

WEBINAR #8
THE RETURN OF ALTERNATIVE FINANCING
STUDENT HOUNDOUT

By David Compton

ASSUMPTIONS ABOUT THE MARKET:

- *There are excessive _____ of properties on the market.*
- *Home values have _____ significantly in most markets.*
- *Homebuyers who bought their home during the peak of the market now find that their property is no longer _____ in the current market unless they deeply _____ the price.*
- *Even if the homeowner is fortunate enough to have equity in their home, finding a ready, able, and willing buyer is very _____.*
- *Since it is a _____, buyers have an abundance of negotiating leverage in today's market.*
- *Many of the buyers in today's market are _____ and many see this market as an opportunity to expand their portfolio of properties. This is not a market that is conducive to _____ properties.*
- *The continuing _____ of the American Dollar in world currency markets has also made it an opportune time for _____ to invest in American Properties.*

- *With interest rates being very low in the money market, carryback notes secured by real properties with reasonable rates of return have become _____ as investments.*
- *One tried and true method of a seller obtaining a higher price for their property is to offer _____ to the buyer.*
- *For many would-be buyers in the market, institutional financing may be difficult for them to arrange as many of them have suffered hits to their _____ and the overall _____ of credit by the institutions has made obtaining financing from the lenders very difficult.*
- *Sellers, who find themselves in a situation that requires them to sell their property, may have to consider _____ these kinds of terms.*
- *Many sellers who were planning to apply their _____ to money market annuities now see this as an opportunity to get a higher return on it.*
- *As many borrowers have had their properties foreclosed on them, they now represent an abundance of _____ for rental properties.*
- *Other observations.*

POSSIBLE SOURCES OF INVESTOR BUYERS:

Foreign & Other Investors:

- _____ *in the United States.*
- _____ *in the United States.*
- _____ *in the United States.*

- _____ at the local colleges and universities.
- _____ with foreign clients.
- _____ with clients reevaluating their portfolios.
- _____ looking to protect the funds in the accounts they manage.
- _____ in financial publications.
- _____ on the opportunities in today's market.

WHAT TYPE OF SELLER WOULD WANT TO CONSIDER CARRYING BACK A DEFERRED BALANCE ON THEIR EQUITY?

1. A seller who wants to get _____.
2. A seller who desires a _____ on their equity.
3. A seller who doesn't need all of the _____ immediately on their equity.
4. A seller who wants to have a _____ on their equity.
5. A seller who desires to have a _____ as an asset they can sell if they either desire or need to at a future date.

WHAT TYPE OF BUYER WOULD BE ONE WHO WOULD CONSIDER INVESTING IN THIS TYPE OF ARRANGEMENT?

1. A buyer who wants to expand their _____.

2. A buyer who may not be able to _____ for institutional financing.
3. A buyer who may have limited _____ for the initial investment.
4. A buyer seeking to obtain a _____ on their money than what they can obtain in the money market.
5. Other buyers

SELLER-FINANCING EXAMPLES:

EXAMPLE #1: (VERY SIMPLE)

MARKET VALUE OF PROPERTY: \$250,000
SELLER DESIRES: \$290,000
EXISTING LOAN: NONE (FREE & CLEAR)
BUYER CASH: \$25,000 (DOWN PAYMENT)
SELLER CARRIES FIRST NOTE SECURED BY A DEED OF TRUST: \$265,000

EXAMPLE #2: (A LITTLE MORE COMPLICATED)

MARKET VALUE OF PROPERTY: \$250,000
SELLER DESIRES: \$290,000
EXISTING LOAN: \$210,000 (VA LOAN, ASSUMABLE WITH BUYER QUALIFYING)
BUYER CASH: \$25,000 (DOWN PAYMENT)
BUYER ASSUMES EXISTING LOAN & CAN QUALIFY
SELLER CARRIES SECOND NOTE SECURED BY DEED OF TRUST: \$55,000

EXAMPLE #3: (MORE COMPLICATED)

MARKET VALUE OF PROPERTY: \$250,000
SELLER DESIRES: \$290,000
EXISTING LOAN: \$210,000 (VA LOAN, ASSUMABLE WITH BUYER QUALIFYING)

BUYER CASH: \$25,000 (DOWN PAYMENT)
BUYER'S CREDIT IS SUCH THAT THEY CANNOT QUALIFY TO ASSUME THE FIRST LOAN.
SELLER AGREES TO CARRY ALL-INCLUSIVE AGREEMENT FOR SALE THAT INCLUDES THE UNDERLYING VA LOAN FOR A TOTAL OF \$265,000

FOURTH EXAMPLE: (MORE COMPLICATED YET)

MARKET VALUE OF PROPERTY: \$250,000
SELLER DESIRES: \$290,000
EXISTING LOAN: \$210,000 (NON-ASSUMABLE CONVENTIONAL LOAN WITH DUE-ON-SALE CLAUSE)
BUYER CASH: \$25,000 (DOWN PAYMENT)
BUYER IS NOT CREDITWORTHY IN THE EYES OF A LENDER.
SELLER AGREES TO CARRY ALL-INCLUSIVE FIRST NOTE AND DEED OF TRUST THAT WILL INCLUDE THE UNDERLYING LOAN FOR \$265,000 WITH BOTH PARTIES UNDERSTANDING THAT THE UNDERLYING LOAN COULD BE CALLED DUE & PAYABLE AT ANY TIME.

THE 2 BASIC FINANCING INSTRUMENTS USED IN ALTERNATIVE FINANCING:

DEED OF TRUST & AGREEMENT FOR SALE (CHARACTERISTICS) ADVANTAGES:

- The parties to a Deed Of Trust are:

- The lender controls the title in the event of _____ by the borrower.
- The lender also has the option of foreclosing with either a _____ or _____.
- The trustee's sale method is more _____.
- If a seller is carrying back a deferred balance on their equity, and they find they need the funds, they can _____ to an investor.
- If a seller is carrying back a note secured by an agreement for sale, they will still have _____ on their property until the note is paid in full.
- An advantage to a borrower is that they will have _____ in purchasing a home that they wouldn't otherwise have.
- If the borrower defaults on the note, they have the _____ which will give them 90 days to bring the loan current.
- The borrower may have some _____ on the down payment.
- Both the buyer/borrower and seller/lender will likely have a _____ and fewer _____.

HOWEVER, THERE WILL BE SOME DISADVANTAGES TO BOTH PARTIES; THESE INCLUDE:

- The seller will most likely have no rights to a _____ in the event the buyer

defaults and they suffer a deficiency when they foreclose. This is because of the _____.

- The borrower does have the right of reinstatement which means all they have to do is bring the loan _____ within the 90-day period.
- The seller may have to foreclose which can become very _____ with possible necessary expensive repairs after they foreclose. This process will be compounded with these negative factors if the seller decides to institute _____.
- If the seller is carrying an all-inclusive note, their loan will be _____ to any underlying loans.
- If the seller is carrying back an agreement for sale, and they institute _____, the process could result in delays in getting title to their property back. In addition, after this process, when they put their property back on the market, there could be a _____ created by the buyer who may claim equitable title.
- If the seller finds that they do need cash and decide to sell their note, they will have to _____ the face value of their note.
- A buyer could end up paying _____ than market value for the property.
- A buyer will most likely have to pay a _____ rate on the note being carried by the seller.
- If the carryback is an agreement for sale, the buyer will only have _____ until the note is paid in full.
- If the buyer has a smaller equity, their right of redemption period is shorter and they could lose their equity much _____.

- If the buyer makes the payments directly to the seller on an all-inclusive carryback, the seller could elect to keep the payments and _____ leaving the buyer in the lurch at the lender's mercy.
- For both the buyer and seller, if the existing loan has a due-on-sale clause on an all-inclusive carryback, the lender on that loan could call the entire _____ and could institute foreclosure if either the buyer or seller is unable to pay it.

SUPPLEMENTS:

- ***AAR SELLER CARRYBACK/LOAN ASSUMPTION ADDENDUM.***
- ***TIPS & TRICKS ON THE FORECLOSURE PROCESS.***
- ***SUPPLEMENTARY INFORMATION ON THE ANTI-DEFICIENCY STATUTE AND FORFEITURE.***

ANTI-DEFICIENCY STATUTE: NO DEFICIENCY JUDGMENT TO LENDER
IF:

- ***The note is secured by a Deed Of Trust***
- ***The loan is a purchase-money loan***
- ***The property is one to two residential units***
- ***The lot is 2 $\frac{1}{2}$ or less***

AGREEMENT FOR SALE STATUTORY REDEMPTION PERIODS:

<i>0 To Less Than 20% Equity -</i>	<i>30 Days</i>
<i>20% Equity To Less Than 30%</i>	<i>60 Days</i>
<i>30% Equity To Less Than 50%</i>	<i>120 Days</i>
<i>50% Or More Equity</i>	<i>9 Months</i>

