

## SELLER CARRYBACK LOAN ADVISORY

A seller carryback loan is a loan by the seller to the buyer to acquire the seller's property. Rarely will a seller carryback loan be for the full purchase price of the property. Usually the seller offers to carry a loan for the difference between the agreed purchase price and the amount of the loan for which the buyer can qualify with the main lender.

Seller carryback loans must be memorialized in a written contract with a promissory note and a trust deed, drawn up by knowledgeable experts or attorneys. The documents should stipulate all of the terms of the seller carryback, such as interest rates, payback terms, penalties and default risk, just as with any other loan.

The primary risk of a seller carryback loan is a default by the buyer. In most cases, the buyer borrower is unable to borrow from traditional sources because of high credit risk. The seller's risk is high because if the buyer defaults, the first mortgage will be paid off in a foreclosure. Carryback loans, if they go behind a traditional purchase mortgage are paid off only when the lender in first secured position has recouped its costs. Very often the seller in a carryback loan does not have the money to cure the buyer's secured loan in first position on the sale.

Late payments are the most common problem with carryback loans. In a seller carryback, the buyer has two mortgage payments to make. The buyer must pay the first mortgage and the seller carryback loan. Late payments can lead to default. Along the way, the seller with a carryback loan is forced to get the borrower current, which again, costs time and trouble and if not, then the seller could lose his or her secured loan on the property.

Seller carryback loans take second position to the traditional first mortgage on a home. If the buyer goes into default and the home is foreclosed upon, any proceeds of sale go to the mortgage holder first. If the sale only covers the mortgage, the seller does not get his or her money back from the carryback loan. Before a seller agrees to a seller carryback loan to a buyer, he or she should consult with an attorney as to the dangers of such a loan.

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Dated: \_\_\_\_\_

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Seller (s)

Dated: \_\_\_\_\_

\_\_\_\_\_  
Buyer (s)