

## THE ABCS OF SUBJECT TO



**Charlie and Randy France and Bob Meister** have purchased more than 150 homes with no money down—in fact, they often get the sellers to pay **THEM** to buy!

*"It is NOT in a lender's best interest to call a loan due, even if you 'break the rules' by taking over someone else's loan."*

When you purchase a home "Subject To", you're buying it without paying off the existing mortgage. The most common questions people have when they hear about Subject To is, "What about the Due on Sale Clause?" and "Why would someone let me take over their mortgage?"

The Due on Sale Clause states that the lender has the right to call the entire note due if any of the terms of the initial agreement are not met, including transfer of the deed without paying off the original loan.

What you must understand is that the job of a lender is to collect payments. They loan out money at a higher interest rate than they are paying and create their cash flow from the difference on that spread. If a loan were at 8 or 9%, and current interest rates are at 7%, why would a lender call that loan due if all the payments were being made on time? If the lender loaned the money out again, it would be at a lower interest rate and he would be cutting his own profit.

Everyone who hears about buying properties Subject To is worried about what will happen to the buyer—or the seller—of that home if a loan is called due. A better question is, what happens to the lender if they call a loan that is being paid on time?

Here's what happens to the lending institutions if they take back a property. When a lender has taken back a property, they are "punished" by the Federal Government

for having a "non-performing loan." A Federally Insured Lender must follow certain rules when they have taken back a property, because that property shows up as a bad debt on their books. Since the government insurance program wants to make sure that all of it's insured lenders stay solvent (and thus don't have to be bailed out by their insurance), the rules say that for every dollar in non-performing loans a lender has, it cannot lend out \$8. In other words if a bank has a single \$100,000 mortgage that has "gone bad," the lender cannot loan out \$800,000 because the government is punishing them for having that non-performing loan on their books. As you can see, it is NOT in a lender's best interest to call a loan due, even if a buyer—you—"breaks the rules" by taking over someone else's loan. In fact, most lenders recognize that they are actually **BETTER OFF** when you bring a loan current and make payments on time than they are if they have to foreclose on the borrower!

When a property owner sells his home "subject to" the existing mortgage, the investor/buyer must make the payments on the mortgage or lose the property by foreclosure, just as if the seller were not making payments on his loan. **However**, the foreclosure will never show up on the buyer's credit record because the buyer was never legally obligated under the terms of the original note to make the mortgage payments on that existing loan. Such a foreclosure on a "subject to"

mortgage will adversely affect the seller's credit record, not the buyer's.

Having said this, we are not advocating that you go out and purchase a lot of homes Subject To and never make the payments. Remember, you are not legally obligated to make those payments. **But you ARE morally obligated.** Your word is the most important thing you have. Keep it.

Another common question people ask is this: "Why would someone deed you their house?" The two main reasons we have found are time and debt relief. If someone is being transferred, divorcing, buying a new home, or financially they just cannot afford the home, taking the deed Subject To the existing mortgage allows you to **BUY TODAY** so that they can **MOVE TOMORROW**. You can offer that seller instant debt relief and help them out of their situation.

And at the same time you can help a buyer who does not, for whatever reason, have perfect credit and therefore cannot purchase a home using conventional methods. They can have a pretty house in a pretty neighborhood by lease/optioning through you. By creating this people-helping-people concept, you can reap the financial rewards while helping others.

*Charlie, Randy, and Bob will reveal the secrets of buying houses subject to in an all-day pre-convention workshop on Thursday, Oct. 30th and at a bonus session Saturday at 8:25.*