

# Owner Financing Benefits for Sellers and Buyers

There are many benefits for doing an owner-carry installment sale (as opposed to conventional financing) for both the buyer and seller. Sometimes one side gains an advantage over the other, but in most cases the transaction is "win/win" for both parties.



Please read the article below and if you have any questions, please contact us:

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## Benefits for the seller

Most sellers of real property insist on the highest price and all cash. Sellers want a fast closing with little hassle. Sellers also want to pay as little taxes as possible on their gains. In many cases, the seller can have most of his needs satisfied by an installment sale rather than a traditional cash sale. Let's look at these needs one by one...

### 1. Highest Price.

There is no doubt that a seller can insist on and receive the highest price when offering flexible owner-finance terms. In many cases, the seller can receive more than the fair market value of the property by offering these "soft" terms. *People are always willing to pay a premium for non-qualifying financing.*

### 2. Cash.

Nearly every seller says he wants all cash, but few need it. What the typical seller wants is the most net cash from the deal. Often, the seller has to pay closing costs, title insurance, broker fees, and the balance of the existing financing.

In addition, there may be capital gains tax due to Uncle Sam. In many cases, the sale of a property by an installment sale (particularly a "wraparound") will net the seller more future yield than any source from which the cash proceeds were reinvested.

### 3. Fast Closing.

Nothing holds up a sale more than new lender financing. In some areas of the country, it can take months for a buyer to qualify and close a new loan to purchase your property. Since most standard real estate contracts contain a financing contingency, you may end up back at square one if your buyer does not qualify.

Furthermore, if your house is not particularly nice or unique, it may take you some time to even find an interested buyer. Since you are competing with all of the other houses for sale, you may need to spend thousands of dollars in paint, new carpet and landscaping just getting the house ready for the market.

There are very few "assumable" loans and few sellers are offering "soft terms." Thus, an owner-carry sale makes your house unique. Furthermore, an owner-carry transaction can be consummated in a matter of days, since there is no appraisal, underwriting, survey, or other nonsense involved. In many cases, you will be able to sell the property yourself, saving thousands in real estate broker fees.

### 4. Tax Savings.

On an installment sale, you only pay gains to the extent you receive payments each year. This can be particularly advantageous if you have owned the property for several years. Furthermore, you can combine the installment sale with an I.R.C. 1031 Tax-Deferred Exchange for further savings.

As you can see, the installment sale provides many advantages to the seller of real property. Let us now turn to the advantages for the buyer.

## Advantages for the buyer

Despite the elevated purchase price and higher interest rate, there are many benefits to a buyer who engages in an installment sale transaction.

### 1. Easy Qualification.

The buyer, in many cases, prefers an installment sale to conventional financing because it does not require traditional bank income and credit approval. The buyer may have poor credit because of a divorce or recent bankruptcy. He may be self-employed and cannot prove income. He may be new to his job and cannot meet strict lender guidelines.

Even if he could qualify for a loan, the rate will be astronomical if he has poor credit. Furthermore, few conventional lenders offer fixed interest rate loans to people with a poor credit rating.

As you can see, there are dozens of reasons why a buyer cannot (or will not) qualify for a conventional bank loan. The installment sale becomes the perfect solution for him.

### 2. Credit Rating.

An installment sale may give the buyer a chance to improve his credit rating by owning a home and making payments timely.

### 3. No Loan Costs.

One of the biggest benefits for the buyer is not having to pay the costs associated with conventional loans. Points, origination fees, underwriting charges, appraisal, credit reports, title insurance and the plethora of other "junk" fees charged by conventional lenders can amount to thousands of dollars at closing. The buyer is free from these with an owner-carry installment sale.

### 4. Fast Closing.

A buyer can close and move into a property within days, since there is no third party lender holding up the transaction.