

Seller/Owner Financing Terms

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When considering owner/seller financing as either a buyer or seller it is important to consider the terms and to make sure that there is a true understanding of the all of the material terms so that there is no dispute between the parties at a later date. A brief checklist of basic terms to consider would include:

1. What is the amount of the loan?
2. Is the loan to be secured?
3. Is the lender going to charge any “points”?
4. Does the borrower need to keep the property insured?
5. How much insurance coverage is required?
6. What is the maximum deductible the lender will allow on the insurance policy?
7. Is the lender to be listed on the insurance policy? This answer is yes! How should the Mortgagee Clause read?
8. What is the term of the loan (months, years)?
9. How often are payments made (weekly, monthly, quarterly, semi-annually, annually)?
10. Is the loan amortized, single payment, demand, interest only or some combination?
11. If amortized, over what term (time period)?
12. Is there a balloon payment?
13. What is the interest rate?
14. Does the rate change (if so when and how)?
15. Is the loan assumable without permission of the seller (if so, what terms - i.e. is there a “due on sale clause”)?
16. Can the loan be prepaid without a penalty (if not can it be prepaid at all or with a penalty)?
17. When is the first payment (date or number of days after closing or the first day of the second month following closing which is standard)?
18. Is interest paid in advance or in arrears (arrears is normal)?
19. Is there a penalty for late payments?
20. When does the late charge accrue?
21. What is the amount of the late charge (flat amount or percentage)?
22. Where are payments to be made (address of lender)?
23. Is there going to be an escrow account (if so is it for taxes, insurance, other)?

24.If there is an escrow account, who will service the loan (trustfci.com, investorloanservices.com. etc.)?

25.Other terms?

When you have these answers, you are ready to have the paperwork drawn up by your attorney to secure the agreement between the parties. The key to any successful transaction is to make sure all parties understand and consent to the terms. Getting it straight on the front end, will eliminate misunderstandings later and save all parties time, trouble and mental anguish.