

# Real estate transactions and instant payments

## *Building efficiencies with the FedNow<sup>®</sup> Service*

Whether building, buying or managing properties, the real estate industry depends on the timely settlement of good funds. However, many real estate transactions still involve manual processes, which can lead to inefficiencies and costly delays.

FedNow Service instant payments are final, irrevocable and 'always on', providing immediate settlement and availability of funds to the recipient 24x7x365. When the timing and availability of funds is critical, instant payments can streamline complex payment flows between multiple parties, improving efficiency and customer satisfaction.

For one-time real estate deals, such as property sales, or recurring transactions like rent payments, the FedNow Service enables secure instant payments through participating financial institutions, around the clock, every day of the year. These transactions offer convenience, transparency, finality and immediate funds availability.



### **Ways the real estate industry can benefit from instant payment innovation**

#### **Enhance convenience of collections with 'always-on' instant payments**

- Buyers can transfer earnest money deposits to an escrow account as soon as an offer is accepted, which means real estate agents don't have to hold and deliver earnest money checks later.<sup>1</sup>
- Buyers using instant payments for cash to close aren't bound by banking hours to get a cashier's check or send a wire transfer, and closings can be scheduled when convenient, including evenings, weekends or holidays.
- Developers can get immediate drawdowns on construction loans.
- Tenants can make just-in-time rent payments to potentially avoid a late fee.



#### **Reduce concerns about delays and additional costs with transparent timing of funds**

- Gain transparency on the status of a payment, rather than wondering if a wire transfer has posted or a check has cleared.
- Reduce worries that a closing will be delayed because funds haven't cleared, which could also affect the ability of the settlement agent to record the transaction at the county registrar's office.
- Avoid fees associated with having to extend a closing, such as the cost per diem for loan interest and property taxes.
- Ease payment processing and reconciliation by leveraging the data-rich capabilities of FedNow Service ISO<sup>®</sup> 20022 messaging specifications to include comprehensive payment details.



### Accelerate disbursements with immediate availability of funds

- Property owners can receive sales proceeds immediately, which are often turned around quickly to purchase another real estate property.
  - Other participants in the closing process can also be paid without delay, including real estate brokers, agents, attorneys, title companies, loan originators, appraisers, property inspectors and home warranty companies, among others.
- Reduce lag between rent collection and payment to property owners.
- Pay subcontractor wages as soon as a job is completed.

### Use cases and real estate opportunities

As demand for instant payments grows, so does the range of innovative use cases that can be leveraged to solve challenges for real estate transactions. The real estate industry involves numerous complexities and participants across development, construction, financing, property sales, leasing, and management. Promising instant payment use cases for addressing transaction needs include, but are not limited to:

Development and Construction	Real Estate Financing	Property Sales	Property Leasing and Management
Drawdown on construction loans	Mortgage loan origination and associated fees	Earnest money deposit and cash to close from buyer	Rent payments
Supplier payments	Mortgage loan payoff	Payout of seller proceeds	Property owner or investor payments
Earned wage access for subcontractors	Home equity loans and reverse mortgage payments	Other payments made at closing, such as title insurance premiums, real estate commissions, attorney, inspector and appraisal fees, and home warranty policy premiums, among others	Tenant collections like utilities

## SPOTLIGHT ON RESIDENTIAL REAL ESTATE

In 2023, there were more than **4 million** existing home sales<sup>2</sup>  
and more than **600,000** new home sales<sup>3</sup>

## Explore next steps

Real estate industry professionals	Payment service providers and enablers	Financial institutions
<ul style="list-style-type: none"> <li>• Evaluate your current collection, disbursement and accounting processes. Analyze opportunities to increase efficiency, mitigate risk and enhance customer satisfaction.</li> <li>• Engage in conversations with your financial institution and service providers to understand their instant payment plans to offer the FedNow Service (see a list of live FedNow Service participants <a href="#">here</a>).</li> <li>• Communicate and inform your customers about the security and benefits of instant payments for real estate transactions.</li> <li>• Share insights and information across the real estate industry, including title companies, brokers/agents, property management firms, real estate financing and developers/builders.</li> </ul>	<ul style="list-style-type: none"> <li>• Discuss instant payment plans and offerings with your financial institution partners to ensure they have the operational capabilities to connect to the FedNow Service.</li> <li>• Build and offer instant payment services, either stand-alone or alongside other payment rail options.</li> <li>• Consider or seek collaboration opportunities with other industry partners.</li> <li>• Provide proactive and ongoing education to your customers about the benefits of adopting instant payments and your new capabilities.</li> <li>• Stay informed about new service functionality and product roadmap plans and continue to demonstrate innovation and instant payment expertise in the real estate space.</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluate your real estate customers' needs and challenges regarding fund collection and disbursement activities.</li> <li>• Engage in conversations with your real estate customers about their interest in adopting instant payments, how it will benefit them and their customers.</li> <li>• Discuss opportunities offered by the FedNow Service with your Federal Reserve Financial Services <a href="#">relationship manager</a>.</li> <li>• Once FedNow Service instant payments are enabled, support your real estate customers with tools and talking points that they can use to educate and share with their clients.</li> <li>• Stay informed about new service functionality and product roadmap plans and determine how your real estate customers may benefit and share accordingly.</li> </ul>

## Learn more

Visit [FedNowExplorer.org](https://FedNowExplorer.org) for more information or contact us directly at [SYSFedNowCommunity@chi.frb.org](mailto:SYSFedNowCommunity@chi.frb.org) with questions.

<sup>1</sup> The ability to use the FedNow Service for certain real estate transactions may be subject to applicable state or local laws or regulations

<sup>2</sup> National Association of Realtors

<sup>3</sup> U.S. Census Bureau