

PURCHASE MONEY MORTGAGES (PMM)

A **Purchase Money Mortgage (PMM)** is a type of seller financing. It is a mortgage loan from a seller to a buyer for the purchase of real estate. PMMs are common situations in which the buyer cannot qualify for a conventional mortgage from an institutional lender, and the seller agrees to take back a part of the selling price in the form of a purchase money mortgage. PMMs are ordinarily subordinated to take a second-lien position since the primary lender will require a first lien position before making the loan. For the buyer, this means less cash and possibly an interest rate on the PMM that is less than if those same dollars were borrowed from a primary lender. The seller can possibly induce a sale not otherwise possible by agreeing to take back a purchase money mortgage. The seller is protected in that a PMM places a recorded lien on the property the same way as any other mortgage.

What is a Purchase Money Mortgage?

- Technically, any mortgage on real property to secure the purchase money from the buyer is considered to be a Purchase Money Mortgage
- In Hawaii, a PMM is generally referred to as a type of seller financed loan to a buyer
- Can be either a single-financed debt, or it can be used to fill a gap between the buyers down payment and the first new mortgage

Advantages for the Seller

- In a financing stressed market, seller financing may be more attractive to a buyer
- The sale usually closes quicker
- You may be able to defer income tax liability
- Interest rates provide a great yearly return

Advantages for the Buyer

- You might be able to buy a property you don't qualify for with conventional financing
- Closing costs are usually lower
- The down payment required is usually smaller
- Flexible payment terms may be available
- Unlike an Agreement of Sale, you obtain legal title to the property

If you don't currently qualify for a conventional mortgage, you might consider a Purchase Money Mortgage. It can help a seller realize a high rate of return, and make it easier for a buyer to obtain financing. As with all contracts, it is strongly recommended you consult with a Hawaii-licensed attorney and/or tax professional.

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