What are My Buyer's Mortgage Options?

It's likely that your buyer's ability to purchase your home will be dependent on financing – and in a tightened lending market, this can cause some problems.

Welcome to owner financing, an alternative that was popular a few decades ago and has now come back into vogue. In the 1980s, this became a hotter trend with skyrocketing interest rates pressuring buyers to find other options.

Today owner financing – also known as seller financing – resembles other traditional third-party options, with buyers signing a promissory note and arranging installment payments with the seller. Those payments also include principal and interest.

There are five seller options from which to choose:

- Free and Clear: There are no liens and is the simplest option.

- Lease with Option to Buy, or Rent to Own: This gives the borrower equity without as much commitment. At the end of the lease term, he or she can pay off the balance through a refinance and purchase the home.

- The Second Lien Position: This is a risky one for the seller, who will carry a second mortgage lien, resulting in the buyer making dual mortgage payments monthly: one to the bank and one to the seller. Sellers must trust that buyers have sufficient funds to pull this off.

- Wrap-Around Mortgage: For those hesitant to take the risks of the Second Lien, a Wrap-Around Mortgage is another alternative that providers sellers a good rate of return.

- Installment Land Contract: The riskiest of the five options, this offers the seller the chance to keep titled interest while the buyer gets only equitable interest, with ownership not changing hands until the last payment has been received.

Talk to your agent to see if any of these options are right for you and your buyer.