Subject To Deals (Part 1)

About a month ago, Brannon Fain, a real estate investing friend of mine, and I spent a number of weeks writing a manual about the seventeen creative ways we finance our real estate investing deals without using our own money.

Brannon and I made a list of the creative financing techniques we liked best and used most often. To our surprise, Subject To deals turned out to be the favorite creative financing technique for both of us.

About this same time I met with a group of experienced local real estate investors. I asked each his or her favorite creative financing technique. To the person, each said Subject To deals were the favorite.

It dawned on me that for most of the experienced real estate investors we know, a Subject To deal is the number one creative financing technique of choice.

So here is a question for you: If you are not doing Subject To deals, why aren't you?

We hope this three part series will help you better understand the ins and outs of Subject To deals, and make you want to learn more about them.

More than likely you have never heard of Subject To deals. Not to worry, you are not alone. Most realtors, real estate attorneys, and mortgage brokers haven't heard of them either.

What is a Subject To deal? Normally, when one buys a property, the seller's mortgage is paid off. Not so with a Subject To deal. With a Subject To deal, one buys the seller's property "subject to" the seller's mortgage. In other words, when you buy the property, the property goes into your name. However – and this is a big however – the seller's mortgage **IS NOT** paid off. Instead, you agree to make the **seller's** mortgage payments on the **seller's** mortgage for the **seller**.

Don't confuse a Subject To deal with an assumable loan. With an assumable loan, the mortgage is transferred into **YOUR** name. With a Subject To deal, the loan remains in the **SELLER'S** name.

I know this is tough concept to get your mind around. Kim and I first learned about Subject To deals at a real estate investing seminar in 1998. I remember whispering to Kim, "Honey, no seller would ever agree to a Subject To deal. I bet these things are illegal!"

Seven years later and with many Subject To deals behind us, I am here to tell you that I was dead wrong on both accounts.

Are Subject To deals legal? Yes they are. In fact, if a real estate attorney, realtor, or mortgage broker tells you Subject To deals are illegal (which they often say), have that person look at line 503 on a HUD-1 form. (This is the form used when real estate ownership is transferred from one person to another.) Line 503 states "Exiting loans taken subject to". Better still, ask that person to **show you** a copy of the law that makes Subject To deals illegal.

Do sellers actually agree to Subject To deals? Yes, every single day.

Will every seller agree to a Subject To deal? Unfortunately, no. Only **motivated** sellers – *sellers who had to sell their property yesterday* – agree to Subject To deals. If a seller doesn't have to sell, your chances of successfully negotiating a Subject To deal are very slim.

Is it better to lease option a seller's property or buy the seller's property Subject To his mortgage? Always remember, in real estate he who controls the Warranty Deed controls the property. So our advice is to always "get the Deed". (i.e. Do a Subject To deal.)

Where can one go to learn more about Subject To deals? Take a look at the discussion boards at these three free websites: REIoutpost.com, REIplace.com, and dealmakerscafe.com.

Are there risks associated with Subject To deals? Absolutely. Be sure to read part two of this series to learn about the benefits and risks of Subject To deals.

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**.