

03.01) What is Owner Financing?

Written by Tracy Z. Rewey

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When a seller allows a buyer to make payments over time for the purchase of property, it is known as owner financing or seller financing. This private financing by the seller can take the place of a bank loan or be in addition to a conventional mortgage.

The payment amount, interest rate, and other terms are agreed upon between the buyer and seller. The amount financed by the seller will depend upon the buyer's down payment and whether there are any bank loans.

Here's an example of how it works.

An owner advertises his or her house for sale, either on her own or through an agent.

A buyer makes an offer, and they agree upon a sales price of \$175,000 with a 10 percent down payment of \$17,500.

Rather than requiring the buyer to obtain a bank loan, the seller carries back the balance of \$157,500 in the form of a note and mortgage. It could also be a note and deed of trust or a real estate contract, depending on the customary documents for that state. A title company or real estate attorney is often used for the closing.

The note spells out the terms of repayment. In this case they agree upon 8.5 percent interest at \$1,211.04 per month based on a 360-month amortization. The seller doesn't really want to wait a full 30 years for payments, so the note requires payment in full, known as a balloon payment, within seven years.

Because the buyer is making payments to the seller rather than an institutional lender, the legal arrangement is called a private mortgage, seller carry-back, installment sale, or owner financing.

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The seller has the same mortgage rights as a bank, so if the buyer does not make payments, the seller can foreclose and take the property back.

When the seller prefers cash today rather than payments over time, the rights to future payments can be sold or assigned to a note investor on the secondary market.

About the Author:

[Tracy Z. Rewey](#) has been using seller financing for over 20 years. She's helped thousands of buyers, sellers, and brokers achieve their goals, even in a tough economy.