How To Determine Which Financing Method To Use

Selling the property with seller financing could be considered more risky than selling via the land contract. There are pros and cons to each. If the seller has enough cash, he or she can sell via seller financing and potentially get their cash back very quickly. It may only take a couple of weeks. Whereas using the land contract method, it will be a minimum of 3 months but most likely 6 months or more before the new buyer can obtain financing.

Secondly, by using the land contract method, there are many more hoops to jump through with the lender and you need to double check every aspect with the lender before entering into the original land contract.

At the same time, one could argue that the land contract method is less risky because the seller can keep their own financing in place. Plus a default by the new buyer is much easier to correct with a land contract than the foreclosure that is required by a defaulted seller financing transaction.

Since there are so many hassles associated with doing this, why would a seller want to take such risk to sell to a buyer at a 20% discount?

This is not something that all sellers would want to do. However, let's say that you have 10 properties that you want to transfer to somebody else. This buyer and you have a long history of deals together, you know that the buyer can get financing, and you have a high level of trust with them. If the average price for those houses is $100,000, with conventional financing and to avoid PMI, the buyer would have to come up with a total of $200,000 to put down on those houses. If the buyer does not have $200,000, you cannot complete this transaction.

You could, however, transfer the properties perhaps just one or two at a time (to lessen the risk if something goes wrong) to the new buyer in one of the two suggested methods. The new buyer could eventually have all 10 properties with essentially 100% financing while having the advantage 80% financing. In other words, they won't have to pay the increased interest rate, and they will avoid PMI. It just requires a little creativity, lots of trust, lots of patience, and a seller who is willing and able to work with the buyer.

Some people may tell you to simply have the new buyer assume your loans through a 'subject to' transfer. This is an option, only if you trust the new buyer to pay the loan. If the new buyer doesn't have the down payment, I would not trust them to pay my loan. Also, it leaves more mortgages in your name without the benefits of owning the property. This method has too many potential pitfalls for me but is an option. Essentially, you maintain the risk of owning the property without any benefit to you.

Brad Zitzner is a real estate investor, coach, and realtor. Brad has bought or sold over 150 properties. His web based Property Management System "ZZZ Real Estate" helps real estate investors remove the chaos and paperwork from their real estate business. To get Brad's FREE real Estate ebook go to www.zzzinvestors.com