



Leading Tennessee Home

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THDA STIMULUS SECOND MORTGAGE PROGRAM REPORT

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Stimulus Loan Program Overview

In recent federal economic stimulus efforts, incentives to purchase homes through tax credits were provided to first time homebuyers. The Housing and Economic Recovery Act (HERA) of 2008 established a federal tax credit for first-time homebuyers up to \$7,500. The American Recovery and Reinvestment Act (ARRA) of 2009 expanded the first-time homebuyer tax credit by increasing the credit amount to 10 percent of the home purchase price, up to \$8,000 for purchases made before December 1, 2009. With a legislative change in July 2010, the loan closing deadline was extended from December 1, 2009 to September 30, 2010.

In April 2009, THDA implemented the Stimulus Second Mortgage Program to monetize the federal ARRA home buyer tax credit. THDA borrowers could receive the federal ARRA homebuyer tax credit through traditional ways of filing with the IRS regardless of participation in the THDA Stimulus Second Mortgage Program. However, the Stimulus Second Mortgage Program provided the potential home buyers with upfront cash for down payment and closing costs. Even though the federal tax credit was expanded to include the current homeowners, the THDA's Stimulus Second Mortgage Program was only for the first time homebuyers.

The Stimulus Second Mortgage Program was only available on FHA loans and for the borrowers in the Great Rate and the Great Advantage Programs. The maximum Stimulus Second Mortgage Program loan amount was 3.5 percent of the purchase price, and the interest rate is zero percent, deferred until June 1, 2011. After the initial deferral period, the loan will fully amortize over 10 years, beginning July 1, 2011 with the interest rate of one percent above the corresponding first mortgage rate. The borrowers have the option to repay the loan earlier.

This report includes the loans funded under this program from May 2009 to November 2010. This period covers the life of the program. Even though, the Stimulus Second Mortgage Program was implemented in April 2009, the first second mortgage loan was funded in May 2009.

Below are some highlights from the Stimulus Second Mortgage Program.

- A total of 1,069 loans with Stimulus Second Mortgage Program were made.
 - Corresponding first mortgages for these loans accounted for 25 percent of all THDA loans in the same period.
- Of these Stimulus Second Mortgages
 - 765 loans were the Great Rate loans with the second mortgage, which accounted for 68 percent of all Great Rate Program mortgages made in the same period.
 - 304 loans were the Great Advantage loans with the second mortgage, which represented 79 percent of all Great Advantage Program mortgages made in the same period.
- The total value of Stimulus Second Mortgage Program loans was \$4,255,026.
 - Corresponding first mortgages for these Stimulus Second Mortgage loans were \$120,138,964.
- Of this Stimulus Second Mortgage amount
 - The Great Rate borrowers received \$3,105,756 in Stimulus Second Mortgage loans, which accounted for 73 percent of all Stimulus Second Mortgage loans made in the same period.

- The Great Advantage borrowers received \$1,149,270 Stimulus Second Mortgage loans, which accounted for 27 percent of all Stimulus Second Mortgage loans made in the same period.
- A total of 335 out of 1,069 (31 percent) Stimulus Second Mortgage loans were already paid off as of November 2010.
- Of these paid off Stimulus Second Mortgage loans, 250 (75 percent of all paid off) were associated with the Great Rate loan and 85 (25 percent) were associated with the Great Advantage loan.

Comparing the Stimulus Second Mortgage Program Loans to All THDA Loans¹

- The average Stimulus Second Mortgage Program loan amount was \$3,984. The Great Advantage Program borrowers, on average, borrowed \$3,793 worth of Stimulus Second Mortgage loans. The average stimulus Second Mortgage loan amount for the Great Rate Program borrowers was \$4,060.
- The average price of the homes purchased with a stimulus second mortgage was \$114,501, which was six percent higher than the average price of the homes purchased with other THDA mortgage programs, \$108,123, in that period.
- Only eight percent (84 loans) of the Stimulus Second Mortgage loans were for new homes, whereas 16 percent (504) of the rest of the THDA loans were for new homes.
- The average income of the borrowers in the Stimulus Second Mortgage Program was \$42,813, five percent higher than the average income of the borrowers, \$40,618, in all other programs.
- The average principal, interest, property tax and insurance (PITI) payments that the Stimulus Second Mortgage borrowers made for their first mortgages were six percent higher than the average PITI payments for all other borrowers, \$754 per month compared to \$709 per month.

A detailed breakdown of the Stimulus Second Mortgage Program loans is given in the following charts and tables. We compared the Stimulus Second Mortgage Program loans at two levels: first to the portfolio of loans excluding the Stimulus Second Mortgage Program loans and then to the portfolio including all the loans. Because the Stimulus Second Mortgage Program was available only to the Great Rate and the Great Advantage borrowers, this comparison involved the complete portfolio of: the Great Rate loans; the Great Advantage loans; and all THDA loans.

In the following charts and tables, the program “with second” means that a borrower in that program used the Stimulus Second Mortgage loan. “Without second” includes only the loans made without the Stimulus Second Mortgage in that program. “All” includes both the Stimulus Second Mortgage loans and the rest of the loans in that program. In the following sections, all differences discussed are statistically significant differences unless otherwise stated.

Charts 1, 2, and 3 show the share of the Stimulus Second Mortgage Program loans in the Great Rate and the Great Advantage Programs, as well as in the total THDA portfolio between May 2009 and November 2010, by months. In this period, 79 percent of the Great Advantage Program borrowers and 68 percent of Great Rate borrowers used the Stimulus Second Mortgage Program loans. The Stimulus Second Mortgage Program loans increased from May 2009 until December 2009. In January 2010, Stimulus Second Mortgage Program loans

¹ For this comparison, the first mortgages made with the stimulus loans are excluded from the total loan portfolio.

declined considerably. In February 2010, the Stimulus Second Mortgage Program loans started to increase again with the extension of the tax credit by Congress.

Chart 1: Great Advantage with Stimulus Second vs. Rest of Great Advantage (Number of Loans)

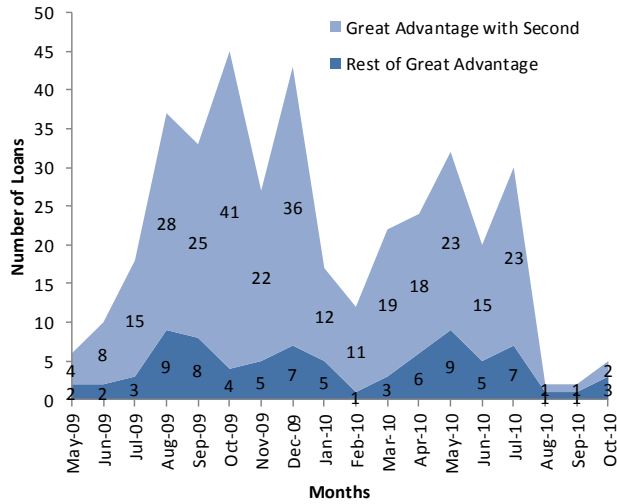


Chart 2: Great Rate with Stimulus Second vs. Rest of Great Rate (Number of Loans)

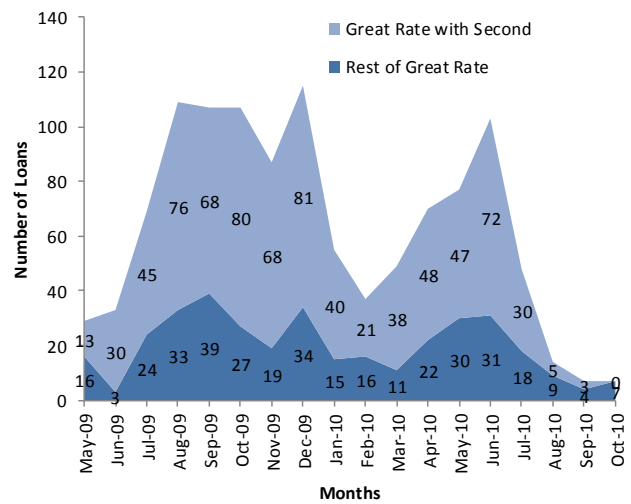
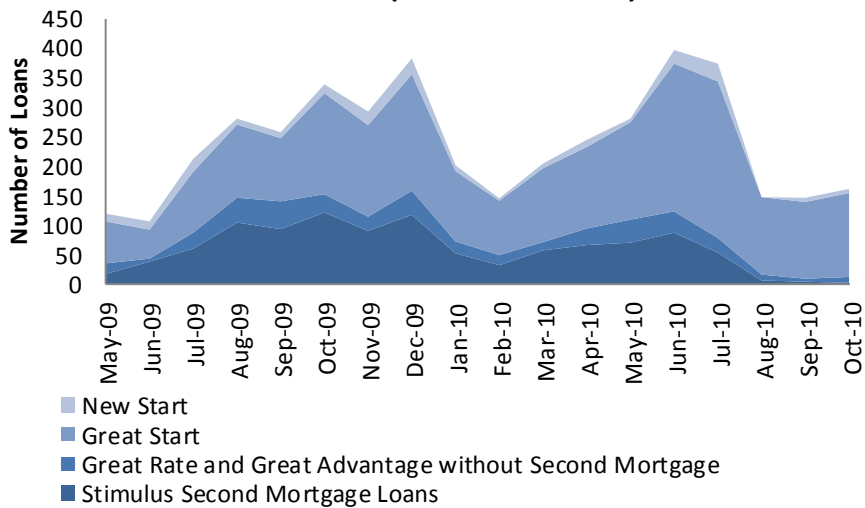


Chart3: Stimulus Second Mortgage Loans vs. Other THDA Loans (Number of Loans)



The period between May 2009 and October 2010 was a difficult and unusual time for the housing industry and may help provide insight into why customers choose different THDA loan products. The Great Rate program was not very competitive with conventional mortgages because conventional mortgage rates were declining and were often lower than the THDA's Great Rate rates. Thus, in contrast to previous years, the contribution of the Great Rate Program to the THDA portfolio declined compared to the Great Advantage and Great Start Programs. Although the Great Advantage and the Great Start Programs have slightly higher interest rates than the Great Rate Program, borrowers were attracted to these THDA mortgage products for the down payment and closing cost assistance, and not as much for the low interest rate.

However, the ability to monetize the federal first time homebuyer tax credit offered with the Stimulus Second Mortgage Program may have made THDA's Great Rate Program more appealing to eligible borrowers in comparison to a conventional mortgage with a lower interest rate but no tax credit monetization. Our data also suggest that THDA borrowers who would have typically used the Great Start Program (with its larger down payment assistance) may have opted to have the lower interest rate associated with the Great Advantage Program because the Stimulus Second helped provide the necessary closing cost assistance that would have only been available via Great Start in previous years.

The Great Rate borrowers using Stimulus Second Mortgage Program loans purchased relatively more expensive homes than the rest of the Great Rate borrowers (see tables 1 and 2). The average home price for homes that the Great Rate borrowers purchased with the Stimulus Second Mortgage Program was \$116,115, 16 percent higher than the average home price for the rest of the loans in this program, \$99,277 (see Table 2).

Table 1: Comparison of Programs by New and Existing Homes

	GR			GA			THDA		
	GR with Second	GR without Second	All GR	GA with Second	GA without Second	All GA	All THDA Second	THDA without Second	All THDA
NEW HOMES									
Average Price	\$135,562	\$116,803	\$128,578	\$136,542	\$151,255	\$142,060	\$135,854	\$125,926	\$127,344
Median Price	\$135,000	\$111,037	\$126,104	\$128,500	\$147,900	\$138,107	\$130,355	\$125,500	\$126,000
Number of Homes	59	35	94	25	15	40	84	504	588
EXISTING HOMES									
Average Price	\$114,490	\$97,378	\$109,118	\$108,003	\$117,227	\$109,768	\$112,678	\$104,818	\$106,904
Median Price	\$113,290	\$92,450	\$108,500	\$107,800	\$117,900	\$109,900	\$111,000	\$104,000	\$105,500
Number of Homes	706	323	1,029	279	66	345	984	2,716	3,700
% of Homes new	7.7%	9.8%	8.4%	8.2%	18.5%	10.4%	7.9%	15.7%	13.7%
% of Homes Existing	92.3%	90.2%	91.6%	91.8%	81.5%	89.6%	92.1%	84.3%	86.3%
ALL HOMES									
Average Price	\$116,115	\$99,277	\$110,747	\$110,350	\$123,528	\$113,123	\$114,501	\$108,123	\$109,707
Median Price	\$115,000	\$95,001	\$110,000	\$110,000	\$126,000	\$112,000	\$113,600	\$106,500	\$105,500
Number of Homes	765	358	1,123	304	81	385	1,069	3,219	4,288

Table 2: Comparison of Programs by Sales Price

SALES PRICE	GR			GA			THDA		
	GR with Second	GR without Second	All GR	GA with Second	GA without Second	All GA	All THDA Second	THDA without Second	All THDA
<i>Average Price</i>	\$116,115	\$99,277	\$110,747	\$110,350	\$123,528	\$113,123	\$114,501	\$108,123	\$109,707
<i>Median Price</i>	\$115,000	\$95,001	\$110,000	\$110,000	\$126,000	\$112,000	\$113,600	\$106,500	\$105,500
Less than \$40,000	0.0%	0.3%	0.3%	0.8%	0.3%	0.4%	0.3%	0.8%	0.7%
\$40,000-\$49,999	0.0%	2.3%	1.8%	2.2%	0.4%	1.0%	0.9%	1.2%	1.2%
\$50,000-\$59,999	2.5%	2.0%	2.1%	5.0%	1.0%	2.3%	1.3%	2.9%	2.7%
\$60,000-\$69,999	4.9%	3.6%	3.9%	9.8%	2.4%	4.7%	2.7%	6.0%	5.5%
\$70,000-\$79,999	8.6%	4.6%	5.5%	10.6%	6.9%	8.1%	6.3%	8.1%	7.9%
\$80,000-\$89,999	9.9%	14.1%	13.2%	14.0%	8.8%	10.4%	10.2%	11.5%	11.4%
\$90,000-\$99,999	2.5%	7.6%	6.5%	11.2%	12.5%	12.1%	11.1%	11.1%	10.9%
\$100,000-\$109,999	6.2%	15.1%	13.2%	10.1%	11.0%	10.7%	12.2%	10.8%	11.0%
\$110,000-\$119,99	11.1%	13.5%	13.0%	10.3%	14.0%	12.8%	13.9%	11.6%	12.1%
\$120,000-\$129,999	8.6%	14.5%	13.2%	10.3%	12.2%	11.6%	12.8%	12.3%	12.2%
\$130,000-\$139,999	12.3%	8.2%	9.1%	7.3%	10.5%	9.4%	9.8%	7.9%	8.4%
\$140 and over	33.3%	14.1%	18.2%	8.4%	20.1%	16.4%	18.4%	15.8%	16.2%

In the overall THDA portfolio, the homes purchased with the Stimulus Second Mortgage Program were six percent more expensive than the rest of the loans. This price differential may be related to the federal homebuyer tax credit the borrowers received through the Stimulus Second Mortgage Program. The borrowers may have been able to afford higher priced homes with the federal homebuyer tax credit they received than they would have without the tax credit.

However, average home prices under the Great Advantage Program do not confirm this conclusion. The average price of the homes purchased with the Stimulus Second Mortgage in the Great Advantage Program, \$110,350, was lower than the average price of the homes purchased without the stimulus second mortgage in the same program, \$123,528. The Great Advantage borrowers without the stimulus second mortgage purchased higher priced homes than the Great Rate borrowers without the stimulus second mortgage loan, \$123,528 and \$99,277, respectfully. This could be related to two percent down payment and closing cost assistance the Great Advantage borrowers receive even in the absence of the Stimulus Second Mortgage Program.

Table 3 compares the programs based on the square foot of the homes borrower purchased and the year the homes were built. In terms of square footage and the year built, the programs were not significantly different from each other.

Table 3: Comparison of Programs by Square Footage and the Year Homes were Built

SQUARE FEET	GR			GA			THDA		
	GR with Second	GR without Second	All GR	GA with Second	GA without Second	All GA	All THDA Second	THDA without Second	All THDA
<i>Average</i>	1,389	1,400	1,392	1,409	1,470	1,422	1,395	1,385	1,387
<i>Median</i>	1,324	1,327	1,325	1,330	1,402	1,344	1,326	1,304	1,310
Less than 1,000	8%	6%	8%	8%	10%	9%	8%	9%	9%
1,000-1,250	31%	32%	31%	27%	17%	25%	30%	33%	32%
1,251-1,500	28%	31%	29%	33%	36%	34%	30%	29%	29%
1,501-1,750	17%	16%	17%	17%	15%	17%	17%	15%	15%
More than 1,750	15%	14%	15%	14%	22%	16%	15%	15%	15%
YEAR BUILT									
<i>Average Year Built</i>	1983	1986	1984	1984	1992	1985	1983	1985	1985
<i>Median Year Built</i>	1989	1996	1992	1990	1998	1993	1989	1992	1992
Before 1940	3%	3%	3%	3%	0%	2%	3%	3%	3%
1940s	5%	5%	5%	6%	5%	6%	6%	5%	5%
1950s	10%	8%	9%	9%	1%	8%	10%	8%	9%
1960s	10%	6%	8%	9%	10%	9%	9%	8%	9%
1970s	12%	9%	11%	11%	6%	10%	12%	10%	11%
1980s	10%	12%	11%	13%	12%	12%	11%	11%	11%
1990s	19%	20%	19%	17%	17%	17%	18%	16%	17%
2000s	31%	38%	33%	33%	48%	36%	31%	37%	36%

As shown in Table 4, the borrowers who used the Stimulus Second Mortgage Program had relatively higher income on average than the rest of the borrowers. In the Great Rate Program (GR), the Stimulus Second Mortgage Program borrowers had 12 percent more income than the rest of the borrowers. However, within the Great Advantage (GA) program, the Stimulus Second Mortgage Program borrowers were different: their average income was seven percent less than the borrowers in the rest of the program.

Table 4: Comparison of Programs by the Borrower's Income

INCOME	GR			GA			THDA		
	GR with Second	GR without Second	All GR	GA with Second	GA without Second	All GA	All THDA Second	THDA without Second	All THDA
<i>Average Income</i>	\$43,094	\$38,547	\$41,645	\$42,106	\$45,047	\$42,725	\$42,813	\$40,618	\$41,165
<i>Median Income</i>	\$42,630	\$37,885	\$41,141	\$41,703	\$43,208	\$41,940	\$42,411	\$40,273	\$40,862
Less than \$10,000	0%	0%	0%	0%	0%	0%	0%	0%	0%
\$10,000-\$14,999	0%	2%	1%	0%	1%	0%	0%	2%	1%
\$15,000-\$19,999	1%	3%	2%	1%	1%	1%	1%	3%	2%
\$20,000-\$24,999	3%	9%	5%	6%	1%	5%	4%	6%	6%
\$25,000-\$29,999	9%	13%	10%	9%	11%	10%	9%	12%	11%
\$30,000-\$34,999	15%	15%	15%	14%	12%	14%	14%	13%	13%
\$35,000-\$39,999	15%	13%	14%	15%	12%	15%	15%	13%	14%
\$40,000-\$44,999	15%	12%	14%	15%	14%	15%	15%	13%	14%
\$45,000-\$49,999	13%	12%	13%	12%	10%	11%	13%	12%	13%
\$50,000 and over	29%	20%	26%	27%	37%	29%	29%	25%	26%

Table 5 represents the distribution of borrowers among programs based on their age, gender, household composition, race and ethnicity. Programs with and without second mortgage were not significantly different from each other in these borrower characteristics.

Table 5: Comparison of Programs by Borrower's Age, Gender, Household Composition Race and Ethnicity

AGE	GR			GA			THDA		
	GR with Second	without Second	All GR	GA with Second	without Second	All GA	All THDA Second	without Second	All THDA
Average Age	32	35	33	35	32	34	33	34	34
Median Age	29	30	29	30	30	30	29	30	30
Less than 25	21%	22%	21%	17%	21%	18%	20%	18%	19%
25-29	31%	27%	29%	29%	28%	29%	30%	28%	29%
30-34	17%	13%	15%	13%	17%	14%	16%	17%	17%
35-39	10%	10%	10%	12%	15%	13%	11%	11%	11%
40-44	8%	8%	8%	7%	4%	6%	8%	7%	7%
45 and over	13%	21%	16%	22%	15%	20%	16%	18%	18%
GENDER									
Female	44%	39%	42%	51%	52%	51%	46%	49%	48%
Male	56%	61%	58%	49%	48%	49%	54%	51%	52%
HOUSEHOLD COMPOSITION									
Female with child	10%	10%	10%	15%	20%	16%	12%	16%	15%
Male with child	4%	3%	4%	1%	5%	2%	3%	4%	4%
Married Couple	14%	13%	14%	11%	21%	13%	13%	11%	12%
Married with child	16%	20%	17%	19%	16%	18%	16%	17%	17%
Single Female	27%	23%	26%	27%	19%	25%	27%	26%	26%
Single male	29%	31%	30%	26%	19%	24%	28%	25%	26%
Unknown	0%	0%	0%	1%	1%	1%	0%	0%	0%
RACE									
White, Not Hispanic	84%	86%	85%	70%	68%	70%	80%	73%	75%
African American	15%	11%	14%	27%	25%	26%	18%	23%	22%
American Indian	0%	0%	0%	0%	2%	1%	0%	1%	0%
Asian White	0%	0%	0%	0%	0%	0%	0%	0%	0%
Asian/Pasific Islander	1%	1%	1%	1%	0%	1%	1%	1%	1%
Black White	0%	0%	0%	0%	0%	0%	0%	0%	0%
Multi Racial	0%	0%	0%	0%	0%	0%	0%	0%	0%
Native Black	0%	0%	0%	0%	0%	0%	0%	0%	0%
Native White	0%	0%	0%	0%	1%	0%	0%	0%	0%
Other/Unknown	0%	2%	1%	2%	4%	2%	1%	2%	2%
ETHNICITY									
Hispanic	1%	3%	2%	5%	4%	4%	2%	3%	2%

Table 6 shows that the Great Rate Program borrowers who used the Stimulus Second Mortgage loans paid more for principle, interest, property tax and insurance (PITI) than the rest of the borrowers in the program. The higher PITI payment of Great Rate borrowers may be related to the higher prices Great Rate borrowers paid for homes they purchased using the second mortgage. On average, more borrowers in the Great Advantage Program have cost burden over 30 percent.

Table 6: Comparison of Programs by PITI as Percent of Borrower's Income

PITI as Percent of Income	GR			GA			THDA		
	GR with Second	GR without Second	All GR	GA with Second	GA without Second	All GA	All THDA Second	THDA without Second	All THDA
Average	754	634	716	754	823	769	754	709	720
Median	745	613	708	748	828	758	746	704	715
Less than 15%	10%	16%	12%	8%	10%	9%	10%	12%	11%
15%-19%	30%	32%	31%	30%	26%	29%	30%	31%	31%
20%-24%	35%	27%	32%	30%	31%	30%	33%	29%	30%
25%-29%	15%	16%	15%	21%	14%	19%	17%	17%	17%
30% and more	10%	8%	10%	11%	20%	13%	10%	12%	11%

Table 7 presents breakdown of number of Stimulus Second Mortgage loans by region. The majority of the Stimulus Second Mortgage Program loans were made in Middle Tennessee, followed by East Tennessee. The Stimulus Second Mortgage Program loans were mostly made in the suburbs rather than the central cities and the rural counties.

Table 7: Number of Stimulus Second Mortgage Loans by Programs and Geography

GRAND DIVISION	GR with Second		GA with Second		ALL	
	# of Loans	Percentage	# of Loans	Percentage	# of Loans	Percentage
East	262	34%	46	15%	308	29%
Middle	430	56%	190	63%	620	58%
West	73	10%	67	22%	140	13%
URBAN-RURAL	# of Loans	Percentage	# of Loans	Percentage	# of Loans	Percentage
Central City	233	30%	113	37%	346	32%
Suburb	482	63%	164	54%	646	60%
Rural	50	7%	26	9%	76	7%
MSA	# of Loans	Percentage	# of Loans	Percentage	# of Loans	Percentage
Chattanooga	45	6%	18	6%	63	6%
Clarksville-Hopkinsville	21	3%	13	4%	34	3%
Cleveland	80	10%	2	1%	82	8%
Jackson	6	1%	2	1%	8	1%
Johnson City	2	0%	0	0%	2	0%
Kingsport-Bristol	4	1%	4	1%	8	1%
Knoxville	108	14%	20	7%	128	12%
Memphis	65	8%	61	20%	126	12%
Morristown	9	1%	0	0%	9	1%
Nashville	375	49%	157	52%	532	50%
Non-MSA	50	7%	26	9%	76	7%

The Nashville-Murfreesboro MSA received 532 Stimulus Second Mortgage loans, which represents 50 percent of all Stimulus Second Mortgage loans made in that period. In the same period, Nashville-Murfreesboro MSA received 41 percent of THDA loans without a stimulus second mortgage. Knoxville and Memphis MSAs followed Nashville MSA. Johnson City and Morristown MSAs did not receive any Great Advantage with stimulus second loans. The

geographical distribution was similar for the loans with and without the second mortgage in each program and for all loans in each program.

Table 8 presents the distribution of dollar amount of the Stimulus Second Mortgage Program loans by region.

Table 8: Value of Stimulus Second Mortgage Loans by Programs and Geography

GRAND DIVISION	GR with Second		GA with Second		ALL	
	\$ Amount	Percentage	\$ Amount	Percentage	\$ Amount	Percentage
East	\$959,963	31%	\$159,340	14%	\$1,119,303	26%
Middle	\$1,867,717	60%	\$753,909	66%	\$2,621,627	62%
West	\$278,076	9%	\$236,020	21%	\$514,096	12%
URBAN-RURAL	\$ Amount	Percentage	\$ Amount	Percentage	\$ Amount	Percentage
Central City	\$943,188	30%	\$412,312	36%	\$1,355,500	32%
Suburb	\$1,976,305	64%	\$650,085	57%	\$2,626,389	62%
Rural	\$186,263	6%	\$86,873	8%	\$273,136	6%
MSA	\$ Amount	Percentage	\$ Amount	Percentage	\$ Amount	Percentage
Chattanooga	\$169,877	5%	\$57,950	5%	\$227,826	5%
Clarksville-Hopkinsville	\$78,795	3%	\$52,282	5%	\$131,077	3%
Cleveland	\$275,033	9%	\$5,908	1%	\$280,941	7%
Jackson	\$21,091	1%	\$6,883	1%	\$27,973	1%
Johnson City	\$5,845	0%	\$0	0%	\$5,845	0%
Kingsport-Bristol	\$17,448	1%	\$16,169	1%	\$33,617	1%
Knoxville	\$419,224	13%	\$74,577	6%	\$493,801	12%
Memphis	\$251,455	8%	\$218,672	19%	\$470,128	11%
Morristown	\$30,081	1%	\$0	0%	\$30,081	1%
Nashville	\$1,650,645	53%	\$629,956	55%	\$2,280,602	54%
Non-MSA	\$186,263	6%	\$86,873	8%	\$273,136	6%

To conclude, compared to the other THDA borrowers, the Stimulus Second Mortgage Program borrowers have, on average, had relatively higher incomes, purchased more expansive homes and resided in the suburbs.

Stimulus Second Mortgage Program loans helped the THDA mortgage portfolio: During the difficult times when the market interest rates were low, loan production declined from 3,954 in fiscal year 2008 to 2,028 in fiscal year 2009. When the Stimulus Second Mortgage Program was introduced in April 2009, the total mortgages increased to 3,448 in fiscal year 2010. The Stimulus Second Mortgage Program kept our production up during the months of tax credit even when the THDA rates were occasionally higher than the market rates. In declining markets sellers may not have as much flexibility in price and in many instances could not afford to pay closing costs for buyers. In this sense, the Stimulus Second Mortgage Program also helped the THDA borrowers negotiate a better deal with the seller.