Owner Financing Tips for Sellers

It's a tough time to sell a house.

In an effort to sell fast and stand out from the crowd, sellers are turning to owner financing. By accepting payments over time from the buyer, the seller provides an alternative to bank financing.

Seller financing attracts more buyers and helps the owner get attention in a market flooded by oversupply from foreclosures. Of course sellers don't want to jump from the frying pan into the fire by trading a house that won't sell for a buyer that won't pay.

Here are 5 safety tips for sellers considering an owner carry contract:

Tip 1 – Review the Buyer's Credit

How buyers have paid bills in the past is a good indicator of how timely they will make future payments. Always review the buyer's credit prior to accepting a promise to pay. Sellers can obtain a signed authorization from the buyer to pull credit through a reporting agency, or the seller could simply ask the buyer to obtain a copy of his or her report for the seller's review.

Tip 2 – Get a Down Payment

The more money a buyer puts down, the more "skin" they have in the deal. The greater this equity, the lower the likelihood the buyer will stop paying.

When people have little to no equity, they are more likely to default or just walk away from the home. Few sellers want the hassle of taking back a property through foreclosure, so increase the odds in your favor by requiring a down payment.

Tip 3 – Set the Terms

The terms include interest rate, payment amount, frequency, and the due date for payment in full. There are also late fees, default clauses, requirements for insurance, and other standard provisions.

While the terms can be whatever the buyer and seller agree upon, it makes sense to set terms that are affordable to the buyer AND favorable to a note investor. This way a seller is more likely to own a note that is valuable to an investor in case they ever want to sell future payments for cash.

Tip 4 – Get Help with the Documents

In addition to putting the terms in writing, the documents evidence the lien. The obligation to pay (or IOU) usually takes the form of a promissory note, which is secured by an owner mortgage or trust deed recorded in the county records. A land contract or real estate contract are also used in some states. A qualified attorney or title company familiar with local laws should prepare the closing documents.

Tip 5 – Collect Payments like a Pro

Tracking the payments, interest, and balance is often referred to as servicing the note. In addition to collecting payments, a servicer should verify the real estate taxes and insurance are kept current. The seller can perform servicing but it is a whole lot easier to hire a third party company to handle this process.