property appreciates at a conservative 2% per year, it will be worth approximately

$229,700 in 7 years. Therefore the loan to value ratio of the original Note will be approximately 72.5% *($166,460/$229,700*) and refinancing should be feasible.

Although, it would be best for the Seller if the Buyer refinanced and paid the Note off after 7 years, if balloons are not allowable there is no way to force the Buyer to do so. On the other hand if the interest rate is increased at that time, the Buyer will have positive motivation to refinance. To provide this positive incentive and to protect the **CA$H NOW** value of the Seller's Note, I have assumed that the rate will increase to 12% and that the payments will increase to $1,777.36 over the remaining 23 year term of the loan.

Assumption on Investor Yields: At present, the Note in this example should be marketable to a Note Investor at a 12% yield. Therefore, the investor would get the desired yield on investment after 7 years and would only discount the payments to be received during the first 7 years to calculate a **CA$H NOW** purchase price.

Some Options Available to The Seller: As noted in Chapter 5 there are many options for selling all or a portion of the Note. Which option is best will depend on the Seller's needs, so let's look at several scenarios:

- **Property is subject to a significant loan that the Seller wants paid**: If we assume that the property has an existing loan of say $125,000 that the Seller wants to pay off, the Seller would probably elect to sell the entire Note. At a 12% yield, the Note Investor would pay $146,926 **CA$H NOW** for this Note. With the down, that gives the Seller $166,926 in cash and after paying of the underlying Note of $125,000 there would be $41,926 remaining before paying selling costs.

- **Property is subject to a small loan that the Seller wants paid**. Let's assume the existing loan is only $56,000. In that case, if the Seller sold the entire Note, there would be a total of $110,926 remaining after paying the Note. On the other hand, if the Seller wanted to only pay off the underlying Note, a sale of 56 payments would provide $56,423 **CA$H NOW.**

- **Seller wants to pay off small loan and get $50,000**. In this case the Seller could sell 84 of the $1,320.77 payments and 16 of the $1,777.36 payments for $86,159 **CA$H NOW**. With the $20,000 down that's a total of $106,159 total cash with $50,159 remaining after paying off the $56,000 existing loan.

- **Seller wants cash and income**: The Seller could sell 50% of each payment for $73,463 **CA$H NOW** and still continues to receive 84 payments of $660.38 and 276 payments of $888.78.

- **Seller wants the full face value of the Note**: In this case the Seller could sell the Note for $180,000, payable as $90,000 **CA$H NOW** and an additional $90,000 in 60 months.

- **Seller wants some cash but wants to own a 12% Note**: In this case the Seller could sell the 84 payments of $1,320.77 for $74,819 **CA$H NOW**, and at the end of 84 months would own a Note with a balance of $166,460 yielding 12%.

There are many ways of selling a Note. As the above examples demonstrate, there are many ways of structuring a **CA$H NOW SELLER FINANCING™** transaction. The Key is knowing the Seller's cash needs and working with an experienced Note Investor to structure offers that meet the Seller's needs.

Chapter 10

FREQUENTLY ASKED QUESTIONS

Why would a Seller sell a Note at a discount? Of course, many won't. If there is an active real estate market and the property is well located, well maintained and meets Lender standards and if bank financing is readily available, I can't think of any reason to use **CASH NOW SELLER FINANCING™.** In the "***Perfect World*"** there is no need for this technique, but this technique is a useful way to make sales for those who "***Live in an Imperfect World"!*** However, keep in mind that in almost any market, a property sold with ***Seller Financing*** is at a competitive advantage over competing properties. And for certain properties such as vacant land, recreational properties, mobile homes, and many small commercial and income properties, ***Seller Financing*** is the **only** financing available.

On a Partial Sale of less than the entire Note, how is the Seller protected? Partial sales are controlled by a written contract between the Seller and Note Investor that provides for a complete re-assignment of the Note to the Seller after the Note Investor has received the amount purchased. In Alaska, all Seller Financed Notes are collected through a 3rd party escrow, so the partial sale is managed through a subsidiary escrow containing the re-assignment documents back to the Seller after the Note Investor has been paid. The Seller receives two statements from the escrow company each time a payment is made. One shows the amount still owing to the Seller from the original Seller Financed sale to the Buyer and the 2nd one shows the amount still owed to the Note Investor on the partial purchase. At any given time, the difference in the balances of the two statements is the amount of the Seller's equity and is the amount the Seller would receive if the Note were paid off.

Is it possible to sell a Seller Financed 2nd or 3rd Note? Yes on 2nds if the combined loan to value of the two Notes is low enough. Most Note Investors won't pay more for a 2nd Note than 75% of value, less the face amount of the senior Note. However, because 2nd Notes are riskier than first position Notes, the amount of the discount will be a greater percentage of the face value of a 2nd Note. On rare occasions, when the combined

loan to value of the 1st and 2nd Notes is low, it is possible to sell a Note in 3rd position.

All of your examples are situations in which the Seller has substantial equity. What happens when the Seller doesn't have much equity? In such cases, it is possible that **CASH NOW SELLER FINANCING™** won't work, but it may be possible to sell the property with a Seller Financed wrap around mortgage. Using the example in the previous chapter, no investor would be willing to buy the Note if the balance of the existing loan exceeded $146,926. However, the Seller could still create a wrap around Note for $180,000, with the same terms, and provide for the escrow collection company to make the payments on the existing loan from the payments made by the Buyer.

I recognize that, unless the Lender consents to the sale, this would violate the "*Due on Sale*" clause. However, in the current market where Lenders are overwhelmed with non-performing loans, it is not too likely that they would exercise the "*Due on Sale*" clause if payments are being made. This doesn't mean that such a transaction is risk free. However, if all parties truly understand and accept the risk and sign a written statement acknowledging that they are aware of the risk, it is an acceptable way to structure a transaction. For an example of a written disclosure statement developed by the San Diego Association of Realtors, go to— **http://www.sdar.com/media/aitd_sample.pdf.**

Chapter 11
WHAT NEXT?

Continue to close as many transactions as you can doing the simple thing of having the Buyer get a loan from the bank and pay the Seller cash. Most of the time, at least in residential sales, this is a better way to sell the property. However, if you believe, as I do, that bank financing is going to be difficult for many Buyers for the foreseeable future, or if you sell anything other than conforming residences and condos, you will increase your income by learning the principles of **Creative Real Estate.** If you want to make more income and still make sales "***When the Bank says No"***, then I recommend to following steps:

1. Go to **CreativeRealEstateTalk.com** and click on "**Get Started**" and follow the steps listed there.

2. Take some of the courses, read some of the books and newsletters and explore some of the websites listed on **CreativeRealEstateTalk.com.**

3. Spend more time getting to know your clients and their needs, desires and their level of knowledge and sophistication, so you have a better idea as to what solutions will work for them.

4. Ask every Seller the two Magic Questions:
   - *What do you plan to do with the cash you receive from the sale of your property?*
   - *Is there any reason that you wouldn't trade part of the equity in your property for what you want?*

5. Ask every Buyer the two Magic Questions:
   - *What do you own that you are willing to sell to buy the real estate you want?*

- *Is there any reason you wouldn't trade that for the real estate you want?*

6. Subscribe to the Blog on **CreativeRealEstateTalk.com** and the Blogs on some of the recommended websites, so that you are always getting new information and creative ideas.

7. Keep an open mind and always remember that when you have a willing Seller and a willing Buyer, **there is always a way to close the transaction if you think creatively.**

CreativeRealEstateTalk.com

This website is sponsored by **CA$H NOW Financial Corporation** which is in the business of paying **"CA$H NOW** — ***For Real Estate Notes and Other Deferred Payments***" and providing ***Creative Commercial/ Investment Financing.*** In addition to Real Estate Notes we buy Notes secured by mobile homes, certain businesses and structured settlements and annuities.

Although **CA$H NOW Financial Corporation** did not begin this business activity until 1994, I have personally been involved in the real estate business in Alaska since 1962 and have been involved in the creation, purchase, sale, or exchange of hundreds of Real Estate Notes. I hold four nationally recognized professional designations in real estate and have been President of the Alaska Association of Realtors and well as National President of the Real Estate Securities and Syndication Institute. I have taught real estate finance for the University of Alaska and am the author of a Real Estate Commission approved continuing education course for real estate agents on the subject of privately created Real Estate Notes. For more detailed information visit KenGain.com.

Why this Website?

Through my experience in dealing with and teaching hundreds of Real Estate Professionals I found that most folks who have entered the profession during the relatively "***easy money***" period of the last 20 years know little about the alternative ways of making transactions by applying the principles of **Creative Real Estate**, and as a result are losing out on the opportunity to close more transactions and better serve their clients. Likewise, I find that many Mortgage Professionals are turning away clients who don't meet the rigid underwriting

standards of institutional Lenders, rather than becoming financial consultants to help prospective Buyer/Borrowers acquire the real estate they desire.

While there are literally tens of thousands of websites relating to real estate available on the internet, it is difficult to know where to start. In this forum I have tried to focus on relevant and reliable sources of information that have been personally reviewed by me and/or subscribers to this forum. In addition, by having an interactive blog on the subject of **Creative Real Estate, I hope that we can help one another close more real estate transactions and provide greater service to our clients.**

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