

# ***SIMULTANEOUS PURCHASE***

## ***CASHING OUT ON A NEWLY CREATED NOTE***

### ***HELPFUL GUIDELINES***

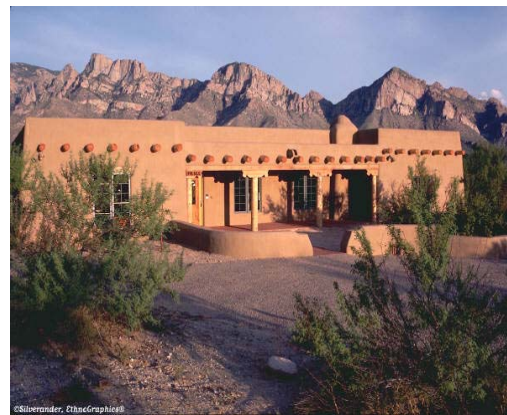
***Structure your note to make it valuable to an investor.*** You, as the owner of the property are in the driver's seat. Before you begin to market the property have an appraisal of the property done. It is imperative that you know the real value of the



property, not just a wild shot in the dark. Do not sell the property for more than the appraisal or less than the appraisal. If you sell the property for an inflated price no investor will be interested in the note you created. If you sell your property for less than its value you are stealing money out of your own pocket.

The drawback here is that when you take the note to the market place the investor may not accept your appraisal, as most investors will want to order their own third party valuation of the subject property. If they won't accept it, they won't accept it, and getting upset it not going to change that fact. To improve the chances of an investor using the Seller's appraisal the appraisal should be either a URAR 1004/Full interior with photos of the subject exterior, street scene and subject interior, and recent sales comparisons within close proximity to the subject property OR; the 2055 Interior inspection type appraisal where land value must be addressed by the appraiser. Discuss the requirements with the appraiser before he is hired and look closely at the completed appraisal making sure that the appraisal you got is what you asked for.

***Get control of the sales transaction from the moment a perspective Buyer comes through the front door.*** I suggest that you have a copy of your Appraisal, a stack of Credit Report Authorization forms, Fannie Mae 1003 Standard Credit Application, each form laid out neatly, next to a stack of Earnest Money/Offer to Purchase forms. The Seller should already have filled in the terms of sale on the Offer to Purchase forms. ***Yes, I said, "filled in."*** The Sales Price, the Interest Rate and the length of the Term, most



commonly (60 to 120 months) with amortization at whatever period you decide. ***Don't forget***, as the Seller, you are in charge of the transaction. You are the Money Lender, and as such, you have THE POWER. The deal you strike with the Buyer could have long-term results, possibly thirty years!!!!

***A good rule of thumb*** is for the Seller to get NO LESS than a 5-10% down payment, with an amortization period of 20-30 years, with a full pay off, known as a "balloon payment," due in 5 to 7 years (be sure to use a specific maturity date in the future), 8%-12% interest, and a buyer with DECENT credit. You don't want to find out later that the terms you settled for are going to cost thousands of dollars in discounts, due to the buyer having POOR credit.



It's important for the Seller to remember that 80% to 95% of the face value of the note is possible if the contract is created properly. If the Seller sells the subject property FSBO he's already saved big costs in realtor commissions and closing costs up front. When looking at the discount on Seller financed notes it is very important to keep in mind the down payment monies received and monies saved by not using a real estate agent or big reductions in sale price frequently required to attract a cash buyer. Remember that in the market place there are many more Buyers with 5-10% down payments and good credit than there are cash buyers.

**\*\*\*\**CREDIT OF THE BUYER:*** The dollar difference a Seller will receive for a promissory note written by a Buyer with Good to Excellent credit and a Buyer with Poor credit can be staggering.

**\*\*\*\**PROPERTY VALUE:*** Please do not inflate the true value of the property note and expect that an investor will not discover the over valuation and "pass" on the note. It is not necessary to inflate valuation if the terms of the Deed of Trust and Promissory Note are well crafted.



**\*\*\*\**DOWN PAYMENT:*** What generally happens is the seller takes a small down payment to get a quick sale. Remember, the bigger the down payment the more committed the Buyer is to the property. Theoretically, the investor's financial risk is decreased by a favorable LTV/ITV. Investors feel very uncomfortable when the Buyer has

ZERO financial commitment to the property. Stand your ground. It's your property. Take absolutely NO LESS than a 5-10% down payment.

**\*\*\*\*\*INTEREST RATE:** Interest rates are currently low. Do not. I say, do not, allow the Buyer to convince you to take a low interest on the purchase note. If the Buyer wants bank rates let him go to the bank, immediately to obtain a loan to purchase your property. In most cases, this will not happen. Many people fear the scrutiny of a bank's lending policies. Some Buyers are very savvy, and invest in property, which can be quickly flipped for an inflated profit. These Buyers are usually very sharp, and very sociable and also, to the detriment of the Seller these type Buyers frequently direct the purchase terms, knowing that most Sellers are desperate to sell, or, are uneducated in the Seller finance market. Whatever the reason, the Buyer is looking for Seller financing, and as such, should be charged Seller financing rates. Remember, the interest rate of the cash flow can be worth thousands of dollars. PLEASE, PLEASE do not even consider a variable, floating rate, or prime plus interest rate. Most investors will use the floor rate or the lowest possible rate the note will pay when considering these types of transactions for purchase. **Don't handicap the note.** Stick with the basics. Stick with what investors want. The last thing an investor wants to see is potential changes in the value of a receivable.

**\*\*\*\*\*AMORTIZATION:** The incremental reduction of the principal balance on a mortgage or other indebtedness. The longer the amortization period, the smaller the monthly payment will be. The shorter the amortization period, the larger the monthly payment will be. Typically, Sellers use a 20 year or 30 year amortization framework, with the 30-year schedule, by far the most typical.

**\*\*\*\*\*TERM:** Most seller financed notes are fully amortized for thirty years with a pay off clause; creating a "balloon payment" in five, seven or ten years. Most investors don't want to see a balloon payment in a short period of time especially if the buyer has fair to poor credit, so do not create a note with a 12, 24 or even a 36 month balloon payment, these short term balloon payments often add greater risk from the investors point of view and will usually be discounted accordingly. Investors usually prefer to collect a stream of payments, while, allowing the buyer to build equity and be in a strong position to cash out the note by obtaining bank financing prior to the maturity date.



**\*\*\*\*\*SEASONING:** Investors like to see a history of payment. However, this does not apply to simultaneous purchases, as the note will be purchased at the closing table.

**\*\*\*\*\*STRUCTURING THE DEAL:** I am often asked by potential sellers, "How can I structure this transaction to get the best possible payout for my note and lower the discount rate?" More often than not, with

simultaneous note purchases an investor will want to limit their exposure or risk on a particular transaction, (usually at about 70-80% of the value of the collateral) with that being said, there are ways to decrease the exposure a potential investor may have. Many savvy sellers will create a 1<sup>st</sup> lien note at 65-70% of the total sales price, collect 5-10%

down payment and carry the remaining balance (20-30%) in the form of a 2<sup>nd</sup> lien position. By structuring the deal in such a way, you as the seller ensure you will receive a maximum payout for the sale of the 1<sup>st</sup> lien note without needlessly losing dollars to an investment to value cap. In addition, you have also created for yourself a continuing payment stream in the form of a 2<sup>nd</sup> lien note. This scenario is often a win-win for all parties involved. The buyer gets into the home with a smaller down payment than a bank would typically require, the seller gets the cash they need at closing, and also create a income steam in the form of the 2<sup>nd</sup> lien, and the investor buys the note at an investment to value ratio they feel comfortable with.

**\*\*\*\*\*THE NEXT STEP:** (REQUIRED DOCUMENTATION)

American Contract Buyers, LLC will be glad to pre-qualify your buyer and provide you with a firm quote regarding your simultaneous closing provided you supply us with the following documentation.

1. 1003 FNMA Standard Loan Application Form (to be completed by buyer)
2. Authorization to Release Information Form (to be completed by buyer)
3. Completed Request for Quote Form (to be completed by seller)
4. Earnest Money Agreement or Offer to Purchase Contract (between Buyer and Seller)

When completed, please fax these items to our office at 1-503-296-2896. We will check the buyers credit and provide you with a firm price usually the same day.

If you should have any questions, feel free to give us a call toll free at 1-866-780-2274 Monday- Friday 9am-5pm Pacific Time Zone.

Best Regards,  
Damen W. Mitchell, President  
American Contract Buyers, LLC