

## What is a Subject To Deal? (Part 2)

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In Part 2 of this series of columns about Subject To deals, after a brief description of Subject To deals, let's talk about the benefits and risks of Subject To deals for both the person selling a property and for the Investor buying a property.

What is a Subject To deal? It is when a Real Estate Investor buys a property from a seller, but instead of getting a new mortgage in the Investor's name, the seller's mortgage remains in place. In other words, after the closing, the investor owns the property but the seller's mortgage is still active. The Investor does not "assume" the seller's mortgage, rather the Investor agrees to make the seller's mortgage payments for the seller. Think of it as a form of owner financing.

For a better understanding of Subject To deals, be sure to read part one of this series of columns.

Let's begin with the biggest benefits to the seller:

**Time.** If a seller needs to sell his house yesterday because he is moving, or wants to buy another house, etc., a Subject To deal is often the quickest way for a property to be sold. We have literally put property under contract on a Monday afternoon, and because we didn't have to qualify for a new mortgage, we were able to close on the property Tuesday morning – less than 24 hours later.

**Cost.** Closing costs kill many deals. Often, when buying a property and getting a new mortgage, closing costs can run as high as 4 or 5% of the purchase price. However, with a Subject To deal, closing costs are usually less than \$1,000, and this includes Title Insurance.

**Credit Improvement.** A majority of sellers with whom we do Subject To deals are behind on their mortgage payments and are trying to avoid Foreclosure. Once we've bought the seller's property and are making the seller's mortgage payments, the seller's credit score begins to improve.

What about the risk to the seller? There is one big, huge, whopping, gigantic risk the seller faces. What if the Investor who bought the property does not make the seller's mortgage payments on time as was promised? Then the seller is in a world of hurt. The seller no longer owns or lives in the property, but he is still responsible for the mortgage payments.

Bottom line, before you agree to sell your property "subject to" your mortgage, be sure you know with whom you are dealing. There are many fantastic Real Estate Investors in Georgia. Make sure you are working with one of them.

For Real Estate Investors, what are the biggest benefits of doing Subject To deals?

**Time.** Because the Investor does not have to qualify for a new mortgage, a property can be bought in days instead of weeks. If the seller is in Foreclosure, and the auction is in six days, the seller can't wait four weeks for you to be approved for a new mortgage.

**Cost.** The closing costs associated with a Subject To deal are drastically lower than when getting a new mortgage.

**Paperwork.** Instead of having to sign a mountain of paperwork at the closing table, a few documents are signed and you are on your way.

**Credit Report.** After the closing, since the mortgage remained in the seller's name, it will not appear on your credit report. Remember, with a Subject To deal, it is the seller's mortgage, not yours.

What is the risk for Investors who do Subject To deals? There is one main risk, the seller's Due on Sale clause in his Security Deed.

Having a good understanding of how the Due on Sale clause works is vital for Real Estate Investors who do Subject To deals. For this reason, we will cover this topic and complete this series in Part 3 of this series.