

# Bayberry Development Group LLC

## *Finance For Hou\$e\$* program from Bayberry Development Group

### Frequently Asked Questions - Buying a house with owner financing

#### **Is there a qualification/approval process?**

Although we don't impose the many restrictions and hurdles that banks and conventional lenders will impose when qualifying a borrower for a home mortgage, we do indeed have a qualification process. Whereas banks are very concerned with a borrower's credit score and credit history, we are mostly focused on making sure that our borrowers have the income and the ability to make the loan payments. Our qualification criteria include:

- Borrower's monthly income must be a minimum of 3 times the amount of the loan payment
- Borrower's income must be verifiable using copies of wage statements (W2, 12 months of pay stubs or 2 years of federal income tax returns)
- Borrower's identity must be verified using driver's license or other government-supplied identification
- Borrower's employment status must be verifiable using employer contact
- Borrower's tenancy history (if a renter) must be verifiable using previous landlord(s) contact
- Borrower must have a cash down payment (preferably \$10,000, but no less than 5% of the purchase price)
- Borrower must have an active checking account for loan payments

Since we don't discriminate based on race, gender, age, national origin or religion, this set of criteria is applied to every application for financing.

#### **Will there be a closing?**

Although we will not require a formal closing meeting including the buyer, seller, bank lender, closing attorney, there will be a set of closing documents that will be executed and filed with the county records office. The closing documents will include:

- Settlement statement - documenting the transaction's flow of funds
- Promissory note - documenting the terms and conditions of the financing
- Contract for Deed - documenting the mortgage and the remedies for non-performance of the loan

Occasionally, the transaction may require other documents to be a part of the closing, but these are the main 3 documents.

#### **How and when will I be making my payments?**

Your first loan payment will be made by certified check at the time of closing. Once we close the loan, we will engage our loan servicing vendor to administer your loan. A one-time \$50 set-up fee will be charged to you at that time. You will provide this loan servicing company with the authorization and access codes to draft your checking account on the first of each month for the payments. You will receive a monthly receipt and year-end reports and tax documents.

#### **Is there a late payments fee?**

Since all loan payments are made automatically through your checking account, all of your payments will be on-time. Of course that will create a squeaky-clean payment history for you, which will significantly strengthen your credit score. Because your payments will always be on time, there is no need for us to impose a late fee. However, you must be sure that the balance in your checking account is enough for the payments. If the loan servicing company cannot collect due to insufficient funds in your account, you will be charged whatever fee is assessed by your bank, in addition to a penalty fee from us. It will therefore be quite costly to you if you allow that situation to occur

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### **When do I get the deed?**

The deed for the house is actually held in a land trust in which you will be named as a beneficiary. When the final loan payment is made, or when the loan is paid off, the trust will issue the deed, and then the trust will be dissolved. This is much like a typical bank loan, in which the bank holds the title until the obligation is satisfied.

### **What happens if I default on the loan?**

As indicated above, you are named as the beneficial interest of the trust that holds the property title. If you default on the loan, you are removed as beneficial interest and will have to leave the house immediately. Of course, this event will be reported to the credit agencies and that will have the same damaging impact on your credit worthiness as a foreclosure would.

### **Are my interest payments tax deductible?**

Your mortgage interest payments are absolutely deductible on your annual income tax return. As indicated above, our loan servicing vendor will provide you with the necessary tax filing documents.

### **Will you be reporting my payment performance to the credit bureaus?**

Just like any lender, we will be reporting your payment performance. This is where the automatic payments process becomes an advantage to you. Your payment record will be perfect and your credit rating will be positively impacted.

### **What about property tax and homeowner's insurance?**

You will be responsible for making your property tax and insurance payments in addition to your principal and interest payments. Typically, we will establish an escrow for those payments at closing time. Then the loan servicing company will make those payments (to the county and to the insurer) on your behalf.

### **When can I refinance this loan?**

After making 1 year of payments on your loan, you can refinance whenever you choose and your creditworthiness allows. It is highly likely that when your credit score improves, you'll be able to obtain conventional bank financing at lower rates than on your loan with us. We will even assist you with credit repair if you choose.

### **Will you ever sell my mortgage to another company?**

As you know, mortgages are purchased and sold in the secondary market every day. Just about everyone who has a mortgage on their home has experienced their lender selling their mortgage to another lender. Our business is also quite active in the discount mortgage market, as both a buyer and a seller. There is the chance that at some point during the term of our loan with you, that we will sell the loan to another lender or investor. It will have no effect on you at all, other than having to send your payment to a different company. Whoever we may sell the loan to is compelled to honor the terms of our loan. Nothing really changes for you.

### **What happens when I sell the house?**

Just as you are free to refinance at any time after the first year, the same goes for selling the house. There is nothing about your loan or the mortgage contract that secures it that prevents you from selling the house at any time. If you sell your house to a cash buyer, our loan will get paid out of your proceeds at closing. If, on the other hand, you sell your house by offering seller carry-back financing to *your* new buyer, we have the option of exercising the *Due On Sale* clause in our loan contract, requiring you to pay off the remainder of our loan. Although we may choose *not* to exercise that option, it is our right to do so.