

Pitching a VTB – Know Your Facts Worksheet

What are the benefits of a VTB?

To the Seller	To the Buyer

How many years can the seller defer their capital gain?

If the property is owner occupied, is the deferral of the Capital Gains helpful?

Will you ask for Interest ONLY or a use an amortization table to include Principle Recapture?

Using <https://www.calculator.net/amortization-calculator.html> calculate how much interest your seller will earn and how much Principle you will earn.

If your offer is Interest ONLY, show your math and calculate the interest the seller will earn.

VTB Benefits to the Seller

- It can make a distressed and hard to sell property become more desirable to more buyers.
- In exchange for offering a VTB the seller normally gets asking price or very close to asking price. Traditionally you can't low ball an offer then ask for a VTB, the seller will be more open to do a VTB if they are getting their asking price.
- The seller can defer capital gains tax because they will not realize 100% of the property value at the time of the sale. This is a significant value-add to the seller. Always consult with an accountant for tax guidance.
- The seller can continue realizing cash flow from the property after it is sold through the mortgage payments paid by the buyer.
- The interest that they will get by participating in a vendor take-back mortgage is several points higher than what they would receive by investing that money in a registered fund and it is completely passive.
- The seller may be able to close on the property sooner if they offer full financing because they do not have to wait for a lender to complete an appraisal and approve financing (does not apply if they are only financing part of the purchase).

Benefits to the Buyer

- The buyer can purchase a property they cannot normally qualify for and/or with a lower down payment. It is important to note that 100% financing is not impossible, but it is rare. Most sellers will want at least a 10% down payment from the buyer, it provides some reassurance.
- The buyer can make mortgage payments for less interest than they would pay a private lender (traditionally slightly higher than bank lending, but less than a private mortgage).
- The buyer can save on costs associated with purchasing a property (i.e. property appraisal, land survey, lender fees).
- The buyer does not have to pay CMHC fees for paying less than 20% down.
- The VTB financing does not appear on the buyer's credit score.

Possible Limitations & Things to Consider

- Some realtors may not be familiar with VTB financing and will not understand its benefits or want to consider adding it into an offer. Working with an investor-savvy realtor who understands the VTB process will ensure it is presented to the seller properly.
- This strategy may not work with sellers who are not investors and who are selling their primary residence. These sellers typically will need the equity from the sale to purchase their next property.

- They buyer is normally responsible for paying the legal fees for both the buyer and seller to write up the VTB contract. However, when reviewing the contract, if the seller wants to seek Independent Legal Advice (ILA) they would typically pay this smaller legal fee.
- If you are combining a VTB with a traditional mortgage the bank will hold 1st mortgage position and the VTB will take 2nd mortgage position. You must disclose the VTB to your lender, otherwise you may jeopardize your ability to get financing.
 - Not all lenders will give a mortgage with a VTB – check with your bank or mortgage broker to ensure the deal can be completed with a VTB in place
 - Not all sellers will want to be in 2nd position because it puts them in a position of higher risk, especially if the loan-to-value is high.
- If the buyer defaults, the seller may have to reassume the property and the 1st mortgage (if applicable). It is important for the seller to demonstrate their ability to pay all monthly carrying costs on the property
- If the seller passes away the buyer may be obligated to pay out the VTB earlier than anticipated in a lump sum to settle the estate.

The Process

- Ensure your realtor and lawyer are familiar with the VTB process.
- An experienced realtor should be able to assist you with the proper wording for the VTB clause and you can also consult your lawyer.
- Know your numbers, ensure that you confident with your calculations. If you are combining a VTB with a traditional mortgage you will be responsible for 2 monthly mortgage payments.

Q&A

Do Lenders Allow Vendor Take Backs?

Not all lenders allow a VTB. Your mortgage broker will be able to assist you in placing your deal with the right lenders that support this strategy.

If you are planning on using a VTB strategy to purchase, it is important to disclose this information to your broker.

What are the Rate and Terms of a Vendor Take Back?

The rate and terms on the VTB are negotiable. In most cases however, the seller will charge you an interest rate higher than what you would typically get through your bank. The terms on a VTB can vary from interest only payments with one balloon payment at the end of the term or interest and principal payments.

Why Would the Seller Agree to Such Arrangement?

The advantages of a VTB are to the seller include:

1. Monthly Cash Flow. A VTB provides the seller with monthly cash flow after the property sells. Some sellers are likely to charge higher than market interest rates on their loans, enhancing their overall returns and ongoing cash flow
2. Obtaining a higher price for their property. A seller who is providing a VTB at attractive terms, can demand a higher price for their property
3. Deferring taxes. Instead of getting taxed on the full capital gains from selling his/her investment property, the seller can defer the taxes payable on some of those capital gains over a period of 5 years by arranging a VTB mortgage.
4. Avoiding pre-payment penalties on existing locked-in loans. If the property has a locked-in loan, the seller can sell without having to negotiate with the lender for a higher loan amount or permission to assign or repay the loan, saving the seller time and money
5. Selling in a slow market. Offering a VTB in a slower market offers an extra incentive to buyers. It also helps the seller successfully market a hard to sell property

What are the risks of a VTB?

Do your due diligence. Despite all the advantages, a VTB mortgage should be entered into with caution. It is complicated and you should always consult with a real estate lawyer to review all documentation and for due diligence. From a seller's point of view, he/she is dealing with the risk of default. From a buyer's point of view, he may find himself having to pay off the VTB mortgage in a lump sum if the seller dies, goes bankrupt or needs to liquidate his estate.

Helpful Resources to Read:

https://www.investopedia.com/terms/v/vendor_take_back.asp

<http://www.whichmortgage.ca/article/the-return-of-the-vendor-takeback-mortgage-221647.aspx>

<http://www.canadianrealestatemagazine.ca/news/ins-and-outs-of-vendor-takebacks-184019.aspx>