

Subject To Deals (Part 2)

In part one of this three part series, we discussed what a Subject To deal is. If you missed that column, you will find it on our website at REIoutpost.com. When you go to our website, click on articles, then on Subject To deals.

Today let's look at a few of the benefits and risks of doing Subject To deals.

BENEFITS:

Speed – When most folks buy a property, they have to get a new mortgage in their own names. This can take twenty to forty-five days. What if the seller is facing foreclosure and must sell in less than ten days? Guess the buyer and the person facing foreclosure is out of luck.

But maybe there is another alternative. With a Subject To deal, because you are simply agreeing to make the seller's mortgage payments on the seller's mortgage for the seller, there is no new mortgage for which to qualify. This means all you need to do is set up a closing; you don't have to qualify for a mortgage.

If you have a great real estate attorney, and you have all of your ducks in a row, a closing can be done in as little as twenty-four hours! This gives you the ability to buy property **BEFORE** the property is sold at the foreclosure auction.

Although we promised to never reveal this, Lee Perkins and his wonderful team of Wendy, Lisa, Toni, Fostine, and George have done a number of twenty-four hour Subject To closings for us. We love working with these folks! NOTE: A 24 hour closing is not cheap, so be sure to ask Lee about his "24 hour closing special"!

Savings – If you must get a new mortgage in order to buy a property, your closing costs will probably be between \$3,000 and \$5,000. (This is before you add in any realtor commissions.) I know this is the cost of doing business, but what if you could lower these closing costs to around \$1,000? Interested in saving money?

With a Subject To deal, because you are not getting a new mortgage, your closing costs are drastically reduced. When doing a Subject To deal closing, we typically pay around \$1,000 in closing costs – and this includes title insurance!

Anonymity – In most cases, when you buy a property, your name is on the Warranty Deed. This means **ANYONE** (for example an attorney) can go down to the courthouse and find out how many properties you own and where your properties are located **BEFORE** they sue you!

When you combine a Subject To deal with a land trust, there is no way for anyone to know you own the property unless you tell them. The Warranty Deed will only show the trustee's name. The mortgage will not be on your credit report, instead it will remain on the seller's credit report. Therefore, when an attorney investigates you, there is little to find.

RISK:

The Due on Sale Clause – When the seller bought the property, one of the documents he signed was the Security Deed. One of the clauses in the Security Deed (usually number eighteen), is the due on sale clause.

In summary, the due on sale clause states that if the property is sold, the lender must be notified of the sale. If the lender is not notified, and the lender learns the property has been sold, the lender has the right to call the seller's mortgage due. If the mortgage isn't paid off, then the lender has the right to foreclose on the property.

This sounds like a clause with a lot of teeth, doesn't it? Fact is, in all my years as a real estate investor, I have only known three people who did Subject To deals and had the mortgages called due.

Bottom line, most mortgage companies don't care who is paying the mortgage. As long as the mortgage is current and the payments are made on time, the mortgage company is happy.

In part three, let's look at how we negotiate a Subject To deal.

If you want to learn more about real estate investing, or would like to be mailed a **FREE** copy of our 16 page monthly real estate investing newspaper, or would like information about our 1,500 member real estate investors group that meets monthly at the Holiday Inn in Cartersville, then please visit our website at **www.REIoutpost.com**.