OPTIONS FOR

Creative Financing

PATTEN TITLE COMPANY

Real Title Solutions

Sometimes, traditional mortgages just aren't the right fit for a real estate transaction. However, you don't have to let strict lending requirements, low credit scores, and other hurdles keep you from getting the deal done. In many instances, you can turn to creative financing options to complete a transaction. Here's a breakdown of some of the top out-of-the-box financing options.

SUBJECT-TO FINANCING

Subject-to financing, often shortened to "sub-to," is a creative way to acquire properties by taking over the seller's existing mortgage. But it gets a little tricky. Under the sub-to model, you don't make the transaction official with the lender.

HOW IT WORKS

First, you find a property you want to buy and negotiate a price with the seller. Typically, these deals allow you to purchase properties under market value, as you'll be incurring the risk, and the seller can quickly alleviate themselves from the burden of a mortgage. Next, the title of the property will be transferred to you, and you'll begin making payments on the seller's loan.

At first glance, this strategy seems too good to be true. It can be if the lender enforces the "due-on-sale" clause of the loan agreement, which means borrowers have to repay the full loan amount once the lender discovers that they sold the property.

BENEFITS

Why do people use subto financing if it can be so risky? For starters, it allows you to purchase an investment property with minimal cash. You can acquire homes quickly since you won't need to navigate the traditional financing process.

WRAPAROUND MORTGAGES

A wraparound mortgage involves taking out a new mortgage that "wraps around" the seller's existing loan. The seller keeps their existing mortgage, and you'll pay them directly based on the terms of the wraparound loan. Wraparound loans usually have a higher interest rate than the underlying mortgage.

HOW IT WORKS

You and the seller agree on a new loan amount that covers both the seller's existing mortgage and any additional funds you need. Typically, you'll have to make a down payment on the loan as well.

Once you finalize the transaction, the seller signs over the deed and title to you. You'll make monthly payments directly to the seller, who will use part of those funds to cover their mortgage. They will pocket the difference, making a small profit.

BENEFITS

Wraparound mortgages consolidate the financing process, making it easy for you to acquire properties quickly. Since the seller is technically the "lender" in the equation, they can offer more flexible terms, allowing you to negotiate.

If the existing mortgage has favorable terms, you may be able to get a lower interest rate. However, this depends entirely on the seller, as the difference in interest rates is the source of their profits.

LEASE OPTIONS

Lease options, or rent-to-own agreements, let you skip the lending process altogether. You'll gain control over a property but won't enjoy full ownership rights.

HOW IT WORKS

First, you'll sign a lease agreement to rent the property for a specified period. The contract will include an option to purchase the property at a later date, usually with a pre-agreed price.

Typically, you'll pay a non-refundable option fee. This fee gives you the right to buy the property, but you aren't obligated to do so.

BENEFITS

Leases require minimal upfront costs. You'll also have a chance to test the market to see if a property is a good fit for your portfolio.

SELLER FINANCING

As an alternative to borrowing money from a traditional bank or hard money lender to finance the purchase of real property, the term seller financing or owner financing refers to a transaction wherein the seller/owner of the real property agrees to act as a lender and finance a portion of the sales price.

HOW IT WORKS

The purchase contract should outline the terms for the purchase of the real property which include the down payment and the terms for financing. E.g., the principal amount of the loan, the interest rate, repayment terms, etc. At closing, the seller will execute a deed conveying title of the real property to the buyer in exchange for the buyer executing a deed of trust and promissory note secured by the property.

BENEFITS

Seller financing offers lots of flexibility. You can also avoid many hurdles like credit score and debt-to-income (DTI) ratio requirements.

JOINT VENTURES

A joint venture involves teaming up with other investors to purchase and manage a property. This approach allows you to pool resources while sharing both risks and rewards.

HOW IT WORKS

First, you'll need to find a trusted person to team up with. Next, each of you will have to determine how you'll contribute to the venture and how you'll split the profits. Each person needs to bring resources, expertise, and/or cash to the table. After you purchase the property, you'll split profits and losses according to your partnership agreement.

BENEFITS

Joint ventures can increase your purchasing power and help you seize potentially fleeting opportunities. You'll also be able to spread out risk and reduce your exposure to losses.

Want more insights and tools?

Connect With us! At Patten Title, we are committed to helping real estate professionals and other industry partners thrive in the Texas real estate market. If you'd like to gain and maintain a competitive edge, we invite you to connect with Patten Title. Explore our tools and resources to learn more about how we can support your success.