"Subject To"
Real Estate Deals Explained

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We know, that traditional real estate investing is mainly about buying low and selling high, and making a profit from that difference, usually over time. There's absolutely no secret to that. While doing it this way, of course, you would incur all the paperwork and everything else that goes along with buying and selling a home like paying all the transaction fees that are involved like commissions, closing costs, title, recording fees and of course your time. On an average, the whole process usually takes a month and a half up to six months depending on the situation.

Creative financing, or "other than" traditional and /or conventional real estate investing, is basically working out an agreement that is fair both the seller and the buyer, without using banks or mortgage brokers. By incorporating this type of financing, the sellers can sell their property for the price they want, and in a timely fashion. The buyer / investor can create an environment for him / her to profit in some manner over a period of time.

By leaving out the usual suspects like title companies, real estate agents and loan officers, both parties stand to make the transaction more profitable for the buyer / investor and more cost effective for the sellers. Specifically this can be real profitable for the real estate investor because in any type of investing, and especially in real estate, it's about leverage.

The leverage is what makes creative financing a powerful, profit-making tool for those looking to start a real estate investing business. The leverage is usually represented by how much money you put into a certain investment, and how much you make from that amount over time. "Subject To" deals make your leverage extremely high, since most of the time you place a small amount of cash, for usually a much lager return.

<u>Let's go over a sample situation which would create an ideal environment for a "Subject To" agreement.</u>

Jen and Chris Kleven bought their house five years ago for a $100,000 dollars. After 5 years, they now owe about $95,000 dollars, while their house is appraised for $160,000 dollars. Both Jen and Chris have accumulated a credit card debt of about $20,000 dollars since that time, and of course, the interest on that debt is much larger than they really care to have.

Chris and Jen take out a second mortgage to pay off their credit card debt, take a vacation and buy a new car. With their second mortgage, they do all those things and have about $10,000 leftover, after everything is done. After 7 short months, most of that $10,000 is gone also.

Shortly after this, Chris receives an offer within his company for a higher paying position, but in a different State. Chris and Jen talk it over, and decide to take the offer and move out of State. Of course, deciding to do that, they must now sell their beautiful home.

Like so many of us, when we look to sell our house, we think logically and talk to a real estate agent. The agent informs them that there is little to no equity left in the house, and tells the Kleven's that they will have to pay the agent's commissions out of pocket. Of course, Chris and Jen can't do that, because they ran out of money and are basically living paycheck to paycheck until the new job starts.

Chris starts to worry a bit, because he needs to get to his new job out of State, within 14 days, and Chris and Jen would like to spend a few days off together before going to his new job.

Chris starts to think and remembers a "We Buy Houses" sign down the street from their home and runs down and calls the number on his cell phone. After talking with the investor, Chris finds out that the investor isn't willing to pay more than $120,000 for the house. Hearing that, Chris is mad and upset that such a person can come in with such a low and insulting offer. Besides Chris couldn't do that deal anyway because the second mortgage they took out last year, places their debt just about what the house is worth.

Getting worried and running out of time, Chris places an ad in the local newspaper advertising the house as a "For Sale By Owner".

Mostly everyone is trying to low ball him except for one guy who said "he will offer the asking price, so long as he can see the place first". Feeling excited and curious at the same time, Chris invites the man over, his name is Javier.

A couple of hours later, Javier comes over and tells Chris that he is the one who called about the house. Javier tells Chris to explain to him a little about the house and his situation.

Chris spills his guts and describes his dilemma to Javier. After Chris finishes his story about his situation, Javier tells Chris that he thinks he can still offer the asking price and if Chris was still interested in selling?

But before they start agreeing any further, Javier says, that as an investor, that his primary motivation to make a profit on the house. Chris and Jen understand that, so long as their asking price is met and the house is sold quickly.

Javier continues and tells both Chris and Jen that because of his need to make a profit, he needs to offer an agreement which will satisfy both their needs. Javier continues and says "That offer is what's called a Subject To" offer. Of course bewildered and confused, Jen and Chris ask what kind of program is that. Javier simply states, that it's a program that suspends both their money for the house and his profit on the house for 2 years, while Javier takes over the payments. Not fully understanding, Chris continues to listen to Javier's offer.

Here's what it entails:

- keep the current mortgage in place for 2 years, at which time the house will be sold, and Chris' originally asking price will be met, plus 5% of whatever profit is made by Javier
- escrow account is setup and paid by Javier to ensure full integrity of his contractual agreement with Chris and Jen
- property is claimed over to Javier which obligates Javier to continue making the existing payments to the escrow account. The deed will stay in the attorney's presence until the deal is fully obligated by Javier in 2 years
- relieves Chris and Jen of the monthly debt for the mortgage payment so they can move on with their life
- Javier offers to pay closing costs and 2 months of mortgage payments to the escrow account to solidify his offer and his intentions to make good on the contract
- After discussing the deal with each other and realizing that their options and time are running low, both Chris and Jen agree with Javier over the details and sign over the deed to Javier via the attorney.
- Javier then quickly rents out the house to cover the mortgage payments and manages the house as a rental.
- Two years later, Javier sells the house for $210,000 and pays $160,000 dollars to Chris and Jen's mortgage company, plus sends Chris and Jen a check for 5% of the $50,000 dollar profits, which is $2,500.

Everybody wins.

If you have any questions, please call us.
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