How To Refinance A Land Contract

If the owner does not have the cash to sell and to pay off the mortgage, the owner may be able to sell on land contract and keep his or her own financing in place. This could be considered a safer method, but it requires more upfront research with the lenders. Before doing this, be sure to check with the new lender to see how they refinance land contracts. Some lenders cannot refinance the land contract off the higher value. They don't place the same value on the transfer of ownership of a land contract as they do a sale with seller financing. You may need to write the land contract for $100,000 stating in the land contract that you will accept $80,000 as full payoff – depending on the lender, however, even this might not work. If the lender does allow this, the lender would refinance based off the number $100,000 instead of $80,000.

Some lenders can refinance a land contract after three months, while others need to wait 6 or 12 months. By doing this, one can sell a property to another investor with no money down. It may simply take 3 or more months depending on the bank and the strength of the buyer. It also keeps your (the seller's) original loan in tact.

What is really happening with the land contract refinance?

If you sell to the new buyer on a land contract for 3 or 6 months and the buyer cashes you out, essentially, your bank is lending the buyer money to buy the house for 3 to 6 months, enough time for the buyer to obtain their own financing based off the appraised value instead of the purchase price. Whereas through seller financing, *you* were lending the buyer the money until they could refinance.

When would a seller want to utilize either of these methods?

Selling a property in this fashion is only advisable if the seller and buyer have a history of trust together. I have a number of people with whom I have dealt with over a long period of time. The only people I would sell this way to are people with whom I have a lot of trust. I also need to know that the buyer has a long history of being able to obtain mortgages on rental properties. The reason I would not do this with somebody else is that if they fail to keep their end of the bargain, I have sold the property to them with no money down and for only 80% of its value.

If the buyer has a number of rental properties but has not bought any properties lately, I would have them get approved with a mortgage broker or bank that you trust before entering into any part of the transaction, including paying for the initial appraisal. There are a lot of things that can go wrong and you need to have all your ducks in a row before starting the process.

Another reason that I would only do this with buyers whom I have had a number of dealings with, is that I need to know for sure that this buyer is capable of obtaining financing for this property. If the buyer does not obtain financing, I have the same problem again; I've sold them a property with no money down, and I'm still holding the note.

Another word of caution is that I need to be very confident that I know the value of the property. If the property does not appraise for the $100,000 like anticipated, I now have a huge problem. I have already sold the property, and now the new buyer cannot get enough cash to pay off the full $80,000.

A good way to hedge this risk is to have an appraiser (hopefully the appraiser that the new bank will use) do the appraisal before I sell the property in the first place. This appraisal is not 100% foolproof because the appraiser might have a different value for the house for the bank as for us as individuals.

In other words, the bank may have requirements about which comparables can be used that prevent the appraiser from establishing the value they anticipated. Typically, however, they will appraise for the exact same number – only in rare situations will there be an issue.

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