

What is a Land Contract?

A 'land contract' (sometimes known as a "contract for deed," "agreement for deed," "land installment contract" or an "installment sale agreement") is a contract between a seller and buyer of real property in which the seller provides financing to buyer to purchase the property for an agreed-upon purchase price and the buyer repays the loan in installments. Under a land contract, the seller retains the legal title to the property, while permitting the buyer to take possession of it for most purposes other than legal ownership. The sale price is typically paid in periodic installments, often with a balloon payment at the end to make the timelength of payments shorter than a corresponding fully amortized loan without a final balloon payment. When the full purchase price has been paid including any interest, the seller is obligated to convey legal title to the property to the buyer. An initial down payment from the buyer to the seller is usually also required by a land contract. The legal status of land contracts varies from region to region.



Since a land contract specifies the sale of a specific item of real estate between a seller and buyer, a land contract can be considered a special type of real estate contract. In the usual, more conventional real estate contracts, a seller does not provide a loan to the buyer; the contract either does not specify a loan or includes provisions for a loan from a different "third party" lender, usually a financial institution in practice. When third party lenders are involved, typically a lien called a mortgage or trust deed is placed on the property so that the value of the property is used as collateral until the loan is paid in full.

Reasons for a land contract

Although most land contracts can be used for a variety of reasons, their most common use is as a form of short-term seller financing.

Usually, but not always, the date on which the full amount of the purchase price is due will be years sooner than when the purchase price would be paid in full according to the amortization schedule. This results in the final payment being a large balloon payment. Since the amount of the final payment is so large, the buyer may obtain a conventional mortgage loan from a bank to make the final payment. Land contracts are sometimes used by buyers who do not qualify for conventional mortgage loans offered by a traditional lending institution, for reasons of unestablished or poor credit or an insufficient down payment.[citation needed] Land contracts are also used when the seller is eager to sell and the buyer is not given enough time to arrange for conventional financing.

There can be other advantages of using a land contract too. When a third-party lender, such as a financial institution, provides a loan, this third party has its own interests to protect against the other two parties involved, the seller and buyer. Establishing the correct title and value of the property to be used as collateral is important to the lender. Thus, the lender commonly requires title service including title search and title insurance by an independent title company, appraisal and termite inspection of the property to ensure it has sufficient value, a land survey to ensure there are no encroachments, and use of lawyers to ensure the closing is done correctly. These third party lender requirements add to closing costs which the lender requires the seller and/or buyer to pay. If the seller is also the lender, these costs are usually not required by the seller and may result in closing cost savings and fewer complications. It may also be the seller's position that if the buyer requires any of these services, he could pay for the costs and make arrangements himself. For properties where only relatively undeveloped land is involved and if the seller is willing to finance, the price of the empty land may be so low that the conventional closing costs are not worthwhile and can be an impediment to a quick, simple sale. Easy financing and a simple sale transaction may be a good selling point for a seller to offer a buyer.

The land contract may also allow the buyer to assign his equitable title/interest in the property to yet another buyer even before the loan is paid in full, subject to conditions in the land contract, effectively reselling his equity in the property to the new buyer.

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