CREATIVE FINANCING ALTERNATIVES.

From The Specialists In Residential & Commercial Real Estate Closings.

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Conventional loans from financing institutions have been recently abundant. Thanks to historically low interest rates, lenders are introducing a variety of loan programs allowing for smaller down payments and low- or no-documentation loans to borrowers with good credit scores. Not everyone qualifies.

Factors such as self-employment, a recent bankruptcy, a poor credit rating or a career change could prevent a home purchaser who is otherwise capable of making a monthly payment from obtaining a conventional mortgage. The creative financing techniques discussed below present a viable alternative in some situations. However, the tax and legal consequences of each may be unique to each situation. Buyers and sellers interested in pursuing creative financing alternatives should consult their attorney and/or tax advisor.

Owner Financing: In an Owner Financing scenario, the seller, rather than a financial institution, loans the buyer the funds to purchase a property. A note and mortgage will be drafted by either party's attorney and executed by the buyer at closing. The terms of repayment are negotiable between the parties and generally include an interest rate that exceeds the market rate and a maturity date of ten years or less.

Advantages to a seller may include an attractive rate of return and income tax deferral. Buyers may save hundreds of dollars by avoiding lender's closing costs paid at settlement.

The mortgage executed at closing provides security for the repayment to the seller. If the buyer fails to make the payments, the seller simply files an action for foreclosure, after which the seller takes the property back or is repaid as a result of a foreclosure auction. Because there are costs associated with foreclosure proceedings, a seller should be reluctant to lend more than 80% of the value of the property.

Agreement For Deed: Also referred to as a Land Contract, this arrangement also provides for payments to be made from a buyer to a seller. The difference however, is that the seller does not convey the property by deed to the buyer at closing. Rather, the agreement states that the seller will convey the property upon receiving all of the payments due under the agreement from the Buyer. Although there is no mortgage, the seller's remedy against a defaulting buyer is still achieved through a foreclosure action.

Lease Purchase: A Lease Purchase Agreement provides that a buyer make regularly scheduled lease payments to a seller over a specified period of time before completing the actual purchase transaction. The agreement is negotiable between the parties and may include provisions applying a certain portion of the lease payments be applied to the purchase price.

Many sellers prefer lease purchase arrangements to straight leases because they include provisions for relatively substantial, non-refundable deposits. Lease purchase buyers generally take better care of a property than straight renters because of their anticipated ownership.

Benefits to purchasers may include the ability to lock in a future sales price at current rates and the opportunity to establish credit and equity in anticipation of the purchase transaction.

This article is meant only to introduce prospective buyers and sellers to some of the creative financing alternatives. As always, please consult your attorney before entering into a purchase or sale agreement.

- Lauren Kohl-Helbig, Attorney At Law