

What is a Partial Mortgage Note Purchase?

When a seller offers owner financing they agree to accept payments from the buyer. But sellers don't have to wait 10, 20, or even 30 years to receive their money. They have the choice to sell all or just part of their future payments for cash today.

Option 1 - When an investor purchases all the remaining payments on a land contract or mortgage note it is considered a full purchase.

Option 2 - When an investor purchases just a portion of the remaining payments it is considered a partial purchase.

The Full Purchase

For example, a note has a balance of \$90,000 at 9.0% interest payable in monthly installments of \$1,140.08 with 120 months (or ten years) of payments remaining. When the seller sells all 120 remaining payments of \$1,140.48 to an investor it would be considered a full purchase.

The Partial Purchase

If the investor only purchased the next 48 monthly payments of \$1,140.48 each then it would be considered a straight partial purchase. Once the investor received the next 4 years of payments, the note would be reassigned to the seller and the seller would collect the remaining 72 payments (120 total payments less the investors purchase of 48 payments leaves 72 payments remaining to the seller).

The purchase can also involve splitting the monthly payments received from the buyer between the investor and the seller, also known as a split partial. Using the same example of 120 payments of \$1,140.08 each, an investor might agree to purchase \$600 of each remaining payment leaving a remaining residual of \$540.08 to the seller for the next 120 months.

The terms of the transaction are spelled out in the Purchase Agreement. This important document outlines the servicing arrangement along with what happens in the event of an early payoff or default by the buyer. Competent legal counsel should review the agreement to protect the rights of all parties.

So What's Best?

The best choice will depend on the cash needs of the seller and the value of the payments being sold. A partial purchase can help minimize the discount but it comes with the worry of the buyer keeping payments current in the future. A full purchase can give sellers peace of mind knowing they are through with the property once and for all.

