



**0% APR FOR 60 MONTHS**  
for qualified buyers on '10 Traverse\*

SEE CURRENT OFFERS →

\*Monthly payment is \$16.67 for every \$1,000 financed. Example down payment is 13%. Some customers will not qualify. See dealer for details. Take delivery by 9/7/10. Not available with other offers.



SFGate



Web Search by **YAHOO!**



Businesses | Advanced

Sign In | Register

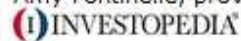
- Home
- News
- Sports
- Business**
- Entertainment
- Food
- Living
- Travel
- Columns
- Buy & Sell
- Jobs
- Real Estate
- Cars
- Index

Technology | Markets | Small Business | Chron 200 | Real Estate



## 4 Alternatives To A Traditional Mortgage

Amy Fontinelle, provided by



Tuesday, July 20, 2010

PRINT E-MAIL SHARE COMMENTS (0)

FONT SIZE: - +

### MORE INVESTOPEDIA HEADLINES

- 10 Worst First-Time Homebuyer Mistakes
- Investing With Purpose And For Profit: Affordable Housing
- Why Housing Market Bubbles Pop
- Will Your Home Remodel Pay Off?
- Purchasing A Short-Sale Property

### GET QUOTE

Symbol Lookup

### MORE BUSINESS

- AptarGroup 2Q net income rises 64 percent 07.20.10
- Goodwin joins Senate caucus of short-termers 07.20.10
- Whirlpool project receives Michigan tax incentives 07.20.10

Whether you're a first-time homebuyer, a repeat buyer or an investor, you might have reasons why you don't want to - or can't - obtain a traditional mortgage. Maybe lenders don't see you as being in ideal financial health because of a foreclosure or bankruptcy in your credit history. Or maybe you have plenty of assets in the bank but can't show sufficient monthly cash flow to convince a lender that you will be able to make the monthly payments. Or perhaps you're a small business owner with irregular income.

Whatever the reason, there are other ways to finance large purchases such as real estate. Here are a few of the most common options.

26  
retweet

4  
share

2  
digg

### Galleries

1-3 of 21



Recipes for artichokes



Recipes for asparagus



'Salt' premiere

advertisement | your ad here

**GET UP TO**

**2%**

**of our lowest rates in years.**

**CHASE**

GET DETAILS >

MOST READ MOST E-MAILED MOST COMMENTED

- Boy tried to get better view before cliff fall
- Concord mom stabs daughter, kills self

## 1. Borrowing From Your Whole Life Policy

A whole life insurance policy is one that accumulates cash value over time as you make your regular premium payments and earn dividends and interest. It's possible to borrow against this cash value, and when you borrow from your own whole life insurance policy, there is no loan qualification process. While such a strategy increases your borrowing potential, it reduces the face value of the policy if not paid back.

You may not have to answer a lot of questions to borrow this money, but there are some important questions you should ask your insurance company:

- What is the interest rate on this loan?
- Will it reduce my annual dividend?
- Will my withdrawal be taxable?
- How will this loan affect my policy's death benefit?
- Could my loan eventually cause my policy to lapse?

Additionally, you should ask yourself these questions:

- Will I really repay the loan?
- What is the opportunity cost of borrowing this money?
- What are the consequences of a reduced death benefit for my beneficiaries?

If you have a whole life policy that you can borrow from, don't lose sight of why you originally took out the policy. Make sure that the expected benefits of owning property outweigh the drawbacks of borrowing from your plan.

## 2. Seller Financing

With seller financing, you bypass the bank and make mortgage payments directly to the person you bought the house from. The official agreement that defines the principal amount, interest rate, repayment schedule, consequences of default and other terms is usually drawn up in the form of a promissory note.

3. Wheels of change on Valencia Street in S.F.
4. Day full of crime no surprise in Oakland
5. Tom Cruise contemplating reality show?
6. Former inmate recalls daring escape from Auschwitz
7. Lesbian gets \$35K settlement over canceled prom

### FROM OUR HOMEPAGE



#### Escape from Auschwitz - in broad daylight

Jerzy Bielecki recalls his daring ploy to save a Jewish girl and himself.

[Comments \(81\)](#)



#### San Francisco 'stapled'

As a spiffed-up Valencia is unveiled, John King laments the spread of unsightly bike racks.

[Comments \(110\)](#)



A seller might offer financing if he or she is having trouble selling the property or the housing market is weak. However, most sellers don't offer this option for one of the following reasons:

a) *They don't own the house free and clear.*

Mortgage agreements commonly require the mortgage to be paid in full when the property is sold through seller financing means. Thus, homeowners carrying mortgages need to receive the full proceeds from the sale immediately.

b) *They don't want to become lenders.*

While seller financing can provide a better rate of return than the seller could get elsewhere, the additional risk and hassle may not be worth it to them. That being said, the seller doesn't have to become a lender. He or she can arrange to immediately resell the promissory note to an investor in what is known as a simultaneous closing.

When the option is available, seller financing has many potential benefits for buyers. The closing process can be faster, since strict bank requirements can be bypassed, and it's also less expensive, since there is no need to pay a mortgage origination fee or other lending fees that banks commonly charge. The terms of the mortgage and the criteria you need to meet to qualify are entirely up to you and the seller, which means there's plenty of flexibility and room to negotiate.

However, if you couldn't get a loan from the bank, why should an individual want to offer you financing? You'll need to be prepared to answer this question and prove that you're a worthy borrower. You should also expect to pay a higher interest rate to compensate the seller for the risk of lending to you.



### Walmarts of pot

Small growers worried about how Oakland proposal may affect them.

🗨️ Comments (290)

- Devil's lettuce or wonder drug?

## Top Jobs

PROVIDED BY: **YAHOO!** hotjobs



**MANAGER**  
QUALITY ASSURANCE  
ENGINEERING



More Jobs »

**MARIN GENERAL HOSPITAL**  
RETURNS TO LOCAL CONTROL.  
STAY TUNED FOR MORE GOOD NEWS.

### 3. Borrowing From a Self-Directed IRA

Self-directed IRAs are a tool for investing in a wide variety of nontraditional assets, one of which is mortgages. A self-directed IRA differs from the Roth or traditional IRA you may already be familiar with in that the investment options the IRS allows for a self-directed IRA are much broader and can to a large part be dictated by the policyholder

While you cannot purchase a home for yourself using your own self-directed IRA because of IRS rules that disallow what is called "self-dealing," someone else who is not your lineal relative or business partner can use their self-directed IRA assets to lend you money to buy a house.

Robin Daniels, a real estate agent, investor and landlord with YourHouseBuyer.com in Central Florida, says, "If an owner-occupant wants to use IRA money to buy a house, they could borrow it from my IRA (assuming I am not related to them), and I would either get a partial interest in the house (requiring no payments), or lend them the money like a regular mortgage."

Daniels has also used this strategy as a borrower.

"I bought a trashed house two years ago for \$100,000. I paid \$50,000 and borrowed \$50,000 from another investor's IRA. We agreed to split the profits. Five months later we sold the house for \$182,000," she says.

David Coe, founder of Southern California-based retirement consulting firm Freedom Growth, says, "While a bank may not be willing to loan due to poor credit or other factors with the property, private investors are stepping in to help with acquisition loans. Shorter in term, and higher in rate and down payment, these loans allow an individual to secure a property then proceed with repairing the property, their credit or both. Once repaired, they then refinance into a longer, lower-rate mortgage."



MARIN GENERAL HOSPITAL [FIND OUT MORE >](#)

#### REAL ESTATE



#### Norma Jean's Brentwood home for sale

Oh, if walls could talk... The fetching, Spanish-y looking 4 bedroom, 3 bath home where Marilyn Monroe lived...

- Classy to its core
- Magic kingdoms
- Giants' Foppert selling Pacific Heights condo

#### Featured Property



981 BAILEYANA RD  
HILLSBOROUGH  
\$3,150,000  
4 Beds, 3.0 Bath  
Cashin Co.  
[More Properties](#)

[Search Real Estate >](#)

#### CARS



#### Only as green as the grid

When you drive an electric car, it's also powered by coal, natural gas, nuclear and hydropower

- Quiet hybrids: An end to the sounds of silence?
- Honda plans electric vehicle, plug-in in 2012
- Clean-tech, biotech help VC funding soar

#### Featured Vehicle

What's in it for the IRA owner? Coe says, "IRA owners love these loans due to their short-term nature, the upfront fees and the high rate of return, usually in the 8-12% range."

#### 4. Rent To Own/Lease Option

A rent-to-own arrangement, also called a lease option, lease to own or lease to buy, allows a homebuyer to rent a property for a specified initial term with an option to buy the property at the end of that term. Monthly rent payments are generally higher than market price, with the surplus going toward a future down payment. If the buyer opts not to purchase the property, the extra rent is forfeited.

Renting to own can be a good option for homeowners who aren't quite financially ready to buy but expect to be within the next three years. Perhaps they need time to amass savings and/or improve their credit score enough to qualify for a loan. Renting to own can also be attractive to individuals who are not sure if they will be moving in the next few years and want to keep their options open.

In rare circumstances, individuals may be able to turn a pure rental situation into a rent-to-own opportunity. That's what journalist Mary Pittman of Vero Beach, Florida, did with her house rental agreement.

She explains, "The fact that it wasn't for sale really didn't matter to me. At the end of the lease, I told my landlord that I was looking to buy a place." She asked if he would consider selling her the property, and they were able to reach an agreement that included seller financing based on her track record of making timely rent payments for a year. The rent she had already paid didn't go toward the purchase price like it would have in a typical rent-to-own arrangement, but the deal made sense for her.

#### Avoiding Pitfalls

In addition to the issues listed above, you should watch out for other potential problems with alternative financing.

Marcus McCue, a vice president at Texas-based Guardian Mortgage Co., Inc., advises



\$73,655  
BMW Concord  
[Details](#) | [Similar Cars](#)

[Search Cars »](#)

**KAANGO**  
CLASSIFIEDS



SCHNOODLE PUPPY-  
FEMALE-8 WEEKS OLD



The Cutest Miniature  
Dachshund Puppies  
Around!



Black Champion lines AKC  
Miniature & Toy...



[Help With Math Homework](#)

[Browse ads](#) | [Place an ad »](#)

that "unusual methods of financing a home can have some serious repercussions," including affecting retirement planning and incurring additional costs in the form of higher interest rates.

He also recommends, "Borrowers should at least check with a local title company or real estate attorney when planning to finance a home with one of these alternative methods. There may be specific requirements of the state lending laws or title process that could delay or prevent the home purchase from funding." McCue further suggests consulting a financial advisor before proceeding.

### **The Bottom Line**

Unusual home-financing tactics may be uncommon and hard to come by, but for people who fall into a category that makes it difficult to qualify for a mortgage, there are options to finance a home purchase beyond getting a mortgage from a bank.

However, if you know you've been repeatedly turned down for a mortgage for a good reason, like having a poor credit history or not really being able to afford a home, be honest with yourself about whether now is really the right time for you to buy.

Original story - [4 Alternatives To A Traditional Mortgage](#)

Copyright (c) 2010 Investopedia ULC. All rights reserved. Investopedia.com is a Forbes Digital Company.