Seller Financing Reference Guide

What is a VTB?

A Vendor Take Back mortgage is when the seller acts as the lender, financing part of the purchase price. Instead of receiving all cash up front, the seller accepts a mortgage note and the buyer makes payments over time.

Best Practices for Buyers

- **Make it a win-win** – Show the seller how a VTB benefits them (steady income, tax deferral, faster sale).
- **Keep it simple** – Use clear terms (interest rate, amortization, term, repayment).
- **Align with first mortgage** – Ensure bank financing allows a VTB in second position.
- **Get it in writing** – Always use a lawyer to draft and register the VTB agreement.
- **Plan your exit** – Be ready to refinance or pay off the VTB when the term ends.

Best Practices for Sellers

- **Assess buyer strength** – Confirm the buyer's ability to make payments.
- **Secure your interest** – Register the mortgage on title, just like a bank would.
- **Price fairly** – Balance between getting a strong purchase price and financing terms that work.
- **Tax planning** – Consider benefits of deferring capital gains by spreading proceeds over time.
- **Set clear terms** – Rate, repayment schedule, and remedies if payments are missed.

Key Considerations

- **Interest Rate:** Competitive but attractive to the seller (often 4–8%).
- **Term Length:** Commonly 1–5 years, often with balloon payment at end.
- **Position:** Usually a **second mortgage** behind the bank's first.
- **Down Payment:** Buyers should still contribute (shows commitment).
- **Flexibility:** Terms can be creative—interest-only, deferred payments, blended structures.

Risks to Watch

- Appraisal may not support financing structure.
- Lender restrictions on secondary financing.
- Buyer default—seller must be prepared to enforce mortgage.
- Over-leverage if terms are too aggressive.

Bottom Line:

A well-structured VTB can unlock deals for buyers and provide steady income for sellers. Success depends on **clear terms, professional documentation, and a win-win mindset.**