

CREATIVE MORTGAGE TALK

A Periodic Newsletter on Creative Financing

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In previous editions of this Newsletter, I discussed how interest rates are now near the low end of the range over the past 50 years. Unfortunately, the bad news is that Lenders have now gone back to strict underwriting standards and as a result many people cannot qualify for such loans. In fact, many people who could have gotten a loan last year can no longer qualify. Therefore, one option to consider is the assumption of an existing loan. In the July/Aug edition of this Newsletter, I discussed assumptions in detail. In the Sept./Oct. edition I talked about use of Zero Balance Wraps to protect Sellers in assumptions. I also talked about use of Financial Wraps as a form of Seller Financing when the Buyers don't have enough down to cash out to the loan being assumed. In this issue, I will introduce the subject of Seller Financing and how to use it.

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. However, in most cases, the Sellers need 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.

Use "CASH 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 of Trust to a Note Investor at the closing table; thus, 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.

WORDS OF WISDOM

"If you think health care is expensive now, wait until you see what it costs when it's free!"

P.J. O'Rourke

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,

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For Mortgage Investments: www.investinmortgages.net

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:

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

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

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

CASH 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 CASH 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 can be seen by going to our website: www.cash4you.net .

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 CASH NOW (***You can download a form from our Website—go to www.cash4you.net/order.html .***

CASH NOW SELLER FINANCING™

With today's financing, many properties and many Buyers will **not** qualify for a bank loan. The way to sell non-financeable properties is to use Seller Financing. **Buyers love it!** Unfortunately, many Sellers will not consider this effective and time proven financing option because the Buyers' down payment is not enough to meet their needs.

The answer to this dilemma is simple. We will pay **CASH NOW** for Seller Financed Notes with a simultaneous closing so the Sellers walk away from the closing with the cash they need.

A FREE WEBINAR

To learn more about this concept, visit our website at www.Cash4You.net and take our new Webinar titled **“MORE SALES WITH CASH NOW SELLER FINANCING™.”**

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