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Would you rather have $97,000 to sell your $100,000 note or only $80,000? The difference usually comes down to the big three. Here's the three biggest mistakes note sellers make and how to avoid flushing money down the drain.

Mistake #1 - Failing to Check Credit
The payer's credit report lets you know how timely they have paid bills in the past. This is a good indicator of how they will pay on a seller-financed note. It also has a huge impact on how much an investor is willing to offer, should the seller ever decide to sell the note payments. Sadly, many sellers never check credit when offering owner financing.

The solution?
Have the buyer fill our a simple one page application that grants permission to pull their credit upfront or ask the buyer to pull their own credit and provide the report.Â Whenever possible, avoid accepting owner financing from any buyer with a credit score below 650 (above 700 is ideal).

Mistake #2 - Charging a Low Interest Rate
Money today is worth more than money tomorrow. A simple look at escalating food and gas costs will show a dollar today won't buy as much next year or the year after! This concept, known as the time value of money, plays a large role in investor note pricing.
All factors being equal, an investor will pay more for a higher interest rate note. We've seen sellers charge 5% or less on notes. Imagine the discount when an investor wants a 10% yield!

The solution?
Charge at least two to four percent above the standard bank loan rate for a similar loan transaction. Be sure to take into consideration the credit, property type, and down payment, which may justify further increases in the interest rate.

Mistake #3 - Low or No Down Payment
The down payment determines how much equity the buyer has in the transaction. The greater the equity, the less likely a buyer will default. There is a reason banks require mortgage insurance whenever a buyer puts down less than 20%!
In desperation, some sellers will even accept a zero down payment. Unfortunately, these buyers have even less at stake than a renter. A renter at least has a security deposit along with

the first and last months rent!

The solution?
Require a down payment of at least 10% to 20% at closing.
So these are the BIG three when it comes to valuing a note. Sure other things come into play (including property type, seasoning, terms, etc) but these are the three that impact pricing the most.

While a seller might not be able to find a buyer that meets the ideal in each category, they can attempt to compensate for any deficiencies. For example, a lower credit score might result in a higher down payment and interest rate. A great credit score might result in a more favorable interest rate. Just remember that when the buyer receives a break, it's coming out of your pocket as the seller!

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.