

Land Contract

An alternative to a non-conforming loan is the use of a land contract, which is allowed in some states. A land contract is an agreement between a buyer and a seller, where the buyer agrees to make periodic payments to the seller. The title to the property only transfers to the land contract buyer on fulfillment of the land contract obligations.

A land contract can be helpful for those who need time to establish or improve their credit rating. There are only small closing costs, and payment can help establish a good mortgage payment record. This can help establish an overall good credit rating, and it is possible for the buyer to later refinance the land contract with a conforming loan.

On the other hand, there are risks associated with land contracts. Land contract purchases are not necessarily recorded in the public record, and there are no guarantees that the seller will be able to transfer a clear title to the buyer upon fulfillment of the land contract. There also is no lender assuring that the purchase price for the property is justified, and no inspection of the property's condition.

Another alternative to a non-conforming loan is assuming the seller's mortgage. By assuming a mortgage, if the mortgage is assumable, it is possible to save on closing costs, and may allow you to obtain a favorable interest rate.