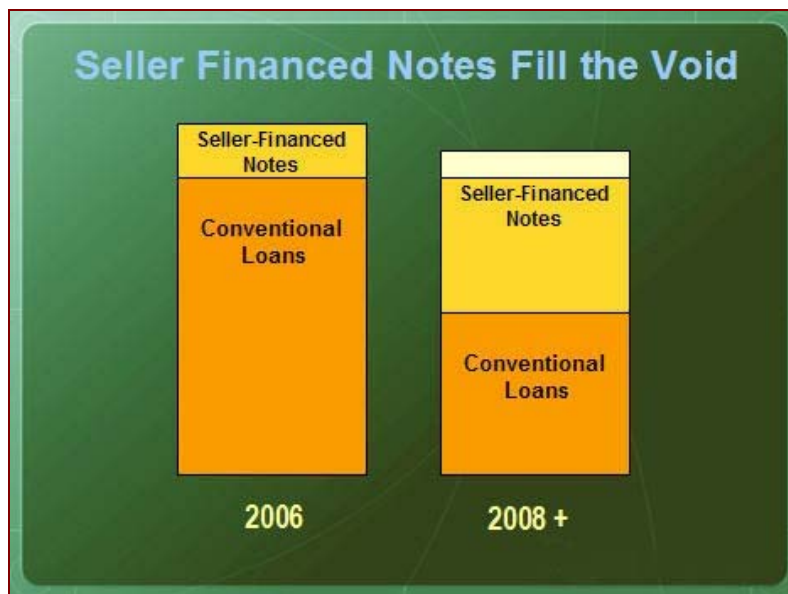




What you *don't* know about Seller Financing and the Secondary trust deed market *CAN HURT YOU...*

- Tired of expired listings?
- Have a transaction falling out of escrow?
- Is the buyer having a hard time qualifying?
- Do you have a seller stuck on price?
- Wonder what happens if your seller ever needs to sell a note they've carried?

Would you like to *take more listings* and *close more transactions* regardless of what's happening in the financial markets? Seller financing is quickly becoming a powerful and necessary tool in closing real estate transactions. When the bank loans aren't coming through, then we need to look for alternatives.



This year, approximately 1 out of every 50 real estate transactions will be closed using some form of seller financing, compared to only 1 out of 400 two years ago. *Are you prepared to protect and guide your clients through these times?* The professionals that will thrive in the market that is evolving are the ones who take the time to learn new skill sets that can help their clients safely solve problems.

Example #1 – it’s not always about desperation . . . it’s about preserving wealth, deferring capital gains and creating income for a comfortable retirement

Mr. & Mrs. P. bought a small commercial building four decades ago. For years they ran a small tourist agency, and consistently paid down their mortgage each month. By the time they were ready to sell, they owned it free and clear.

Carrying paper (seller financing) was an important part of their retirement plan. They advertised: “Owner Will Carry,” and even at a time when there was a moratorium on new business licenses in the city, they quickly got into escrow:

Sales price:	\$570,000
Down payment (25%):	\$142,500
First note & deed of trust:	\$427,500
Interest rate for the 1st 18 months:	3.75% (for deferred maintenance)
Interest rate thereafter:	7.5% (bank CD’s were paying 2%)
Term:	360/15
Monthly payment:	\$1,960.99 (x18); \$2,950.25 (x162)
Balloon due in 15:	\$318,253.67

At close, sellers get \$142,500 (less commissions and closing costs), they get to defer most of their capital gains, and they receive a comfortable monthly payment each month earning a nice 7.5% return (secured by a property they know very well).

They also included a 25% prepayment penalty to protect themselves against early payoff, which would trigger a huge capital gains liability.

What would happen if they needed an extra \$50,000 in cash for a medical emergency three years into the deal? Well, if they’ve put the paperwork together properly, and documented the strength of the buyer, then there’s a good chance that they could easily get the cash they need by selling a portion of their note:

Note buyer gives note holder:	\$50,000
Buyer gets 19 monthly payments:	19 x \$2950.25 = \$56,054.75 (14%)
Balance on note when seller gets it back:	\$401,460.08

But . . .

If the transaction was poorly underwritten, and the loan documents were not meticulously constructed, then the sellers would take a **much larger discount** when trying to sell their note (if they could even sell it at all).

You must have a note professional help you put your seller financing transaction together! You need someone who understands what happens in the secondary trust deed market so that your *clients don’t end up losing thousands* when they go to sell their note.

****Sorry . . . escrow companies, title companies, attorneys and CPAs know nothing about how a note will be discounted (i.e. what it takes to create a good note) unless they regularly buy and sell notes in the secondary trust deed market. It’s changing every day just like everything else.**

Example #2 – a transaction that is ripping apart can be stitched together by the creation and subsequent sale of a first deed of trust

Just before escrow was closing, the loan fell apart. At very minimum, the sellers wanted to pay off an existing mortgage of \$484,000, and needed an additional \$200,000 to pay closing costs and meet other financial objectives. They needed at least \$684,000 cash at closing, and the buyer only had \$405,000.

Instead of letting the transaction fall apart, the brokers brought in a note professional to construct a solid seller financing transaction that would meet the needs of all concerned.

Selling price:	\$1,500,000
Down payment (27%):	\$405,000
Balance due sellers:	\$1,095,000

Knowing the secondary market for commercial paper, the note pros knew that the sellers would take a huge discount selling an unseasoned 73% LTV first. They knew the sellers would take a smaller discount (saving them thousands) selling a small 26% LTV first, so it was structured this way:

First note and deed to sellers:	\$385,000
Second note and deed to sellers:	\$710,000
Total seller carry back amount:	\$1,095,000

First note and deed to sellers:	\$385,000
Interest rate:	8%
Term:	120
Monthly payment:	\$4,671.11

Second note and deed:	\$710,000
Interest rate:	10%
Term:	240
Monthly payment:	\$6,851.65

The sellers had to temporarily bring in enough to cover escrow and title, and the extra \$79,000 to pay off the underlying mortgage, but the Realtors agreed to wait for their commissions to make the deal work.

After escrow closed and the sellers had received their first monthly payment, a commercial note buyer came in and purchased the entire note. Note buyer makes a 15.89% return giving the seller **\$279,000** for that \$385,000 note.

As you recall, the sellers needed a minimum of \$684,000 at closing. They got \$405,000 from the buyer and \$279,000 from the note investor = \$684,000. They were also receiving a nice monthly payment of \$6,851.65 on the 2nd deed of trust.

Sellers got to sell, buyer got to buy, and brokers received their commissions!

Example #3 – a seller uses seller carry back techniques to get top dollar, and still retains the right to exchange for complete deferral of capital gains (for commercial and high end residential properties)

A small insurance brokerage had been owner occupying 4,000 sqft of commercial space when they realized that they needed to reduce their overhead and move into a smaller building. Under normal circumstances, the property would have been worth about \$1,350,000, and they owed \$263,000. The only offer on the table was \$1,000,000 cash.

The timing was not good for getting top dollar. When it was suggested to the sellers that, even in the current business and lending climate, they could maximize price by offering terms, they were ready to listen.

But they ultimately wanted to exchange into another property to avoid capital gains. If they used a traditional installment sale, they would have some tax liability and lose their ability to use the 1031. The sellers wanted both:

**The benefits of Seller Financing
(higher price, quick closing)**

AND

**The benefits of a 1031 Exchange
(complete deferral of capital gains)**

THE SOLUTION: Equity Holding Trust Transfer System

This land trust system is a real estate assisted partnership. Here's how it worked:

Top dollar (mutually agreed value) by advertising 'Owner Will Carry'	\$1,325,000
Down payment (buyer's/resident beneficiary's contribution) 30%	\$397,500
Buyer's/resident beneficiary's monthly triple net lease payment to trust	\$8,851.88

The buyer's initial contribution paid off the underlying financing and all 'closing' costs. The triple net lease payment paid by the buyer (resident beneficiary) each month is equivalent to the payments that would be received on a \$927,500 note at 7.5% amortized over 240 (plus taxes and insurance).

This is technically not a transfer. There are no capital gains; there is no reassessment of property taxes. The trust is set to terminate in 2 years, at which time, ostensibly, the market will be more favorable for loans or resale to a 3rd party.

In 2 years when the trust terminates, and the official transfer takes place, the original seller will be able to exchange their beneficial interest in the trust for another 'like kind' property, getting all the benefits of a 1031 exchange.

Knowledge is power and puts money in your pocket. And sometimes, it's not just about WHAT you know, but WHO you know. Now you know us.

We are your local Seller Financing specialists

We have the ability to help you:

- **Close more real estate transactions today**, regardless of market conditions, through the use of the right seller financing strategy for your client
- **Protect your clients far into the future** when they go to sell their real estate note in the secondary market. How will they feel when they find out you didn't structure the transaction and paperwork properly, and they're taking a huge discount on their note?

Help them sell now, and save them thousands down the road by working with note professionals and seller financing specialists *before* you close the deal.

Isn't it time to give your office the competitive edge?

Invite us in for a short presentation at your next meeting.

Dawn Rickabaugh, Broker
The Note Queen
dawn@notequeen.com
Cell: 626.641.3931



Bio

Dawn Rickabaugh is a CA Real Estate Broker specializing in legal and ethical creative financing. She regularly puts and keeps real estate transactions together using proven seller financing strategies. She also buys and brokers notes secured by real estate, and is therefore poised to help sellers and their agents understand how to carry paper safely. She loves teaching intelligent use of the Installment Sale and the Jumbo Solution/Land Trust Transfer for maximum benefits, including deferring capital gains.

Dawn originally graduated from Brigham Young University in 1987 with a Bachelor of Science in Nursing, and worked for several years in the ICU and ER at Huntington Memorial Hospital. She now pursues her passion for helping people through traditional and innovative real estate transactions. She has four amazing teenagers, and loves her life in Temple City.

