

The Simultaneous Close

The Simultaneous Close, often referred to as “SIMO”, is quite a useful tool in certain situations. This is used most often when the buyer of a property is unable to obtain traditional financing from an institutional lender. In a SIMO, the Seller agrees to carry paper to facilitate the sale of his property. After the sale, within hours or sometimes up to a few days, an investor of seller financing purchases the note. This is usually prearranged and always at a discount. The SIMO allows the seller to sell his property by using seller financing and still receive cash at or near closing.

The amount of the discount is based on several aspects of the note and the deal itself. The structure of the note and sale for maximum value is very similar to the structure for regular, non-SIMO notes (see article, [“What Makes Good Paper?”](#) for further detail). However, a few aspects that deserve particular attention are the credit of the buyer and the amount of equity.

Credit of the Buyer

The credit situation of the buyer is important, just as it is with traditional lenders. The credit score will certainly affect the maximum Investment To Value (ITV) and yield requirements of the SIMO investor (see article, [“Investor Requirements”](#) for further detail). Along with the credit scores, a documentable income and favorable debt to income ratio will help to strengthen the buyer’s credit. The down payment amount can also help the buyer’s situation, and is directly related to equity.

Amount of Equity

Equity is very important for SIMO deals, partly because there is no seasoning at all on these notes. Less equity will cause a steeper discount, as the investor will be following maximum ITV requirements. The obvious way to create more equity is to get a larger down payment, but that is not always possible. Another way would be for the property seller to carry a small, second-position note at the sale, creating instant equity. The terms of the second-position note do not matter at all, as the investor will be concerned with only the first-position note. Let’s see how using a small second-position note will help reduce the discount. In this example, we will assume a maximum ITV of 85% and ignore yield requirements.

Assumption: Max ITV of 85%

Deal 1: One lien

<u>Sale Price</u>	<u>Down Payment</u>	<u>Note</u>	<u>Offer</u>	<u>Discount</u>
\$150,000	\$8,000	\$142,000	\$127,500	\$14,500

Deal 2: Seller carries small second of \$10,000

<u>Sale Price</u>	<u>Down Payment</u>	<u>Note</u>	<u>Offer</u>	<u>Discount</u>
\$150,000	\$8,000	\$132,000	\$127,500	\$4,500

The end offer is the same, but the seller is now collecting monthly payments along with the cash at closing. The discount is significantly reduced due to the increase in equity created by the second-position note.

Another issue concerning equity is the amount of equity in the property *before* the sale. If underlying liens exist, all must be paid in full with the proceeds from the note sale. This will be done via escrow instructions at the time of sale. If the proceeds of the note sale do not surpass the amount of underlying debt, the property seller will have to provide the extra capital to satisfy the underlying debt at the time of closing.

Many people do not realize that they can use seller financing to sell their property and still receive cash at closing. The Simultaneous Close can get the job done when the buyer cannot or does not want to use traditional financing. This is a great tool for Real Estate investors to have in their “toolbox”.

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