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Tuesday, 02 February 2010 14:00 - Last revised Thursday, 09 December 2010

Why would a seller allow a buyer to make payments over time for the purchase of property?

Here are five reasons sellers consider financing property rather than requiring the buyer to obtain a bank loan:

1. Reduced Marketing Times
What is the first thing a real estate agent does when property is not moving and has been on the market for 60 to 90 days? They reduce the price and add the tagline price reduced to all advertising and signs. Rather than reduce the price, it might be beneficial for the seller to offer financing. Buyers provided with financing can certainly pay full price in exchange for the many benefits they receive with owner financing, including the money they save by not paying expensive loan fees, origination fees, and points.

2. Increased Inventory of Prospective Purchasers
By offering owner financing, the seller increases marketability with a wider group of available purchasers. Statistics show that almost 40 percent of the American population is unable to qualify for traditional bank financing. While not all of the unqualified group would be an acceptable risk for owner financing, it still widens the market of prospective buyers considerably. Anyone who has added the words Owner Will Finance or Easy Terms to a For Sale ad or Multiple Listing Service (MLS) listing knows the phone will ring off the hook with interested prospects.

3. Reduced Closing Times
Another advantage of offering owner financing is substantially lower closing times. A closing involving a third-party conventional lender can take six to eight weeks while closing a seller-financed transaction through a reputable title company can take as little as two to three weeks. This is due to the reduced paperwork and less restrictive due diligence process.

4. Investment Strategy for Hard to Finance Properties
There are many properties that encounter financing difficulties including mixed use property, land, mobile and land, non-conforming, low value, and others. Investors realize excellent returns by paying a reduced cash or wholesale price on a hard-to-finance property and then reselling at a higher retail price with easy financing terms.

5. Interest Income
Why let the banks earn all the interest? Sellers can keep the property-earning income even after they sell by offering owner financing. For example, a $100,000 mortgage at 9 percent with monthly payments of $804.62 will pay back $289,663.20 over 30 years.Â That additional $189,663.20 (over the $100,000 mortgage) is power of interest income!

If considering seller financing, be sure to consult with a qualified professional to properly document the transaction. It also helps to speak with note investors to gain insight on appealing terms and structuring techniques. This assures top-dollar pricing should you ever want to convert the payments to cash by assigning your note, mortgage, deed of trust, or contract to an investor.

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.