The terms of owner financing dramatically impact the price an investor is willing to pay should the seller ever decide to sell their note, mortgage, trust deed or contract. Use these optimum terms to structure a seller-financed transaction for top dollar pricing.

- **Down Payment** - The more a buyer has invested in the property the less likely they are to quit paying, go into foreclosure, or just walk away from the property. Ideally you would like to see 30% equity or down payment but realistically it will likely range between 10-20%. Much less than 10% and investors will severely cut the investment to value, limit to a partial purchase, or decline altogether, depending on credit.

- **Credit Rating** - The credit report reflects the buyer's past payment habits making it a good indicator of how timely they will pay the seller. With the sub prime mortgage crisis, it is better to keep the buyer's credit score above 625 with an ideal of 675 or higher.

- **Interest Rate** - The interest rate for seller-financed notes should be 2-4 percent higher than traditional bank loans. That puts an ideal interest rate between 8-10% for a standard residential home based on today's market. Commercial or non-conforming properties would demand a higher rate. Be sure to read the article on "What's the Big Deal with Note Rates?" for more great details.

- **Term** - Interest Only payments are out. The best scenario is to require monthly amortizing payments with a balloon payment. A payment schedule based on a 360-month amortization will keep the payment affordable for the buyer. While a 5-7 year balloon will shorten the term and minimize the discount effects to the seller that come from the time value of money.

One of the advantages with seller financing is that the terms are negotiated and agreed upon by the buyer and seller. Just keep in mind that if the buyer gains too many advantages, the seller will pay with a larger discount or longer holding time should they decide to sell their note.

Think of the negotiating process as balancing the scales. If the down payment is higher, the seller might accommodate by lowering the interest rate. If the credit is poor, a higher down payment and interest rate might be called for.

Just don't end up with a zero down, interest only, poor credit note or the seller will struggle to find an investor even willing to make an offer. Unfortunately these notes are much more likely to lead to a foreclosure situation that both a seller and a note investor want to avoid.

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.