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TITLE GUARANTY
A Legacy Built on Promises Delivered

Purchase Money Mortgage vs. Agreement of Sale

What is a **Purchase Money Mortgage** (PMM)?

It is any loan that secures the proceeds used to finance the purchase of property. The term is generally used to represent a mortgage taken by a seller of property to secure later payment to him of the unpaid portion of the purchase price, also called **Seller Financing** or **Owner Financing**. It is frequently used as a home-financing technique in which Buyer borrows from Seller instead of, or in addition to, a bank. A PMM can be either a single-financed debt, or it can be used to fill a gap between Buyer's down-payment and the new first mortgage, if the first mortgagee allows secondary financing.

ADVANTAGES For Seller

- Seller will receive a higher rate of return on interest compared to putting the sales proceeds in a savings account.
- Since Buyer will be paying Seller principal and interest, Seller will have a very healthy cash flow.

ADVANTAGES For Buyer

- May be less expensive for Buyer than going to bank for a loan.
- Good alternative if Buyer is unable to qualify for a mortgage from a financial institution.
- Buyer, as the new owner, holds legal title to the property.

RISKS For Seller

Process to clear title will be time consuming and costly if Buyer defaults. Seller would need to retain a real estate attorney to protect his interests via a foreclosure or non-judicial foreclosure action.

What is an **Agreement of Sale**?

It is a contract of sale between Seller (vendor) and Buyer (vendee) for the purchase of real property. The purchase price may be paid in installments by either principal and interest or interest only, with the balance due at maturity. Buyer is given possession and equitable title to the property, while Seller retains legal title. Seller is obligated to deliver good legal title to Buyer when Buyer completes the required payments.

ADVANTAGES For Seller

- If Seller does not immediately need funds for other purposes, Seller will receive higher rate of return on interest, compared to a savings account.
- Installment sale enables Seller to defer payment of a large capital gains tax.

ADVANTAGES For Buyer

- May allow Buyer to purchase at fairly reasonable financial terms and to benefit from property value appreciation.
- Good alternative if Buyer is unable to qualify for a mortgage from a financial institution.

RISKS For Seller

- The Agreement of Sale is a contract and all contracts are subject to different interpretations. There is a possible risk of dispute and litigation.
- If Seller needs immediate payment, Seller has no choice but to wait until the term of contract ends.
- If Buyer defaults, it may be costly to clear title if a cancellation agreement is required and Buyer cannot be located or refuses to sign.

RISKS For Buyer

- There may be problems with Seller's performance after the contract period if Seller cannot be located, dies or files for bankruptcy.
- Buyer does not hold legal title to the property, only an equitable interest.
- Buyer may be restricted from assigning its interest under the Agreement of Sale.
- Seller may default on existing mortgages and may go into foreclosure.

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March 2012