Smart Money

Current Mortgage Crisis Creates Opportunities

By Russ Dalbey

(NAPSA)—In the financial world, problems often carry the seeds of opportunity. For example, concerns about the ability of subprime borrowers to repay their mortgages are having a significant impact on our economy, negatively affecting not only the mortgage industry, but the overall stock market as well.

The potential glut of foreclosed homes threatens to further lower housing values and put an additional burden on borrowers with less-than-perfect credit, who may find it even more difficult to secure home financing.

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One solution is a private mortgage, also called a cash flow, seller-financed note.

Once common, this financing option is making a comeback. The idea is a simple one. Since traditional financing may not be an option for some homebuyers, the entire transaction takes place between the buyer and the seller, leaving the balance of the sale due over a period of time.

Let's say I've identified a buyer for my home. Just a few months ago, this buyer would have easily qualified for a subprime mortgage. Now, because of the large number of defaults, my buyer can't qualify. While I could simply leave my house on the market and wait for another buyer, I can also consider private financing.

It works like this. Rather than simply accepting a lump-sum check from a bank or mortgage company, I agree to carry a loan for the buyer. Typically, the buyer will be required to come up with a down payment—just as in a traditional mortgage—but I get the down payment and the subsequent payments with interest.

A typical contract might look like this: I want to sell my home for $150,000 and I have an interested buyer. The buyer is able to put down 20 percent—or $30,000—leaving a balance of $120,000. We agree to terms of 9 percent (remember, this person's credit is damaged, so he or she will not qualify for the best rates) for 30 years, and I begin receiving payments of $965.55 each month. If I keep the loan for 30 years, I'll receive nearly $1,000 each month and a total of more than $227,000 in interest over the life of the loan.

People often worry about what might happen if the person they sell their home to stops making payments. While this is not the best scenario, it can be profitable. For example, if the lender makes 24 payments and defaults, you've received a down payment of $30,000 and payments totaling just over $23,000—and you have your house back. Perhaps it's even appreciated in the last two years, so now you can sell it for $155,000 and begin the entire process again, but you've already made more than $50,000.

Finally, if you find you need your cash earlier than waiting for the loan to come full term, there is a large and growing market among investors who are actively purchasing these types of seller-financed notes.

For more information, visit www.dalbeyeducation.com.

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