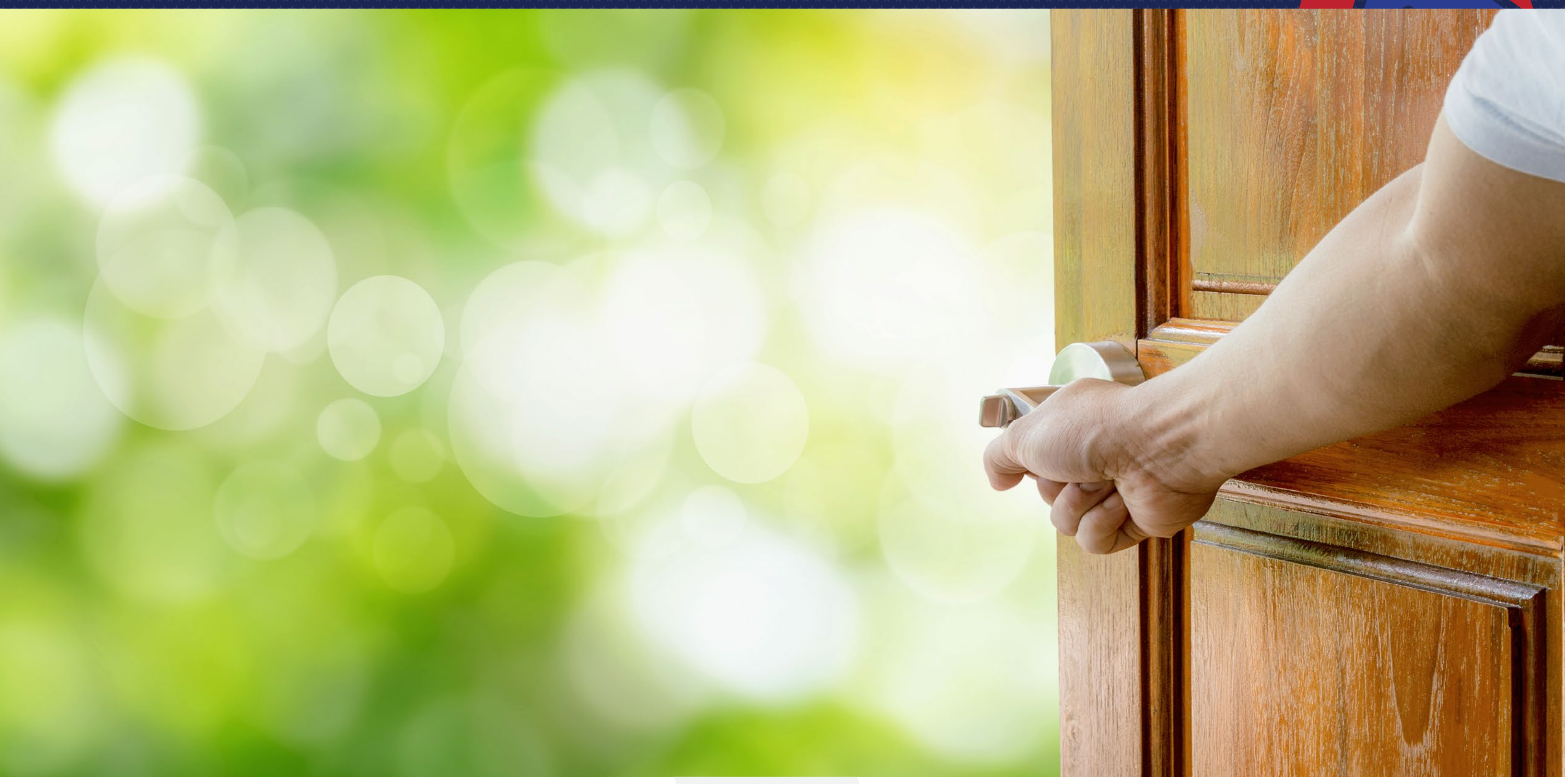

# HOW TO DO "SUBJECT TO" REAL ESTATE TRANSACTIONS

What if you could reduce the amount of time it takes to acquire the deed to a property you are purchasing? How is it possible to own multiple properties and not be legally bound with multiple loans in your personal name? Why not use your real estate business to help others who are in a pinch so you both win?

You can gain these benefits by purchasing a property "Subject To" the current mortgage that a property owner already has negotiated with a lender. The terms and name on the loan remain the same with the lender without your assuming the loan.

*After a Dallas-Fort Worth couple decided to get a divorce, they had to choose what to do about their house. The wife wanted to stay in the house but could not afford to make the mortgage payments. One of my clients, a real estate professional, purchased the property "Subject To" from them for approximately $20,000 over the outstanding balance of the loan. My client was then able to pay $10,000 to both the man and woman so each could restart in a new home.*

Why consider adding "Subject To" properties in your real estate portfolio? You don't need a lender. You close quickly. The closing costs are low. You don't need credit. You can use the owner's interest rate. You have long-term financing in place.

We're pulling back the curtain to give you a good look at the world of "Subject To" purchases.

## WHO WOULD SELL THEIR PROPERTY "SUBJECT TO"?

When someone needs to move quickly or needs to be relieved of the debt on the house, he or she is more likely to be motivated to sell you the property "Subject To". If someone has just taken a job in another city and needs to move or undergoes a decline in income and needs to reduce debt, you can help them by buying their property today so they can accomplish their goals quickly! As mentioned in the story above, when a couple is divorcing and neither party can afford to make the mortgage payment, they need to sell the house.

## HOW DO I MAKE MONEY ON "SUBJECT TO" SALES?

1. You make money by rehabbing the property and selling it quickly for a profit.
2. You make money by selling the property by using owner financing.
3. You make money because of interest deductions and depreciation breaks afforded to homeowners.
4. You make money by turning the property into rental property and then profiting on the spread between the lease payment you receive and the mortgage payment you make.
5. You make money by selling the house without any rehab for more than you paid for it.

## WHAT ARE MY RESPONSIBILITIES?

Buying "Subject To" comes with a serious responsibility to the original homeowner to make timely payments on the loan. When the owner sells the home "Subject To" an existing mortgage, the buyer is required to make the payments on that mortgage or the property will go into foreclosure, just as if the seller had not made the loan payments.

## ARE THERE ANY RISKS INVOLVED?

Here are the facts. You determine whether you are comfortable with them.

1. A "due on sale" clause gives the lender the right to require that the entire note be paid if any terms in the initial agreement are not met. The bottom line is that the lender is concerned about being paid! However, keep in mind that money is loaned at a rate higher than their payment rate, which is how a lender makes money. It may not make sense for them to call the loan if it can be refinanced at a lower rate than it currently carries because that would decrease their profit. Note also that when a lender calls a note due, Federal guidelines call that "bad debt" and it affects the lender's ability to lend money.
2. If you don't make the payments on time, the lender can foreclose, just like on all your other loans. In this case, you could lose the property and any equity, just like on all your other loans.
3. You must carry insurance. You may want to be added to the current homeowner's policy. Be sure to consult with an insurance professional who understands the "Subject To" transaction and can assist you.

"Subject To" purchases often will make you money faster than some other real estate purchase options. These are not "traditional" deals and should be handled by a real estate closing office that has helped hundreds of other real estate professionals close the title on these transactions and make money fast.

Written by
**Gaylene Lonergan** has practiced law for 35 years, is a graduate of Texas Tech University School of Law, and the owner of Lonergan Law Firm, PLLC, and title closing office.
You can contact Gaylene at 214-503-7509 | grogers@lonerganlaw.com or visit her office at 12801 N. Central Expressway, Suite 150 Dallas, Texas 75243