

The New York Times

Seller as Lender

By Bob Tedeschi

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	Week ended:	N.Y.	N.Y. CO-OPS	N.J.	CONN.
30-YEAR	March 19	5.33%	5.18%	5.28%	5.24%
	March 12	5.35	5.25	5.30	5.20
15-YEAR	March 19	4.74%	4.59%	4.65%	4.59%
	March 12	4.78	4.63	4.66	4.59
ADJUSTABLE	March 19	4.62%	N.A.	4.10%	3.56%
	March 12	4.63	N.A.	3.92	3.84
INDEX FOR ADJUSTABLE RATE MORTGAGES		Week ended March 19 0.41%			
1-year Treasury rate		March 12 0.39			

Rates shown are for the New York region.

Source: HSH Associates

Rates on most adjustable mortgages are set 2 or 3 percentage points above this index.

FOR most home sellers, their ties to a property end at the closing. But for a few others the attachment can continue on for years, because they also assume the role of banker.

Seller financing, in which an owner offers a buyer a mortgage, was almost unheard of over the last decade, when money was cheap and lenders vied aggressively for borrowers with myriad mortgage products. But as lending conditions have since tightened drastically and the housing market has softened, seller financing is emerging as an option for both parties.

The terms for these transactions may be different from what borrowers would find through conventional lenders, but real estate experts say they are otherwise straightforward. An owner typically agrees to transfer title to the home in exchange for a note and a security interest in the property. The note is paid off like a conventional mortgage, though to the seller instead of a bank. Closing costs may be slightly lower: there's no need for an appraisal, for instance, because the seller already knows a property's value.

Walter Molony, a spokesman for the National Association of Realtors, said seller financing was common in the early '80s, when rates on the 30-year fixed mortgage rate topped 16 percent "and conventional financing ground to a virtual standstill."

"After interest rates gradually declined it became less important," Mr. Molony said. "But today it remains an important tool in higher-cost markets."

Elise M. Barry, the chief executive of the Manhattan Association of Realtors and the Manhattan MLS Inc., says condominium developers, in particular, will sometimes offer financing to help sell the last units in a project.

Also, prospective buyers typically cannot qualify for traditional financing unless 70 percent of the building is sold, if it's a new development, according to Fannie Mae and Freddie Mac, the government-sponsored companies that set the underwriting rules for most mortgages. In some cases, Fannie Mae will waive that requirement, even with as few as half the units sold.

Albert Laboz, a principal of United American Land, a family-owned developer based in Manhattan, said that earlier this month he had begun offering five-year mortgages at 5.99 percent to buyers at **SoHo Mews, a 68-unit development on West Broadway and Wooster Street.**

Mr. Laboz said his building's units — mostly two-bedrooms listed for about \$2 million — sold slowly last year. The units that did sell, he said, were all-cash transactions.

"Since we were under 50 percent sold, nobody could qualify for Fannie Mae or Freddie Mac financing," he said. "And nobody else, really, was financing."

At that point, Mr. Laboz said, his company sought the approval of its construction lender to offer loans to buyers who made down payments of at least 35 percent.

The 5.99 percent interest rate is competitive with those of so-called jumbo mortgages, defined as being above \$729,750 in Manhattan. But Mr. Laboz conceded that the loan terms would discourage some borrowers: they would have to refinance the loan or pay it off fully within five years. But he said the loans were meant for those who could not obtain financing elsewhere.

One buyer has qualified for this financing, he said, though the market has improved since his company started the financing program, and now more than half of the building is sold.

Mr. Laboz said he would still offer the loans, partly because the Fannie and Freddie mortgage limit of \$729,750 may not be enough for prospective buyers.

Neil Garfinkel, a real estate lawyer in Manhattan, said more affluent borrowers like those buying at SoHo Mews might be more likely to refinance out of a five-year mortgage than someone buying at the lower end of the market with less room for error. "If you're borrowing \$200,000 and you're having trouble finding a loan today," he said, "who knows where you'll be five years from now?"