

# Reaping Seller Financing's Rewards

When your clients' deals can't close otherwise, exploring alternative arrangements can help

By **Todd Huettner**, president, Huettner Capital



**R**ATHER THAN WISHING FOR a return to the good old days or updating their résumés, wise mortgage brokers take advantage of the opportunities that only exist when times are this tough.

A common problem today is many potential borrowers' inability to secure financing. One cause is that many buyers no longer can get loans because of tighter lending standards that often require larger downpayments and full documentation; this eliminates many self-employed borrowers as buyers. Another cause is that some properties do not meet the new lending guidelines. Appraisals for properties in

smaller markets with fewer comparable sales also may require adjustments that exceed lenders' guidelines.

There is an option that mortgage brokers can recommend to their clients who can't get a traditional loan: seller financing. Still, despite the tightened lending guidelines, many buyers and sellers eliminate the possibility of seller financing without giving it appropriate consideration.

Structured properly, however, an arrangement in which the seller finances a real estate transaction can be an attractive option — and for many buyers and sellers, it may be their only option for a successful transaction.

## Considering options

If you can identify the problems that a buyer and seller face and can explain to them how seller financing can solve those problems, you can help fund a deal that might not occur otherwise.

First: Simply telling clients to look at seller financing is not a solution. You must provide a plan that addresses objections and that presents a better alternative than not having a sale. To do so, explain each financing option, offer an exit strategy, detail the costs and benefits for your buyer and seller, and spell out exactly how to set up seller financing.

Each seller-financing option offers different benefits.

- **Addressing the financing through a real estate contract is simple**, and the contract is easy to create and easy to terminate.
- **Working through a first mortgage** requires a little more effort to implement, but it offers dif-

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ferent protections for the buyer and the seller.

■ **A second mortgage can allow your buyer to meet the requirements of a traditional first mortgage**, ensuring the deal goes through.

If you do not already understand the above financing options, take some time to learn more about the pros and cons of each.

Sellers often object to seller financing because they plan to use their property sale's proceeds for a specific purpose, such as a downpayment on a new property. They assume they have no other alternative.

If that is the case, show them an alternative plan to reach their overall objective. For example, sellers could qualify for a loan without the equity or with less than they think is required. Your buyer may have a downpayment that meets the seller's needs, despite being unable to qualify for a traditional loan for another reason.

### Determining the exit

Once your clients consider seller financing, you must identify viable exit strategies. Sellers must know how and when the buyer will ultimately pay off the financing. Buyers want to know how soon they can refinance to a lower interest rate and want to make sure they are prepared for a balloon payment.

Create a plan and timeline that details how and when your buyers will overcome the issue that currently prevents them from securing traditional financing. Include alternative options in the event the initial plan is unsuccessful.

Each case will be unique. Buyers who just sold their home through a short sale, for example, will require a longer timeline than most other buyers. No matter what the scenario, your exit strategy must be realistic.

At this point, you simply must detail the financial benefits for the seller and the buyer. Compare the interest rate the seller will receive to other investments, such as stocks and bonds.

Similarly, compare your buyers' interest rate in the seller-financing scenario to the rates of their other options, even those for which they cannot qualify. Show them when the difference is insignificant, and explain to them how fees in a seller-financing scenario are less than those in traditional lending.

Finally, detail the cost of waiting for each party. The seller will continue to make monthly payments, including taxes, insurance, utilities and maintenance. Your buyer will not realize any appreciation, tax deductions and principal payments.

By asking the right questions, you can determine other significant costs for sellers and buyers. Although seller financing might not be their first choice, it is often better than the alternatives.

### Assembling the deal

Once your buyer and seller have agreed to seller financing, you should select an escrow company. This company will receive all payments and will verify details of any payment in the event of a dispute.

Next, advise your buyer and seller to hire attorneys. The attorneys will create the sales contract and any financing-related documents.

Finally, refer your buyer and seller to their accountants to discuss any tax implications of the financing arrangement.

Overall, remember that you are introducing yourself from a position of strength to new potential clients and to Realtor partners, rather than trying to get their attention with traditional business development. You will establish yourself as an industry expert who can solve complex problems and get deals done. And you can become a trusted partner by focusing on what matters to your clients and partners.

Seize the opportunity this market provides to distinguish yourself from your peers and to develop future business. Investing a small amount of time can pay huge dividends in future business. **!!**