The FSBO's Guide to Seller Financing

Kypros
FUNDING SOLUTIONS

Dear FSBO Home Seller,

Greetings and thank you for taking the time to sit down and read our seller financing guide. We know that your time is valuable, so we've created this guide to include only the most important information for you to know. Before diving into the wealth of material in this guide, allow us to provide you with some introductory information.

Why should you read this guide?
FSBO home sellers are well known for having a do-it-yourself mentality. We want to show you another do-it-yourself process that could be very beneficial while selling your home. The process is called seller financing, and it can help you sell your home quicker and for its fully appraised value. Not only this, but seller financing allows you to make a profitable yet safe investment for the future.

What is seller financing?
It is the process of selling a property to an individual while also lending the buyer all or part of the money necessary to buy the property. Or to put it another way, it is the sale of your property to an individual who promises to pay you the total sale price over time instead of all at once. Seller financing is a very common practice. In fact, over 10% of homes sold in the U.S. involve some form of seller financing.

Who created this guide and why?
We at Kypros Funding Solutions prepared this packet for you, because we know that you want to gather all of your options before making a decision on the sale of your home. We want to share our seller financing knowledge with you so that you can decide whether this process is right for you. Within the seller financing industry, our specialty is helping individuals sell private mortgage notes, something that we'll talk about a little later.

How can this guide be used to its fullest extent?
This packet is designed to be a free, beginning resource for any FSBO home seller. Because every situation is different, we are not seeking to give you specific advice in this packet. Instead we want to introduce you to the option of seller financing and point you to other resources for further study. Our packet is designed to answer the 3 most important questions regarding the topic of seller financing and also to give you further information in our appendices. To view a full outline, turn to the next page.

Contact us anytime
Whether you decide to become a seller financier or not, we hope that you find this packet to be very informative and helpful. If you have further questions about this topic, please don't hesitate to contact us through our website contact information. We're here to be of service to you.

Sincerely,

Jim Kypros, President
Kypros Funding Solutions

Overview

In the main body of this guide we'll walk you through and help you answer the three most important seller financing questions. In the following appendices, you'll discover additional information that may be very helpful to your specific situation. See below for a brief outline of this seller financing guide:

MAIN BODY

APPENDICES

Is Seller Financing For Me?

Seller financing offers some amazing benefits to both sellers and buyers. Consider each point below to see if this is a process that you would like to take advantage of.

Benefits To Be Enjoyed When Seller Financing

For Sellers

1. Sell for a full price
   Instead of having to lower your price for the buyer, offer seller financing and create an individualized payment plan for the fully appraised price of your home.

►► to **page 6** for more on this topic

2. Sell quicker
   When you advertise, "Owner Will Finance", you will attract many more prospects, even if your home is not in perfect condition.

►► to **page 15** for more on this topic

3. Secure your finances
   Gain monthly residual income and safeguard your finances for the future.

4. Make a wise investment
   The interest you earn by seller financing is better than most bonds or money market accounts.

5. Receive tax benefits
   Spreading out the money you receive from your home sale over many years can be a great tax benefit when structured correctly.

For Buyers

1. Negotiate with an individual
   Both seller and buyer have the opportunity to address their concerns and needs when discussing a payment plan.

2. Enjoy decreased closing costs
   Since an individual property owner does not have the overhead costs that a mortgage company has, the closing costs (points) with seller financing have traditionally been less for the buyer.

3. Qualify for a better loan
   Buyers who are too young to have built up credit, are self-employed, own their own businesses, or have many investments currently on the table may not be able to find fair financing even though they are financially stable.

4. Settle into a home quicker
   Because the buyer is not dealing with an institution, the sale and closing takes only as long as you and the buyer desire.

Next, it's important that you be aware of the possible traps. By taking note of the problems others have encountered, you can be prepared to negotiate your terms and have a successful investment.

Traps To Be Avoided When Seller Financing

For Sellers

►► to **App. B** for further resources on this topic

1. Disregarding the credit check
   Don't accept a prospective buyer's word on it. Get permission to do a legal credit check.

►► to **page 8** for more on this topic

2. Going at it alone
   In the long run, sound advice from a professional can save you time and money.

►► to **page 11** for more on this topic

3. Putting yourself last in line
   If you choose to finance a 2nd mortgage and the property is foreclosed on, you put yourself last in line to get any money back from it, as the loan company with the 1st lien will exact their lost money first, possibly leaving you with very little or nothing.

4. Accepting a low or no down payment
   More down payment means more equity in the home, thus making it harder for the buyer to simply walk away in a foreclosure. Seller financiers usually ask for a down payment of 10-30% to secure against a foreclosure.

For Buyers

1. Accepting a highly inflated price
   Buyers should beware of paying above the appraisal price for a house. After all, the real profit for the seller comes from collecting monthly payments over a number of years with interest.

2. Failing to equal out the playing field
   It is beneficial to both the seller and buyer to have their interests represented on paper. If the seller has hired an attorney, the buyer should consider hiring one also.

3. Sacrificing their interests and needs
   Certainly, the buyer will not have the upper-hand position, but s/he will want to know that you are indeed offering them a mutually-beneficial deal. Be careful to listen to their concerns.

All in all, if you decide to seller finance, then you will call the shots. We understand that when financing the sale for someone you know, you may disregard some of these precautions. It is up to you to decide upon the arrangement you are comfortable with.

How Can I Become A Seller Financier?

Now that you are aware of possibilities of seller financing, you must carefully consider your current situation and financial goals. If you believe that this "do it yourself" process may be for you, then you're ready to take the next step and discover what is necessary to become a seller financier.

Step # 1: Gather a team of professionals

Wait just a second. Doesn't "For Sale By Owner" mean that you don't want to use professionals?

Depending on your familiarity and experience with the seller financing process, you may or may not want to consult professionals. Just remember, a few dollars spent up-front can often save you a large amount of money and time in the future. Below are a few groups of professionals you may want to consult at various times in the seller financing process.

Appraiser

An appraiser can help you decide on a maximum sale price that is fair and legal for your house. Of course, checking the selling prices of other homes in your neighborhood may be another efficient way of accomplishing the same task.

Private Mortgage Servicing Company

For a relatively low cost, you can find a company that will completely take care of your private mortgage questions and paperwork. These companies specialize in servicing private mortgages. That means for a yearly fee, they will take care of all collections, late notices, tax preparation, and more. If you have a busy schedule, and you want things done right, this may be the best option for you. For recommendations, please call Kypros Funding Solutions.

Real Estate Attorney

A real estate attorney can be your best friend when it's time to draw up a mortgage deed and promissory note. This professional will be able to give you sound advice about setting an interest rate, determining amortization, and many other details. Also, a good attorney should know all of the federal and local laws regarding private mortgages. Some will even assist you in negotiations if you so desire.

Real Estate Agent

If you can't find a real estate attorney in your area and you need help setting up your private mortgage paperwork, your next best option is to locate a knowledgeable local real estate agent who will work on a consultant basis for a set fee.

Step # 2: Work to attract buyers

Now that you've decided to seller finance and have gathered any professionals you want or need, you're ready to market your property to buyers. Believe it or not, seller financing can help you attract potential buyers to your home. By simply printing "owner will finance" on your home advertisements, you are going to reach a whole new segment of the population that would not have considered your home otherwise. Below are some of the groups you will attract to your home besides all those who might have already been interested in your home:

Self Employed

Even if successful, these individuals may be unable to qualify for a bank loan simply because of their employment structure. Many individuals in this group are more financially stable than those with traditional employment and could be excellent prospects for purchasing your home.

Individuals With Specific Needs

Even though an individual can qualify for a traditional bank loan, s/he may prefer to buy a seller-financed home. Financial institutions tend to offer very few options when it comes to home loans, whereas seller financiers are often flexible and willing to negotiate in order to meet the buyer's needs.

Individuals With Scarred Credit

A low credit score does not automatically make a person a bad candidate for buying your home. Many who have struggled in the past are now stable and able to handle a monthly mortgage payment. By not considering this group, you may be passing up good candidates for buying your home.

Real Estate Investors

When real estate investors have outstanding loans on other properties, often the bank will not extend another loan to them, even though they are financially stable. Therefore, real estate investors specifically look to purchase seller-financed homes.

►► to **Appendix B** for further resources on how to attract buyers to your home

Certainly, not every prospective buyer will meet your individual financial requirements, but by advertising seller financing, you will highly increase the probability of finding that one final buyer more quickly.

Step # 3: Set up a seller financed note and mortgage

Once you find a buyer, you need to draw up the necessary paperwork to complete the transaction.

Most everyone knows what a mortgage is. However, many do not realize that this term refers to two separate legal documents: a promissory note and a mortgage deed (sometimes referred to as a deed of trust). Each document plays a distinct and important role in recording the sale of a home. Let's look at each individually below beginning with the promissory note.

Reminder

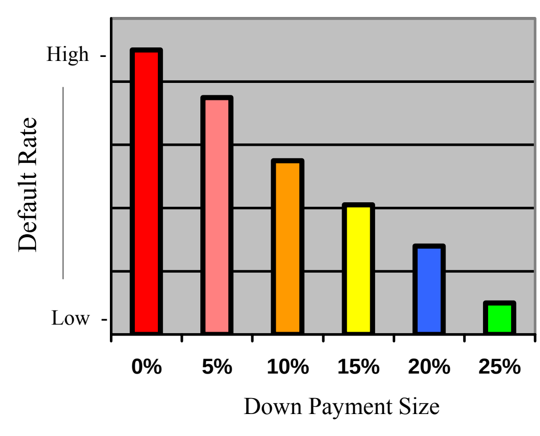
When discussing seller financing paperwork, our best advice is this: get a professional involved. Think about it. Your home is your most valuable asset. Do you really want to take the risk of using an internet form for something as important as your home? Remember, every home and every situation is unique. The few hundred dollars that you invest in consulting a professional is likely to save you a large amount of time and money in the future.

Promissory Note

At times you may hear this referred to as a "secured promissory note." Two names, same document. This document's basic concept is simple: one party promises to pay another party a certain amount of money according to a specified payment plan. While that sounds basic enough, there are several key components to consider when drawing up a promissory note. Below we'll consider each one individually:

Down Payment

While the down payment amount is not officially mentioned in the promissory note, it is an important factor to consider. Generally speaking, the more money a buyer puts into a down payment, the more likely s/he is to continue making payments on the loan. The buyer is less likely to default, because s/he now has equity in the home. If the buyer were to stop making monthly payments on the mortgage s/he would totally forfeit the money they invested in the down payment.



Interest Rate

If you're one of the many who consider seller financing because you realize the benefit of collecting loan interest, consider this paragraph carefully. The traditional interest rate for a seller-financed note is anywhere between 5 - 12%. How much you charge is completely negotiable between you and buyer. However, make sure you consult a real estate attorney if you're planning on setting a high interest rate because there are federal limits on how much interest you can charge.

If you're considering seller financing because you're trying to help a family member or friend, make sure you do charge the federally required minimum. Out of kindness, some consider waiving the interest charges altogether, but they do not realize that they will be penalized for this. If you do not charge the federally set minimum interest, when tax time rolls around, the IRS will still treat you as though you did make the minimum interest income. This is not a position you want to end up in. If you desire to lower the monthly payments for your buyer, it would be better to discount the sale price of the home rather than not charge interest. Check with your real estate attorney or accountant for specific advice regarding your situation.

Late Payment Fee

If you do not personally know the borrower (and sometimes if you do), or if you are concerned about the borrower's timeliness in making payments, consider including a clause that sets a late payment fee. Traditionally, late fees have been set at 5 - 10% of the monthly payment. Sellers often allow a grace period ranging from 5-15 days. Both of these items are completely negotiable between seller and buyer. Your local laws may require you to send out a notice of delinquency before you can charge a late fee and may regulate your actions in other ways. Seek professional advice on this topic.

Type of Note

The traditional type of note most homebuyers are familiar with is called an installment note. When using an installment note, the borrower's payments go toward both the principal and the interest. This way, the borrower is building equity in the property over time and is less likely to default on payments.

Within recent years, the straight note has found popularity among homebuyers who want or need a low monthly payment. In this type of note, the borrower's monthly payments cover only the loan interest. None of the payment goes toward the loan principal. The total principal amount is due at a specified date, usually at the end of the loan term.

How Can I Become A Seller Financier? (cont.)

Loan Term & Balloon

The term of a loan refers to how long it will take the borrower to pay it back according to the plan that is laid out in the note. Most terms range from 5 to 30 years, although the buyer and seller have the ability to negotiate their own term length. Most often, the longer the term is, the less the monthly payments are, and vice versa.

The *longer* the term of the loan

The *lower* the monthly payments

Suppose a seller decides to use seller financing because s/he desperately needs to move. However, they don’t want to wait 30 years to receive the full payment. For such a situation, the seller can include a balloon clause in the note. A balloon calls the remaining principal on the loan due at a specified date in the future. That date could be 6 months from the sale of the property or it could be 15 years from the sale of the property. When the balloon date arrives, the seller has the option of extending the loan further into the future or calling the whole amount due.

Request for a Notice of Default

If you are creating a second mortgage, you may want to include a clause which requests a notice of default. Such a clause will legally bind the buyer to inform you if s/he defaults on the primary loan. This gives you the opportunity to step in and restructure your secondary loan with the buyer if you so desire. By doing so, you may prevent the primary lender from foreclosing; thus you will continue to collect your monthly payments.

Request for a Notice of Resale

A clause requesting a notice of resale will bind the buyer to inform you if s/he resells the home while still owing you money. If you have included a “due-on-sale” clause, this will allow you to rightfully collect on the remainder of the money owed to you at the time of the resale.

Request for a Notice of Delinquency

Some buyers will request a clause that mandates a notice of delinquency anytime one of their payments is overdue. This is obviously more work for you as the seller, but it could be worth the extra time if it helps you receive payments more quickly.

Prepayment Penalty

You should seriously consider including a prepayment penalty clause. If you sold your home for a capital gain, and you receive a large amount of unexpected revenue in a single tax year due to a borrower prepaying on his/her loan, you could end up paying a hefty amount in taxes. One of the advantages to using seller financing is the ability to spread out your capital gain over a long period of time. The prepayment penalty clause helps protect you and gives you the funds necessary to pay extra taxes in such an event. It may be to your advantage here to consult a real estate attorney or accountant for tax advice.

Mortgage Deed

Depending on what state you reside in, this may be referred to as a deed of trust. These two documents accomplish the same purpose but there are some minor differences as to how property is reclaimed in the event of the buyer failing to make payments. The main purpose of the mortgage deed is to name the parties involved, describe the property, and secure the collateral for the amount borrowed in the note. In short, this allows the seller to foreclose on the property should the buyer stop making payments which are detailed in the note. This is also called a lien on the property. Below we'll consider the warnings of offering a second mortgage to a homebuyer.

An Important Detail

Some make the mistake of not recording their private mortgage in public records (this is usually done at the county recorder's office). By not taking this important step, you are setting yourself up for future legal difficulties. If you do not record your mortgage, and the homeowner uses the property as collateral for another loan, your mortgage would take a secondary lien position to the new loan. That means that if the home ever forecloses, you will be second in line to receive reimbursement.

Second Mortgages

Many homebuyers are unable to get a traditional loan for the full amount of the house they want to buy. In such a situation, they will often ask the home owner to lower their asking price or finance a portion of the home in a 2nd mortgage to compensate for the difference between the home price and the amount the loan company is willing to lend them.

If you are a seller who is considering creating a second mortgage for a potential buyer, be aware that your repayment is not fully guaranteed (although, how many things in life are guaranteed?). Think of it this way: if the buyer stops making payments on his primary loan and foreclosure becomes necessary, guess who is going to get paid first? That's right, the loan company, not you. Consider the example below:

John, a homebuyer, really wants to purchase Andrea's property which costs $100,000. However, the loan company will only lend John $80,000 and he only has $10,000 for a down payment. Because Andrea is desperate to sell her home, she lends John $10,000 in a 2nd mortgage to make up the difference. Sadly, two years later John loses his job and is unable to make payments on the $80,000 primary loan. After trying to work things out, the loan company is forced to foreclose on the property. Foreclosure properties are usually significantly discounted, and therefore the property only sells for $75,000 at an auction. The loan company is still owed $78,000 in principal from John and because they are in the first lien position, they are awarded the total $75,000 sale price and Andrea receives nothing. Although she received mortgage payments for 2 years before the foreclosure, she still ended up losing money in the end.

Breaking It Down

John's 10% down payment	10,000
John's 1st mortgage through the bank	80,000
John's 2nd mortgage through Andrea	10,000
Total Sale Price	100,000

2 years later:

Foreclosure sale price	75,000
Amount awarded to the bank	75,000
Amount awarded to Andrea	0

This is not to say that you should not consider offering a 2nd mortgage. Before you commit, be aware that the disadvantage of a 2nd mortgage is that you may not receive all of your money back in the event of a foreclosure. The best defense against losing money on a 2nd mortgage is to know your buyer and make sure that s/he has the ability to repay you.

How Does Seller Financing Make Me Secure?

Financing the sale of your home is not only a fantastic investment, but it also provides you with a unique way of receiving a lump sum of money if you should ever need it. If you set up a marketable note, seller financing will give you financial security in our ever-changing economy. Take a look at two of your options below:

Option # 1: Receive continual income

Every month for the term of your private mortgage you will receive a payment from the buyer. With an average interest rate applied, you are likely to make two to three times the principal loan amount over the life of the loan. This can be a tremendous investment. For many, it also makes for a nice retirement cushion or just a catalyst for further investments and enjoyments.

Option # 2: Access large amounts of money if ever necessary

As a seller financier, you should also know that you have a distinct financial benefit that others will never have available to them. You will have the option of selling all or part of your private mortgage in order to receive a large sum of money. Loan companies and investors engage in this activity all of the time. It's called trading on the secondary market.

Lets say you have been receiving payments for five years and something occurs for which you immediately need a large amount of money. The possible reasons for this need are endless. You may need to pay for medical bills, settle a divorce, pay for a child's college tuition or wedding. Or perhaps you want to start a business, support a friend or institution, or just take a relaxing vacation. Whatever the need or desire, individuals collecting regular mortgage payments have the ability to attain a large sum of money quickly by selling all or part of their private mortgage.

Setting up a note with a good resale value

All notes are not created equal. As a general rule, investors will pay more for notes with the following characteristics:

- A higher interest rate
- A larger down payment size
- A property in a good location
- The reliability of the buyer to continue making payments.

Below, we'll take a closer look at what it means to sell a private mortgage, important details about selling 2^{nd} mortgages, and a must read section on how to sell your private mortgage for the best return.

What Does It Mean to Sell My Private Mortgage?

Selling mortgages on the secondary market has been practiced for many years and is very common. However, you may not be aware of this activity because most of it goes on behind the scenes within the walls of financial institutions.

The basic idea of selling a private mortgage is simple. It is a basic transaction between a mortgage owner and an investment company. Read below to see how a private mortgage sale can meet the immediate needs of both parties involved.

John seller financed the sale of his home two years ago. As a result of the sale, a note was created for $100,000 at 8% interest to be paid to John over the next 20 years. Now, two years later, the buyer currently owes John $95,597 in principal on the loan. His oldest daughter is getting married and he is anxious to help pay for the wedding. He could sell his whole private mortgage to an investor and receive a high market value price, but John has been enjoying receiving regular monthly income and doesn't want to sell the whole mortgage. Through Kypros Funding Solutions, John comes in contact with an investment company who is willing to purchase a portion of his note for the amount of money he'll need for the wedding. Kypros Funding Solutions works with John to give him options regarding how much of his note he wants to sell, and in the end, he decides to sell 3 years (36 months) of payments in exchange for $11,000. This means that for the next three years, the investor will receive all of the mortgage payments that used to be made to John. At the end of the three years, John will begin receiving the mortgage payments again.

How the note was set up

Original amount	100,000
Interest rate	8%
Term	20 years

<u>*2 years later*</u>

Principal remaining on John's note	95,597
Amount John receives for selling 36 payments	11,000

Notice how this is a beneficial situation for both the mortgage owner and the investor. The mortgage owner needed quick money and the investor wanted a sound investment. Both received exactly what they needed. Please realize that the numbers and prices in the above example will vary up and down depending on the variables of your particular mortgage (interest rate, amortization, etc.)

Customizing your mortgage sale to meet your needs

Everyone has different financial needs that arise over time. Some need a large amount of money, while others only need a small amount of money. Whatever the financial need, you can customize your private mortgage sale to match your specific situation. It is possible to sell your whole private mortgage, or just a part of it. You can even sell future payments so that you can receive a lump sum of money and still continue receiving payments. The process is flexible so that your needs can be met.

Important information about selling 2nd mortgages

Second mortgages can enable a home seller to close a deal that would otherwise be impossible. However, as already discussed, this type of mortgage can be more risky because the home seller will be second in line to recover their funds in the event of a foreclosure.

With that said, it is understandable that investors would be more hesitant when purchasing a second mortgage. Therefore, the market value for second mortgages is significantly less than that of a first mortgage

How to sell your private mortgage for the best return

Kypros Funding Solutions, the writers of this packet, specializes in helping individuals get the highest market value price for their private mortgages. We are able to do this because we understand the market and we have close relationships with numerous investors who want to purchase private mortgages.

If you never need to sell your private mortgage, we think that's wonderful. We are not interested in pressuring individuals into selling a private mortgage they don't need to sell. We are a customer-oriented business that is devoted to meeting your needs. When asked to, we will come along side and assist you through the process of selling your private mortgage. On top of that, we will not send you a bill for our services. Designed for your benefit, we are paid completely by the investment companies that purchase these mortgages.

If you are interested in selling a private mortgage or have questions about the seller financing process, please do not hesitate to visit our website or contact us. We would love to be of assistance!

The simultaneous closing process (also known as "table funding") allows you to seller finance the sale of your home and yet never have to collect monthly payments. Let's explore this option further below:

What is a simultaneous closing?

Simultaneous closing is the process of offering seller financing to the buyer, writing up a mortgage deed and promissory note, and upon closing, selling that private mortgage to an investment company for a lump sum of money. In this way, owner financing has become work-free for the home seller because the investing company will now collect the monthly payments from the buyer. The home seller can effectively <u>sell a property using seller financing, and still receive cash payment at the time of the sale</u>. View the chart below to consider both the advantages and disadvantages of this process.

Advantages	Disadvantages
- Receive cash at closing - Attract more buyers due to seller financing - Likely to sell your home more quickly - As little as one week to close	- Receive 80-90% of the property's appraised value after the simultaneous close takes place

As you can see from the above chart, a simultaneous closing has many advantages. The one disadvantage listed above must be carefully considered by the home seller. It is because of this disadvantage that we do not recommend simultaneous closing to all home sellers. Below, we'll consider some of the situations in which a home seller may want to consider using this process.

<u>For Your Consideration</u>

In a slow real estate market, a motivated seller is likely to discount the sale price of their home 10 – 15% in order to attract buyers. A simultaneous close offers the home seller the opportunity to receive just as much for their home sale and most likely sell the property more quickly.

When you should consider a simultaneous closing

If you're selling your home in a booming real estate market, then a simultaneous close is probably not for you. You can already sell your home for its fully appraised value.

However, if you're in a slow real estate market is slow, simultaneous closing may be a good option. Every motivated seller should at least consider this process, but below are three scenarios for which a simultaneous close could be an especially good fit.

Situation 1: Sell Quick / Need Cash

A home **s**eller who needs to sell quickly (for job relocation, etc) and also receive a large sum of money from the home sale would be a great candidate for a simultaneous close. By advertising your home with the words "owner will finance," you will attract more buyers and therefore your home will most likely sell more quickly.

Situation 2: Hard-To-Sell Property

If your property has been on the market for over three months, you may want to consider offering seller financing on your home. Once again, by offering seller financing you will attract more buyers and most likely sell more quickly. If you do not need cash from your home sale, you can collect monthly payments. If you do need cash from your home sale, you can do a simultaneous close and get the money you need.

Situation 3: The Only Offer

If the only offer on your home is from an individual who doesn't qualify for a traditional bank loan, you may want to consider doing a simultaneous close. In this situation as well as all of the above, you will have to weigh the pros and cons and decide if this is right for you.

Very Important!

In order for a home seller to receive the type of return on their home sale that we mentioned above, the promissory note must contain some key components. If you are planning on using a simultaneous close, that's terrific. But before you draw up the mortgage deed or paperwork, be sure to contact professionals such as Kypros Funding Solutions.

Appendix B: Resources For Further Study

This packet has not been designed to answer all of your seller financing questions. Rather it is a starting point. Below are a list of resources that will help deepen your understanding of this process.

The writers of this packet do not endorse any of the books listed below or the information contained therein. Local laws and regulations vary from location to location and therefore we recommend that you consult a professional in your region who is knowledgeable about these issues. With that said, we have found these books insightful and hope they will be helpful to you as well.

Mortgage terminology

Jack Guttentag. *The Mortgage Encyclopedia*. New York: McGraw Hill, 2004.

Performing a credit check

Robert Irwin. *The For Sale By Owner Kit*. 5th Edition. Chicago: Dearborn Trade Publishing, 2005. Pages 162-172.

Preparing & marketing your home

Bill Carey, Chantal Howell Carey, and Suzanne Kiffman. *How to Sell Your Home without a Broker*. 4th Edition. Hoboken, NJ: John Wiley & Sons, Inc., 2004. Pages 45-85.

Shelley O'Hara and Nancy D. Lewis. *The Complete Idiot's Guide to Buying and Selling a Home*. 4th Edition. New York: Alpha Books, 2003. Pages 317-331.

Pros and cons of seller financing

Julie Garton-Good. *All About Mortgages*. 3rd Edition. Chicago: Dearborn Trade Publishing, 2004. Pages 206-218.

Bill Carey, Chantal Howell Carey, and Suzanne Kiffman. *How to Sell Your Home without a Broker*. 4th Edition. Hoboken, NJ: John Wiley & Sons, Inc., 2004. Pages 130-135.

Setting up a private mortgage and promissory note

Bill Carey, Chantal Howell Carey, and Suzanne Kiffman. *How to Sell Your Home without a Broker*. 4th Edition. Hoboken, NJ: John Wiley & Sons, Inc., 2004. Pages 107-108

Sandy Gadow. *The Complete Guide to Your Real Estate Closing: Answers to All Your Questions from Opening Escrow, to Negotiating Fees, to Signing Closing Papers*. New York: McGraw Hill, 2003. Pages 100-110.

Amortization
The structured payment of a debt over a set period of time, usually including interest.

Balloon
A specified date in the promissory note on which the remaining principal balance on the note is to be paid in full to the lender. See page 9, "Term & Balloon," for more details.

Capital gain
A monetary profit resulting from the sale price of your property being higher than the amount you originally invested in it

Capital loss
A monetary loss resulting from the sale price of your property being less than what you originally invested in it.

Closing Costs
A fee or set of fees that are charged to an individual borrowing money. The traditional reason for the fees is to cover the expenses incurred by the lender while creating the loan and researching the borrower.

Default
In a seller financing situation, this is when a the buyer fails to meet his monthly obligations to pay the seller the agreed upon amount in the promissory note.

Down payment
The cash amount that the buyer pays the seller when a house is sold.

Equity
The monetary value a person has in a property above and beyond his/her mortgage debt or other outstanding liens. One way to think of this concept is: if you had to sell your property for its appraised price and pay off your mortgage debt and any other liens against your property, how much would you have left when it's all done? That amount is your equity in the property.

Installment note
A promissory note which is structured so that the monthly payments from the buyer go toward paying for interest and principal at the same time. This is in contrast to a straight note (read below).

Interest
A set amount which the buyer agrees to pay to the lender above and beyond the sale price of the home. This amount compensates the lender for any money they might lose over the term of the loan from inflation.

Lien
The legal claim that uses a property as collateral in a loan scenario. A lien enables the lender to reclaim the property should the buyer default on his regular payments.

Mortgage Deed
Similar to a trust deed, this document is used in some states to secure the collateral for the amount specified in the note. Thus if the borrower/buyer stops making his monthly payments, this document give legal standing for the lender/seller to reclaim the property through the courts.

Principal
The amount of the note that the buyer owes to the lender minus all interest.

Private mortgage
A mortgage deed (or deed of trust in some states) and promissory note agreed upon by two private parties. In a private mortgage no money is lent by a bank or financial institution.

Promissory note
The legal paperwork which states that one party agrees to pay another party a specific amount of money according to a specified plan outlined within the note.

Secondary note market
The selling and buying of existing mortgages, including private mortgages. See page 13, "What Does It Mean to Sell My Private Mortgage?"

Second mortgage
In seller financing terms, a mortgage which the seller offers the buyer to make up the difference between the sale price of the home and the amount the buyer can receive from a loan institution. See page 11 for more details on second mortgages.

Seller Financing (a.k.a. owner financing)
The act of a home-seller lending an individual money in order to purchase the seller's home.

Simultaneous closing
The act of a home-owner seller-financing the sale of his/her home and then immediately selling that newly created private mortgage to an investor in order to receive all cash instead of collecting monthly payments. See Appendix A for more on this topic.

Straight note
A promissory note which is structured so that the monthly payments from the buyer only go toward paying interest and not principal. This is in contrast to a straight note (read above).

Term
The length of time over which a debt is to be repaid.

Trust Deed
Similar to the mortgage deed, this document is used in some states to secure the collateral for the amount specified in the note. This document transfers the legal title with the power of sale to a third party, the trustee. In the event of payment default by the buyer, the trustee can sell the property to reclaim the money for the seller.

Appendix D: Track Your Private Mortgage

For those who decide not to work with a private mortgage servicing company, this appendix will come in handy. On the next five pages, you will find an easy and helpful tool that will allow you to keep track of your mortgage. As payments come in, simply fill in the appropriate spaces. This way you will always have an up-to-date record of your mortgage. If you ever need to find information regarding past payments, it will be right at your fingertips! Let me quickly walk you through the four columns that you will need to be aware of when using this form.

 # (Payment Number)
The column marked with a # sign is already filled in for you. This allows you to know how many payments have been submitted thus far.

Date Payment Received
Every time you receive a payment, find the first blank row and enter the date the payment was received in this column.

Amount of Payment
After filling in the date, write in the amount of the payment which you received. Most payments will likely be in the form of checks, but if you receive something different, you may want to mark that in this column as well.

Total Collected to Date
Use this column to keep a running total of how much money you have collected to date.

Below is an *example* of how the Mortgage Tracker is to be filled in.

	Date Payment Received	Amount of Payment	Total Collected to Date
	01/01/05	$ 605.00	$ 605.00
	02/01/05	$ 605.00	$ 1210.00

Now, use the space below to record your mortgage's basic information.

Payor (inidividual or group making payments)**:** ____

Date mortgage was created: _____________ **Interest rate:** ________________________

Total mortgage amount: ________________ **Length (term) of mortgage:** _____________

Date final payment is due: ______________ **Type of note** (straight or installment)**:** _____________

MORTGAGE TRACKER

#	Date Payment Received	Amount of Payment	Total Collected to Date
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MORTGAGE TRACKER

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MORTGAGE TRACKER

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MORTGAGE TRACKER

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