

# What is the Ideal Structure for Creating an Owner Financed Real Estate Note?

(How to structure a privately held mortgage or trust deed secured by real estate in order to command top dollar from a note investment company!)

## **Here is the ideal scenario:**

- Purchase a Full Appraisal Report
- Appraisal Value should be Greater Than or = Sales Price
- 30%+ down payment
- Fully Amortized over 60 payments to 120 payments
- NO BALLOON PAYMENT
- NO INTEREST ONLY LOANS
- 9.5% Interest (Not higher than 10% interest)
- Credit of 680 FICO+
- Proper Documentation (Title company, Escrow company, or Attorney closed the deal, Proof of Down Payment, Proof of at Least 1 month of Payments, Lender's Title Insurance Policy, etc)
- Document the Borrower's Ability to Repay (Get copies of their Pay Check Stubs, Current Bank Statement, Last 2 years of their Tax Return Statements)
- Get Interior & Exterior Pictures of the Property BEFORE they move in OR Directly AFTER they move in.

This type of note, regardless of the real estate collateral, will trade close to par.

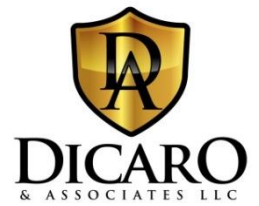
**In other words it will sell close to the unpaid principal balance or the face value.**

The farther away from this structure, the larger the discount that an investor will have to pay.

**THE BEST FREE AMORTIZATION CALCULATOR WE HAVE FOUND:**

<http://www.bretwhissel.net/amortization/amortize.html>

## **Here is another way to structure a seller financed note deal if you're planning on selling the note for about 95% cash today:**



→ **GIVEN:** With this example, YOU must be willing to hold a portion of the financing indefinitely in the form of a 2<sup>nd</sup> position note.

### **Real Example:**

Sale Price of Property: \$100,000

Down Payment from Buyer (10%): \$10,000

1st Position Note (70%): \$70,000

2nd Position Note (20%): \$20,000

Term of 1st Note: 120 months fully amortized

Term of 2nd Note: Doesn't matter because YOU will hold this until paid.

Interest Rate of 1st Note: 9.5% Fixed

Interest Rate of 2nd Note: Doesn't matter because you will hold this note.

Balloon: Do Not Place a Balloon Payment

Payment Amount of 1st Note: \$905.78/month

Payment Amount of 2nd Note: As long as 1st payment + 2nd payment DOES NOT Exceed 35% of Buyers Gross Monthly Income, then it doesn't matter.

Credit Score: Median Score must be 630+ without any BK's or recent Foreclosures

Proof of Income: Make sure you get as much info as possible proving their ability to repay the loan (ie. W-2's, 1099's, Last 2 years of Tax Returns, Recent Bank Statement, Paycheck stubs, etc)

→ **THIS 1st POSITION NOTE WILL SELL FOR APPROXIMATELY \$65,000** in today's dollars or **93% of the Face Amount.**

*The farther away from this structure, the larger the discount.*

→ Plan on carrying the 2nd position note until it is paid off, because currently no buyers exist for this type of asset... That is unless... you are willing to sell that note for 20% of the unpaid balance... Because that is what you'd have to take for this type of 2nd.

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