The A to Z of BUYING A SELLER FINANCED HOME IN AZ

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INTRODUCTION

Introduction

I started in real estate with the $50,000 I made from selling my first home in 2003. Within 3 years, I had amassed a $40 million portfolio of real estate holdings, including hundreds of acres of land, office buildings, condos, and more. I had partners, lawyers, accountants, architects, you name it, working overtime keeping track of all these deals. I could do no wrong until - BOOM! - the great real estate crash.

After a lifetime of perfect credit, I was hit by a short sale and a foreclosure beyond my control. Overnight, I went from being showered with mortgage offers to being completely shut out of bank financing. I felt a strong pride about owning my own home, so I started to look for alternatives to renting. There are millions of people who've had foreclosures and short sales — surely, there must be a clear path to help them own a home — or so I thought.

Well, there is a path, but it wasn't a clear one. I was shocked at how much bad information was out there. There are loads of sharks and scammers trying to take advantage of people who can't get bank financing, and I had to go down a hundred dead ends before I figured it all out.

The good news is I HAVE figured it out, and I can help you avoid the many mistakes that most people make. The truth is you CAN buy a home, even if you've had a short sale, a foreclosure, or filed for bankruptcy. This isn't a magic bullet, you're going to have to do some work to do this right. But you'll be a hundred times more prepared to do it as quickly and easily as possible after reading this book.

This book will help you be informed, protected, and get the best deal. You will learn the pros and cons of the major types of seller financing, along with special considerations for the Arizona market. After reading this book, you will be wise to most of the pitfalls that are out there and ready to take advantage of the numerous bona fide options that will help you buy a home without jumping through any hoops for a bank.

Chapter 1

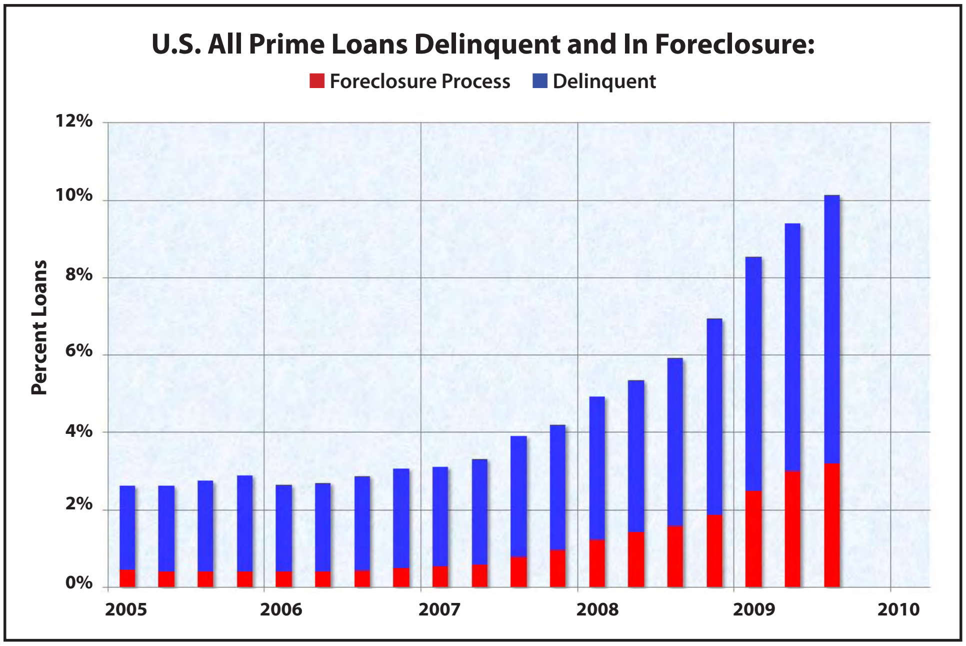
SO ALL THE BANKS HAVE TURNED YOU DOWN, NOW WHAT?

So All The Banks Have Turned You Down, Now What?

You are Not Alone

First, you must know: you are not alone! There are literally millions of Americans who have had short sales, foreclosures, or other negative financial events in the past two years. These are people just like you, many have steady jobs and savings, but the banks simply will not talk to them. There are also people who are just moving to the U.S. and haven't established credit yet, and so, again, the banks will not talk to them.

Why are the banks shutting out so many millions of Americans from home ownership? Well, the great real estate crash happened because lending standards got very sloppy. "Liar loans" were everywhere, the banks lent any amount based on how much people said they had earned -- with no proof whatsoever.



The politicians in Washington gave the banks hundreds of billions of dollars to clean up the mess, so now the banks are tap dancing to prove that yes, indeed, they have cleaned themselves up and are going to avoid the mistakes of the past. "We were lending to everyone with a pulse," says Mr. Banker, "so to show Washington we're serious about lending standards, we'll lend to absolutely NOBODY!"

So the pendulum swings the other direction and the baby is being thrown out with the bath water. It's crazy, but we're dealing with politicians and bankers here, so is anyone surprised?

The Secret Bank

There is an alternative source of money apart from the banks. It's not your rich uncle or a charity, it's the seller. The seller of a home can finance your purchase of a home. It happens every day.

If you've never done this, it may sound strange, but it's exactly the same as if you walk into a Ford dealer -- Ford will finance your purchase of the car. You make a down payment at the car dealer and promise to make a monthly payment until it's paid off and then you drive off the lot. Same thing with seller financing: you make a down payment, promise to make a monthly payment, and then the house is yours.

There is nothing new about seller financing. In fact, these types of transactions go back literally hundreds of years. However, in recent times, they became less common. After all, if Mr. Banker is willing to lend money to anyone with a pulse, there is no point in Mr. Seller offering financing, too.

Oh, how times have changed. I have clients who are business owners and doctors with income in the high 6 figures who cannot qualify for a bank loan! If these people want to buy, Mr. Seller is smart to lend them money, even if Mr. Banker is too stupid to do it himself. So now seller financed transactions are once again becoming more common.

The Good, The Bad, and The Ugly

Seller financing can be a great tool to help you own a home. However, there are a lot of people out there who will rip you off if you're not informed. Also, there are several different types of seller financing and you should know about all of them before you start writing checks.

Buying a home is a big decision and this book will help you make the right one for your situation. All the financing mumbo jumbo is broken down into plain English, so you'll really understand it.

After you read this book you will be wise to all the ways rip off artists try to confuse you or take advantage of you. You'll also know the techniques for finding and negotiating the best deal with honest sellers.

So let's get started and get you
INTO YOUR NEW HOME!

Chapter 2

AN INTRODUCTION TO NON BANK FINANCING

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An Introduction to Non Bank Financing

The Gold Standard: The Carryback

The best way to buy a home without a bank loan is a seller carry-back. In this type of transaction, the seller acts as the bank. So at the close of escrow, you get clear title to the property and the seller gets a promissory note where you promise to pay each month.

Clear title means that your name is on the deed, you are the owner of record. There are other ways to take ownership or have an interest in a property, but they don't give you clear title. We will discuss those later, but for now just know that this is the best option as a buyer, if you can get it.

So how does it work? Here's an example: Joe Buyer wants to buy a house for $100,000 from Jane Seller, but Joe only has $20,000 in the bank. Jane Seller agrees to carry a note for $80,000 -- in other words, loan Joe Buyer the money with the house as collateral. The term of the note is 10 years, and the rate is only 7% interest. Thus, Joe Buyer has to make a payment of $466.67 per month to Jane Seller. After 10 years Joe Buyer will have to pay Jane Seller $80,000 or refinance the property, in which case a bank would pay Jane Seller the $80,000 she is owed.

This is the best type of transaction because the seller has no claim to the property after the close of escrow. As long as you make your payments, the property is yours and the seller is completely out of the picture.

Wraparound

A wraparound is a creative way to solve a big limitation with carrybacks. Specifically, if a seller already has debt on the property then she can't offer to carryback a note in your name and give you clear title at closing. In other words, the seller can't "be the bank" if there's already a bank with a lien on the property. So what if you want to buy a house where the seller can't provide a carryback? This is where the wraparound comes into play.

A wraparound is where the buyer gets a carryback from the seller that is subject to the existing note on the property. In other words, the carryback from the seller is wrapped around the existing loan on the property.

Confusing right? So, let's break it down, continuing with the example above.

Joe Buyer wants to pay $20,000 down for a $100,000 house. He wants a 10 year term and 7% interest rate. Jane Seller owes $50,000 to Bank XYZ on her house, at a rate of 5% due in 20 years. So Joe Buyer's payments will be $466.67, compared to Jane Seller's payments of $208.33 per month. With a wraparound, Joe Buyer gets title to the property at the close of escrow. Then Joe Buyer's payments are split, so $208.33 per month goes to pay Bank XYZ, and the remaining $258.34 goes to Jane Seller. This split is typically handled by the note servicer or a title company, so that Jane Seller can rest assured that the payments are being made on time and if there's a problem she'll know quickly.

So what's the downside of the wraparound? Well, at the close of escrow your name will be on the title to the property; however, the seller's name is on the note. Most notes have a "due on sale" clause which means that if title changes the note becomes due and payable immediately. From a practical standpoint, these clauses are very rarely enforced – as of the writing of this book, banks do

NOT want to own any more real estate, so if the payments are coming on time they don't tend to ask questions.

However, the lender does have a legal right to demand payment in full, and so if the real estate market started to zoom up in the future it's conceivable that banks might start enforcing these clauses. Of course, that would mean your property is worth a lot more money, and therefore you'd be selling at a profit to satisfy the bank, which is hardly a horrible fate. The bottom line is based on history this clause is very unlikely to impact you, but as we've all seen the world can change quickly, it's important to understand the due on sale clause.

Lease Purchase

(aka Lease Option or Rent To Own)

Lease Purchases -- otherwise known as Lease Option, or Rent to Own -- allows you to have an interest in a property, but doesn't give you full title. In fact, you are just a renter in the eyes of the law, but you have an option to become the owner by completing the purchase on terms which have been agreed by you and the seller.

This type of transaction is best suited to someone who doesn't have enough of a down payment for a carryback, but who expects to have the money to complete the purchase in 2-3 years. That way, you can get yourself into the house now and know that you have a stake in it, as opposed to just being a renter with no option to purchase.

The downside of this type of transaction is that your claim to title isn't very strong. Your option to purchase is recorded with your local county recorder and that's some protection. But if the seller goes bankrupt, dies, or gets divorced, there could be a big mess. Even if you have the legal right to purchase the property, do you really want to mess around with the court system to prove it? For this reason, it's important not to put too much money down for the option. You want to put enough to satisfy the seller, but not so much that you are putting a good chunk of your savings at risk.

Hard Money Loans

Hard money loans are also known as private money loans. It's a private party offering to make a loan instead of a bank. The reason they are called hard money loans is because the terms are hard -- large down payments, high interest rates, and short terms. For example, to purchase a house, terms of 40% down with a 12% rate and 3 year term are not uncommon. Ouch!

Why would anyone subject themselves to this? Well, if the deal is too good to pass up, it might make sense to take hard money to make it happen. For example, if a seller is distressed and needs money fast, they might take a super low price. So even if the rate is high, if the price is low enough, you may still come out with a deal that puts a smile on your face.

Land Contract
(aka Contract for Deed, Installment Sale, or Agreement for Sale)

This type of transaction is not legal in all states, but it is legal in Arizona. The reason it's illegal in several states is because there are a lot of shady deals that have been done using this method. When used properly, it can be a helpful tool, but you want to be extra careful in these transactions.

The mechanics of a land contract are as follows: the buyer gets equitable title upon signing the contract, but the seller keeps legal title until the loan is fully paid off. So if the buyer fails to make payments rather than going through a trust deed foreclosure process, it's a forfeiture. The seller can often get their property back much faster than in a foreclosure process.

Specifically, the eviction time on a land contract depends on the amount of equity you have in the property. Your equity is defined as the percentage of the purchase price you've paid to the seller – it has nothing to do with the market value of the property, it's strictly based on the purchase price.

00 – 19% Equity – Buyer has 30 days to catch up on payments

20 – 29% Equity – 60 days

30 – 49% Equity – 120 days

50+ % – 9 months

These types of transactions are often still used for land and less frequently for houses. Generally, this type of transaction favors the seller, so only use it as a last resort and proceed with caution.

Chapter 3

THE *CRAWL* METHOD™ FOR BUYING A HOME WITHOUT A BANK LOAN

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The CRAWL Method™ for Buying a Home Without a Bank Loan

- **C** Carrybacks Offered by Sellers
- **R** Repeat Negotiations
- **A** Ask for Carryback
- **W** Wraparound
- **L** Lease Purchase

Carrybacks Offered by Sellers

The easiest place to start is the current listings of seller carry-back homes in your area. Your real estate agent should be able to provide you a list of homes that are currently offering seller financing. However, in most cases, the listings do not include the terms being offered. So a listing may say "seller financing available" or "owner will carry" but that's it, no details on rate or down payment. It's pretty frustrating -- it would be like having a property listed for sale without a price -- but that's the way things are, unfortunately.

So the first order of business is to see which homes are even in the ballpark of the type of home you want. Then, when you've got that narrowed down, you can start asking sellers for the terms they'd find acceptable.

Those terms can, and likely will be, all over the map. Some sellers are happy with 10% down, most want 20-25%, and it's not unprecedented for sellers to ask for 50% down. It all depends on how motivated the seller is and their financial position. Similarly, interest rates are commonly between 6% and 9%, but some are asking for as high as 12% -- at a time when bank financing is often available at less than 5%. So just because you like a house, like the price, and the seller is offering financing, don't start dreaming about moving in -- not until you've gotten some basic terms.

If you don't have* 10%** ***to put down, it will be difficult to find a seller that will be willing to do a carryback. It may even be impossible. Plus, you want money for closing costs, so at **3%** ***you really should have at least*** **13%** ***of the total purchase price before you start seriously considering seller carrybacks.***

Repeat Negotiations

If you haven't found a home offering a carryback yet, but you've written several offers, you should circle around with those sellers again. If several weeks or months have passed, they may feel differently than they felt before. Remember, the carrybacks offered by sellers are the "low hanging fruit," so you should try to make this work if at all possible before proceeding to the other methods. Multiple rounds of negotiation makes good sense. Chapter 6 will explain more about how to negotiate, but for now, just make sure that you try every seller more than once before moving on.

Ask for Carryback

For every listing that's offering seller financing, there are probably 20 that are not offering seller financing. The sellers want to sell their homes, but they're hoping that someone is going to pay cash or come in with bank financing. Because of the sheer number of homes in this category, this can be a great hunting ground for finding a deal.

However, it does require a lot more work. After all, you have to convince a seller to offer you financing and for some people that's just too "outside the box" for them to consider. Not everyone has the advantage you have of having read this book, and for those people seller financing may be a strange and scary concept.

Also, you are at a disadvantage in a negotiation by coming right out and asking for something they're not considering. If a seller is offering financing, you can likely negotiate harder on the terms than when a seller is not even offering it to begin with. The oldest rule in negotiation is reciprocity -- I give you something, you give me something. So, in effect, the seller is giving you something right at the beginning if she agrees to financing and that makes it more difficult to hammer away at the price, ask for lots of repairs, etc.

The best candidates will be homes owned for cash. That is, the seller has no debt on the property or so little debt that it could be paid off by your down payment. This gives the seller the flexibility to offer you a carryback. And if they've had their money tied up in the house for a long time, it's likely they don't need their money anytime soon and can carry the financing for the long term.

If you can't find a home on the market that will give you financing, you can proceed to unlisted homes. This is the toughest way to put together a deal, but it may be necessary if you have very specific criteria for your home search. For example if you only want to be in a specific subdivision, and there are only 25 homes in it, you'll probably have to start talking to people who aren't listing their home.

The best way to proceed is to write letters to the homeowners in the subdivision or if you are working with an agent, ask them to do so. It is best to hand write the name and address on the envelope; otherwise, the mail may never even get read. Just a simple letter explaining that you are looking to buy a home in the subdivision and that you really admire their home and if they are interested in selling they should contact you. Don't mention seller financing, just keep it simple. See if they are even willing to sell first. Then if you get inside the home and still like it, you can discuss terms.

Wraparound

By the time you've gotten to this step, you should have had a lot of contact with sellers and written offers and have a good sense of the market. You will proceed exactly as you have with carrybacks, but you'll be asking for wraparounds instead. That is, first you'll contact sellers offering wraparounds. Then, you contact sellers who aren't offering wraparounds, and try to convince them to make a deal. As a last resort, you contact homeowners that don't have their homes listed for sale -- however, note that this should only be done as a last resort because homeowners are very unlikely to accept a wraparound if they are not motivated sellers. Remember, a wraparound is a real risk for a seller. Their name is still on the loan, so even a Herculean amount of effort probably isn't going to convince a homeowner to do this.

Lease Purchase

If you cannot get a carryback or a wraparound, then consider a lease purchase. This will allow you to have a vested interest in a home with the least amount of down payment. However, it's a riskier transaction because you are not on the title, you're just a renter until you complete the purchase. But if circumstances dictate, then by all means, give this a try. Just be sure to not pay too much money down. Your down payment should be substantially less than it would be for a comparable carryback. If a seller wants a 10% down payment, move on. It depends on the type of home and the number of years you'll have it tied up, but 5% is a more reasonable ballpark for the down payment on a lease purchase.

One final word about the CRAWL Method: it may seem like a lot of work, and it is. But just think about how many hoops you'd have to jump through to try to get bank financing. So, no matter how you slice it, there's work involved in buying a house. A great real estate agent can handle a lot of the heavy lifting for you.

CHAPTER 4

STRUCTURING THE FINANCING

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Structuring The Financing

The Seller is Not a Bank.
The Seller is Better!

Banks want to lock you into cookie cutter loan programs of X% down payment and Y% interest rate. They don't offer the option for creativity. Where this comes into play is when you and the seller are having trouble reaching agreement or in cases where you may know you've got a big change in your financial picture coming down the pike.

For example, let's say a seller wants 20% down and an 8% interest rate. That's the best you can negotiate after trying your hardest. Let's also imagine you're ok with the 20% down, but that 8% interest rate stings you. So you say to the seller, "If I pay down the loan an extra $20,000 within 2 years, you agree to drop the rate by 1 point to 7%?" Good luck trying that with a bank! But with a seller, that might make all the sense in the world and save a deal that otherwise might never have happened.

So think outside the box. If you are using an agent, discuss your complete financial picture so he/she has all information at his/her disposal and can help find creative ways to structure a deal.

Another benefit of seller financing is that you won't get hit by fees buried in fine print. If you've ever gotten a bank loan you know that in the end there are all kinds of costs that come out of the woodwork. With seller financing, there are no commissions, fees, or anything else to pay other than what you've negotiated.

How Much to Offer: When is It Right to "Overpay"?

Sometimes I'll be midway through negotiating a deal for a client and they'll look at comparable sales in the neighborhood. They'll say, "wait a minute! I was going to pay $200,000 for this house, but there was a foreclosure down the street for $170,000. I won't pay a penny more than $170,000 or I am getting robbed!" This happens a lot, and it's a big mistake that prevents people from getting into a great home, so I want to help you avoid this trap.

There's an old saying that's very wise: there are old pilots and there are bold pilots, but there are no old, bold pilots. So to paraphrase: there are bargain basement houses and there are houses with seller financing, but there are no bargain basement houses with seller financing. Face it, the whole purpose for a seller to offer financing is to get the best price for her home. If she were willing to sell at bottom dollar, she could sell it for cash, right?

So does that mean seller financing is always a rip off? Hardly! It just means that you can't compare a clean, well organized seller finance transaction to the disaster foreclosure that went for pennies on the dollar. They are apples and oranges.

What's important to making a smart decision on a seller financed home is to compare it to your other options. Can you stay where you are and, if so, would you want to? Would you have to rent a place if you can't buy? To make a smart decision in buying a seller financed home, you merely need to make a better decision than the other alternatives. That's it, no more. You can do that, and you will with the information in this book.

If you like the house and the terms fit your budget, then LOCK IT DOWN! But forget about that foreclosure down the street. You're going to miss opportunities if you focus on the house down the street instead of the one you're negotiating on.

The Cherry on Top

If you have a seller who is very eager to work with you, there is one last thing you should ask for: assumable financing. That is, if you are getting a carryback, then you should ask for that to be assumable by the next buyer.

That way, if you sell the property, you can open up the sale to buyers who can't qualify for bank financing. You are effectively passing along the benefit of what you've negotiated and making your life much easier if you want to sell the house.

This isn't a necessity by any means,
but if the negotiation is going your way,
IT'S A NICE THING TO HAVE.

CHAPTER 5

DANGERS TO AVOID

Dangers to Avoid

Too Little, Too Late

The unfortunate reality is that seller financing usually takes more work than a non-seller financed transaction. You have more moving parts, so it's just naturally more complicated. But like so many of the best things in life, hard work pays great dividends.

Knowing that there may be some more work involved means that you do not want to wait until the last minute to buy a house. If you know you're going to be moving in 6 months, start looking today. Get familiar with the market, write offers, and take action. It's much better that you should make a deal too soon than too late.

In any negotiation, not just real estate, he who needs the deal the most loses. If you have time pressure and there are limited options, you simply cannot negotiate as well as someone who has all the time in the world. So don't become a victim of "too little, too late" by waiting until the last minute.

Sudden changes can and do happen in life. And if you must act quickly, you can still do well. However you have the highest probability of doing well by planning in advance, and writing offers long before you need to close.

Failure to Inspect

You should hire a professional inspector to inspect your home. There are 2 important reasons for this. The first is that you can learn about any problems with the house before they become your problems. The second is that an independent inspection can be used as a bargaining tool, to get the price of the home reduced if there are substantial issues with the house.

So find an inspector who not only knows what he/she is doing, but who also puts together a great report. Be sure to get a sample inspection report before you hire them. The best inspectors will have digital photos embedded in their report, clearly showing trouble spots. This is much more compelling as a negotiation tool than a report that's just in writing. Think of the report as a presentation tool, one that you may use to get a price reduction or, at the very least, to get bids from contractors.

The Fine Print

Let's say that you and the seller have agreed to all the terms of the deal. You have a firm price, an interest rate that makes you happy, and a due date for the note that's 10 years out. All of this

is spelled out in the purchase contract and all is right with the world. Or is it?

There are critical documents that must be drafted in escrow to represent the debt you owe the seller, as well as the seller's lien on the property. There's a lot of fine print in these documents and you do not want to be on the wrong side of it. Hire a lawyer to review the documents before you sign them.

This sounds obvious, but people are often penny wise and pound foolish. Protect the investment you are about to make in your house and have a real estate lawyer read the documents. If they've been prepared by the title company and are in a standard format, it shouldn't take the lawyer longer than an hour or two. That's very cheap insurance.

CHAPTER 6

THE DOWNSIDES OF SELLER FINANCING

The Downsides of Seller Financing

Unrealistic Sellers

There are a lot of sellers out there who think that just because someone needs financing, they'll pay a crazy price for the house or an interest rate that's sky high. Sometimes, these sellers can get lucky, but more times than not, their homes just linger on the market like all unrealistic sellers.

It's no big deal for you as the buyer, you just move on to the next one. However, I am preparing you for the fact that you are very likely to run into more unrealistic sellers offering seller financing than the general population of sellers. They know their position is strong because they're offering you financing, but then they overplay their hand. Because of this, be prepared for multiple rounds of negotiation and negotiation on several homes.

Time & Effort

Buying a seller financed home is more complicated than buying a home for cash or with bank financing in place. Think of it this way: you are not only negotiating the price and closing date like any sale, you're also working out terms of financing. It's like shooting at two moving targets at the same time. More complexity, more work. It's worth the effort, but don't be naive about it when you get started. Hiring an astute real estate agent will substantially reduce the time you'll spend, and also prevent you from making mistakes.

Expense

In most cases, seller financing is more expensive than bank financing. You'll be paying a higher interest rate and you may also have to put more money down. So why do it?

Well if the banks won't lend to you, then your only alternative to seller financing is renting. So even though seller financing may be more expensive than bank financing, it's probably a better alternative than renting.

Also, Uncle Sam does not give renters tax breaks, but he sure does for homeowners. So when you are computing the expense of renting versus buying, make sure that you are taking into account the very significant differences taxes can make in this equation. There is a helpful calculator that takes this into account on Yahoo! at http://realestate.yahoo.com/calculators/rent_vs_own.html. Any tax accountant with real estate tax experience can inform you of the many tax incentives homeowners have over renters.

CHAPTER 7

NEGOTIATION SECRETS TO GUARANTEE THE BEST DEAL

CHAPTER 7

Negotiation Secrets to Guarantee The Best Deal

Motion Beats Meditation

Do not spend months looking for homes, running comps, and thinking about which is the perfect home. Write offers, negotiate, make things happen. Motion beats meditation.

Most people will think a lot about what they want to do before they do it. In real estate, the world may have changed while you were "thinking about things" -- the best homes could be gone, sellers may have changed their positions, or countless other things may have happened. Just do it, get out there, make things happen.

This is NOT to imply you shouldn't be careful and thoughtful when making decisions about real estate. Just don't overanalyze things. If you've been actively touring homes for a month and haven't written an offer, you're probably making a mistake. Also, remember that you will have an inspection period when you buy your home to do due diligence. If your offer is accepted but the home turns out not to be all you expected, then you can cancel the deal -- no harm, no foul.

Writing offers doesn't cost you anything besides the paper and the time. The thing that usually prevents people from writing numerous offers is fear or laziness. Don't let those things stop you.

There simply isn't any substitute for action. You can read every word in this book a hundred times, but you'll know more after a few rounds of negotiation than if you memorized every single word.

A Verbal Offer Isn't Worth the Paper it's Written On

Never make verbal offers on a property.

REPEAT: never make verbal offers on a property.

Once again: never make verbal offers on a property.

Why am I being so redundant? Because it is SO important never to do this, and yet people do it all the time. It's the drive for immediate gratification, people just say "ask him if he'll take X" and they wait to see what happens. Well, the truth is, even if the seller agrees to X, it's not a binding contract, he can sell it to someone else who comes along right after you. And he probably will sell it to someone who put it in writing. Why?

Because a written offer has important psychological impact. Just think about the difference between something that "somebody told you" versus something "you read in the paper." Reading it

in the paper has a LOT more weight, it makes it "more real" than hearing about it. As a buyer, you are trying to entice the seller to want to take your offer, even if that offer is not everything the seller had hoped and dreamed for. So the least you can do is make that offer as serious as possible.

Think of it this way, if you are lowballing a seller, if you are giving her bad news, make your offer The New York Times of Bad News, not the Half Baked Rumor of Bad News. Bad News might give the seller a bad day either way, but the former actually has a chance of being taken seriously while the latter is just a waste of breath.

Furthermore, when you make a verbal offer, it's the equivalent of being in a war and giving the enemy your battle plans. You gain nothing by making a verbal offer, you only divulge information about your position. It is much smarter to ask "what will the seller take?" than to ask "will the seller take X?" Be open ended with your questions, receive information, listen, but do not divulge anything until you are ready to put it in writing.

Also, take the responses you get from the seller with a grain of salt. What they say they'll accept is often not the same as what they actually will accept. BUT YOU WON'T KNOW THAT UNTIL… YOU GUESSED IT! UNTIL IT'S IN WRITING!

One footnote: some legal minded people will say -- aha! a verbal contract IS binding. Well, that might be true in many states but NOT in Arizona, at least not for real estate. The Arizona Statute of Frauds states: "for leasing for a longer period than one year, or for the sale of real property or an interest therein. Such agreement, if made by an agent of the party sought to be charged, is invalid unless the authority of the agent is in writing." So, for all practical purposes: written is real, verbal is just a puff of air. If you want to buy a house, heed these instructions: in writing, in writing, in writing!

The Truth about Lowballing

Lowballing only works if you have a lot of choices, and/or a lot of time to write offers. In some markets that may be the case, there may be tons of seller financed homes that meet your needs. However, in many markets, your options for seller financing are more limited. If your options are limited and/or you don't have 6 months to negotiate, then how do you get the best price?

> ***I've had a lot of proverbial doors slammed in my face during the tens of millions of dollars worth of negotiations I've done. "Why you Son of So-And-So how dare you insult me?!" And I've heard a whole lot worse than that. People are OFFENDED down to their very core by an offer that's lower than the lowest they ever thought they'd see.***

My attitude toward the sellers is simple: I've just offered to write you a check for hundreds of thousand of dollars. Maybe not as many hundreds of thousands as you wanted, but surely anyone writing you a check of any size is better than a sharp stick in the eye. Plus, I know that the offer I presented is reasonable, it's justified by the facts, regardless of their emotions. This attitude makes me impervious to their curse words because I know the truth, that I am doing them a favor by offering them an option.

So don't ever be afraid to write an offer, even if it's well below asking price – as long as you have justification. If you are just winging low numbers out there for the heck of it, you're wasting everyone's time. You make it difficult for the seller to accept a good offer from you at a later time, because you've destroyed your credibility. So, in other words,

> ***going too low in the beginning can ultimately cost you more if you are serious about the home. Better to make a reasonable offer – even if it's much lower than the seller's expectations – and stick to your guns, than to come out with a fantasyland opening offer and then start negotiating up.***

So, for example, let's say a seller is asking $250,000 for a house, but the comps only support $200,000. You are willing to pay $200,000 or you'll walk away. Some people would try a $150,000 offer and hope they meet in the middle. This is more likely to create an emotional reaction from the seller that you don't want, and to hurt your credibility later on. The smarter course of action is to offer $200,000 and make a very strong case for it. If they reject the offer, or counter very far apart, you just thank them politely and walk away. They may change their tune in a month or two.

Chapter 8

HOW TO GET STARTED

How to Get Started

How Much Can You Afford

A lot of people start by thinking about the price of the house they want. I get calls all the time from people who want $300,000 houses but they have only $10,000 to put down on a house. That might work for a lease purchase, but it's very unlikely it would work for a wraparound, let alone a carryback. So rather than thinking about the price of the home, start with your down payment and the monthly payment you can make. Then back out the appropriate price of the house.

Of course, sellers can ask anything they want, but a good rule of thumb for a reasonable deal would be 20% down and an interest rate 2% higher than bank financing. To calculate your target purchase price: divide the interest rate into 1, and multiply that number times your monthly payment, then times 12 to get your target principal balance. Then divide 1 by (1 - down payment) and multiply that by the principal balance to calculate the total purchase price.

So, let's say you can afford a **$1,000 per month** payment and you expect your rate to be **7% interest** only.

1/7% interest rate (.07) = 14.285

14.285 × $1000 monthly payment × 12 = $171,420 principal balance

1/(1 – 20% down) = 1.25

1.25 × $171,420 = $214,275 total purchase price

So if you're going to put 20% down and pay $1,000 per month, you should be looking at homes approximately in the $200,000 - $230,000 range.

Working with an Agent

There are over 500,000 real estate agents and brokers in the U.S. That's a huge number and it can be very time consuming to sort out the good ones from the bad. Here's a checklist of things that will help:

EXPERIENCE – Experience isn't "time served." Just because they've been in the industry doesn't mean they are necessarily experienced. The majority of real estate agents do less than one transaction per year.

Is the agent knowledgeable about seller financed transactions? There are a lot of agents out there who are utterly clueless on this stuff. I get calls in my local market from competing agents asking me for help finding seller financed properties. My competitors calling me to help them help their clients! You don't want to be the agent's guinea pig.

Has the agent bought and sold real estate for themselves or just represented other people? You'd be amazed how many real estate agents have bought only one house for themselves in their entire lives. When you choose an agent that has purchased multiple properties for themselves, it's nice to know you'll have someone who has written big checks on real estate, so they really understand what you're going through.

Professionalism – If you leave a message, do you hear back within 1 business day? If you don't hear back promptly while they are trying to woo you as a client, it's unlikely that you will once a deal is in escrow. This simple test speaks volumes about how seriously the agent takes their job and how well organized they are.

Technology – If an agent isn't technology savvy, they are probably not going to find all the opportunities that are out there, nor will they represent you well. They don't need every gee whiz gadget, but they should have a respectable website and really know how to work with the Multiple Listing Service (MLS). You'd be amazed at how many agents have only the most basic knowledge of their own MLS system and that means either they're going to miss opportunities or overwhelm you with too many.

CHAPTER 9

TIPS FOR CLOSING THE DEAL

Tips for Closing the Deal

The Most Important Person Everybody Forgets

The title officer is overlooked by almost everyone, unless something goes wrong during an escrow. Then they become the most important person in the world, totally responsible for fixing the problems that could blow up the transaction. While they are important for any real estate transaction, they are especially important for seller financing.

The title company may be drafting the documents for your note and they may even be servicing the note. Thus, the work that they do could be impacting you for a very long time. You don't want to work with a title officer who has never done a seller financed deal.

So either you or your agent should have a title officer in mind when you write the offer. If the seller insists on using someone else, you should ask that title officer about their experience with seller financing. Be specific, ask them how many carrybacks they've done in the last few months? How many wraparounds? If they aren't impressing you, go back to the seller and let them know that selecting an inexperienced title officer is like playing with fire.

Inspection Period

Be sure to use the inspection period to its fullest extent:

Drive by the neighborhood at different times of the day and different days of the week. Some nuisances only rear their head at odd times and you don't want to figure this out after you are the new owner.

Get your professional inspection at the beginning of the inspection period, as soon as possible. That way you will have time to review the issues, get bids, and negotiate with the seller.

Note Servicing

You will want to choose your note servicer very carefully. You will be dealing with this company for as long as your financing is in place. They process all the payments and are responsible for the tax documents. Some buyers want to have them report information to the credit bureaus, too, to beef up their credit report. Also, they will be responsible for paying off the seller if you re-finance. In sum, they do a lot of important things.

Much like the escrow company, nobody pays any attention to note servicers – unless something goes wrong, then they get a LOT of attention. Do your homework before picking a note servicer. The best references you can get are from your title company and real estate agent. The title company may themselves act as note servicer. If you've had good experience there you're set. Otherwise, they should be able to point you to a firm they've dealt with on numerous occasions.

Final Words

I hope this guide has been helpful. Buying a house can be stressful, but please try not to let it get to you. I've put a Comic Relief Section in the Appendix to help you relax and keep everything in perspective. There's also a Frequently Asked Questions guide in the Appendix that will hopefully clarify anything that may still be unclear. Finally, there is a list of example deals in the Appendix, and some additional Resources to help you move forward.

If you have any suggestions for future editions, I would be delighted to hear about them. To contact the author, please call (480) 442-7325 or visit SellerFinanceAZ.com

APPENDIX

Appendix

I. Frequently Asked Questions

What interest rate should I expect to pay?

Sellers are all over the map, and what makes sense for a buyer depends on their situation. So there truly is no “standard” but somewhere in the range of 2-3% above bank financing rates is common. However, I have seen deals get done at 0% interest and 18% interest, and these deals made sense for both buyer and seller. So, rather than focusing on the rate, focus on the overall deal: is the combination of the home and the financing better than your other options?

How long will sellers typically offer financing?

2-5 year terms are common, shorter and longer terms do happen but they are the exception rather than the rule. Most sellers don’t want to carry the financing for a day longer than necessary, they want the lump sum payment as quickly as possible. Furthermore, they’ll usually charge a higher interest rate and/or want a larger down payment for a longer term. However, other sellers are happy to collect an income on the note and are in no rush to be paid; they may even have tax reasons for not wanting to be paid off quickly. So, you shouldn’t make assumptions about what the seller will accept, just ask and negotiate.

What if I can’t come up with a 10% down payment.
Can I still get seller financing?

If you have less than 10% down, it’s unlikely that a seller will want to do a carryback or a wraparound. It’s possible, but it’s less likely. The best thing you can do is sit down with your agent and look at the inventory for the specific type of home you want – the more inventory that’s out there, the better your chances of negotiating a deal with a small down payment. If all else fails, there’s always the lease option. Refer to the CRAWL Method™ in Chapter 3 for a complete step-by-step system for how to approach the different types of financing and negotiate them.

How much are closing costs?

Closing costs can and do vary, but a general rule of thumb is to budget 3%. You'll receive a more precise estimate of closing costs when you open escrow, but if you set aside 3% going into the transaction you're unlikely to get a large unpleasant surprise in escrow.

Do I need a lawyer to review documents related to my purchase?

Buying a home is a one of the most important financial decisions a person ever makes. It is cheap "insurance" to have your lawyer review documents such as the promissory note and deed of trust before you sign them. In most cases, an experienced attorney should be able to complete a review of your documents in just a couple of hours.

II. Example Sales in 2011

Please note that interest rates are usually not disclosed by buyer or seller, but other terms have been pulled from the MLS and tax records, so you may see the wide variety of deals that are commonly seller financed.

$1,000,000+

Single Family Home + Horse Property 6br/5,5ba - Scottsdale (Westland & Hayden)

Sold for $1,250,000 vs. Asking Price of $1,300,000

Carryback 5 Year Term Fixed Interest

$200,000 Down Payment

Single Family Home 5br/5ba – Arcadia (Lafayette & 52nd Place)

Sold for $1,375,000 vs. Asking Price of $1,795,000

Carryback 3 Year Term Fixed Interest

$300,000 Down Payment

Single Family Home 5br/8ba – Paradise Valley (Foothill Dr & Cholla)

Sold for $3,200,000 vs. Asking Price of $3,297,777

Carryback 1 Year Term Fixed Interest

$1,700,000 Down Payment

$500,000 - $1,000,000

Single Family Home 5br/3ba – Cave Creek (60th St & Lone Mountain)

Sold for $525,000 vs. Asking Price of $540,000

Carryback 20 Year Term Fixed Interest

$53,000 Down Payment

Single Family Home 4br/2.5ba - Scottsdale (Pima & Los Gatos)

Sold for $661,500 vs. Asking Price of $675,000

Carryback 3 Year Term Fixed Interest

$66,150 Down Payment

Single Family Home 5br/3b.5a - Goodyear (Estrella Parkway & I-10)

Sold for $750,000 vs. Asking Price of $989,000

Carryback 3 Year Term Fixed Interest

$40,000 Down Payment

$300,000 - $500,000

Single Family Home 3br/2.5ba - Scottsdale (94th St & Sweetwater)

Sold for $307,000 vs. Asking Price of $334,000

Carryback 5 Year Term 9% Fixed Interest

$15,000 Down Payment

Single Family Home 5br/3ba - Phoenix (Chandler Blvd & Desert Foothills Pkwy)

Sold for $330,000 vs. Asking Price of $349,900

Carryback 3 Year Term Fixed Interest

$38,000 Down Payment

Single Family Home 5br/3.5ba - Chandler (McQueen & Ocotillo)

Sold for $385,000 vs. Asking Price of $400,000

Carryback 15 Year Term Fixed Interest

$47,000 Down Payment

$100,000 - $300,000

Single Family Home 3br/2ba - Glendale (43rd Ave & Cactus)

Sold for $95,000 vs. Asking Price of $110,000

Carryback 30 Year Amortization Fixed Interest with Balloon

$19,000 Down Payment

Single Family Home 5br/2.5ba - Laveen (51st Ave & Southern)

Sold for $150,000 vs. Asking Price of $150,000

Carryback 5 Year Term with Fixed Interest

$30,000 Down Payment

Single Family Home 3br/2.5ba – Cave Creek (Tatum & Cave Creek)

Sold for $171,000 vs. Asking Price of $185,000

Carryback 5 Year Term with Fixed Interest

$20,000 Down Payment

Under $100,000

Townhouse 2br/1ba - Phoenix (67th Ave & Indian School)

Sold for $41,000 vs. Asking Price of $39,750

Wraparound 7 Year Term with Fixed Interest

$3,000 Down Payment

Manufactured Home 2br/2ba - Phoenix (7th St & Union Hills)

Sold for $55,000 vs. Asking Price of $79,900

Carryback 12 Year Term with Fixed Interest

$5,000 Down Payment

Single Family Home 3br/2ba - Phoenix (83rd Ave & Camelback)

Sold for $85,000 vs. Asking Price of $85,000

Carryback 15 Year Term with Floating Interest

III. Resources

Arizona Department of Real Estate Buyer Advisory – The latest information on what you should know before you buy a home in Arizona.

www.aaronline.com/documents/buy_advis.pdf

Seller Finance AZ – The author's site, representing buyers of seller financed homes throughout the Phoenix metro area.

www.SellerFinanceAZ.com

IV. Comic Relief

Buying a house can be exhausting and stressful. When you need a good laugh, these movies will make you feel much better about your real estate trials and tribulations:

The Money Pit - Tom Hanks & Shelley Long
Mr. Blandings Builds his Dream House - Cary Grant & Myrna Loy