



# Fall into Education

## Land Contract



A land contract is a contract between a buyer and a private seller of a property, wherein the seller retains title to the property until all agreed upon payments have been made in full. This property may be improved or unimproved, vacant, or a home or a commercial building. With a land contract, a down payment is usually made, then equal monthly installments are paid until the property is paid for or until a balloon payment [ <http://www.wisegeek.com/what-is-a-balloon-payment.htm> ] is required. A balloon payment is a lump sum [ <http://www.wisegeek.com/what-is-a-lump-sum.htm> ] of money that is due at a specified time, in this case at the end of the course of monthly payments.

A land contract can be compared to renting or leasing with the option to buy. Such options are different in that the agreement is usually filed and is a legal arrangement [ <http://www.wisegeek.com/what-is-a-land-contract.htm> ], giving the renter or lessee the option to buy the property at a prearranged time during the loan. Rent payments then become equity in the property.

While this type of agreement is usually recorded, a land contract may not be, making the legal recourse of the buyer tenuous should the agreement be flawed in some way. For example, if the seller still owes a mortgage [ <http://www.wisegeek.com/what-is-a-mortgage.htm> ] on the property, the buyer assumes that the seller will use his monthly payments to pay the mortgage as well as any taxes or other liens [ <http://www.wisegeek.com/what-is-a-lien.htm> ], keeping the title free of encumbrances. If this occurs, the buyer owns the property free and clear at the end of the contract. If the seller does not keep up with payments owed, there could be trouble for the buyer.



If there is mortgage on the property, it is in the buyer's best interest to make sure the seller is current on the payments to their lender; the first lender still has the right to foreclose on their mortgage if the payments become delinquent. Even if there is no mortgage on the property, there can be back taxes [ <http://www.wisegeek.com/what-should-i-do-if-i-owe-back-taxes.htm> ] or other liens that the seller owes, which could cause the buyer to lose the property or force the buyer to come up with extra money. If a buyer decides to take part in a land contract, make sure the title to the property is clear. Make sure the seller intends to file the proper papers to insure that the buyer has some protection. A land contract can be beneficial to buyer and seller alike as long as everything is above board.

To put together an offer for a land contract, the buyer will need to discuss the following with a professional REALTOR®:

Sales Price | Amount of Down Payment | Interest Rate | Special Provisions  
How Taxes will be Paid and Who will Pay Them | Late Payment | Balloon Payment

