

Creative Deal Structuring

M: When working with subject-to transactions how can you reassure the homeowner that you will make the payments on their loan?

You can do one of two things to show the homeowner that you are a serious player and there to do business if staying involved in the deal.

1) You can use a servicing company (such as your title company). So the concept is your tenant / tenant-buyer (the one renting the house after you complete the subject to transaction will pay you directly. You will pay the servicing company (regardless if the tenant / tenant buyer pays you) what you and the original seller agree upon, and the servicing company will make the payment to the bank. Then both you and the original seller will get a receipt that the payment has been made. While this costs a little bit of money (the fee the servicing company charges per month) it gives the original seller peace of mind knowing that they will be instantly notified if you do not make the payment.

2) You can also agree to pre-pay a couple of months payments to your escrow company that you are using to complete the subject to transaction and give them specific instructions to release the pre-paid funds to the lender(s).

At the end of the day, your reputation and ability to structure a subject to deal is really all you have. There is never any "fool proof" guarantee you can give when talking with a motivated seller. If they are still unsure of you and the subject to concept you can always try something called an exact wrap. Your title company should know how to help you structure an exact wrap.

If you are just wholesaling the subject-to deal to the end buyer and only collecting your wholesale fee on the front end, you can put either of these things in place with them making the payments directly and then remove yourself from further involvement in the deal.

Unique solution ID: #1732

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Last update: 2016-05-20 21:17