

## Dealing With Money Seasoning Issues

In recent years, some lenders have been placing "seasoning" requirements on loan transactions. This has caused some grief to investors that do "sandwich" lease options. (A "sandwich" lease option is an arrangement whereby an investor leases a property with an option to buy from a homeowner, then subleases the property to a third party with an option to buy; the investor helps the tenant obtain a loan, then exercises his option to buy from the owner and simultaneously re-sells it to the tenant in a double-closing.)

Some lenders are afraid to fund the second part of a double-closing because of the possibility that the tenant/buyer's purchase price is inflated. The lenders are acting mostly out of irrational fear because of recent barrage of real estate scams.

### **Property flipping scams:**

There has been a lot of negative press and misinformation lately about double-closings. Many people have been indicted recently under what the press has called "Property Flipping Scams." Uninformed lenders, real estate agents, and title companies will tell you that double-closings are now illegal. In fact, they are nothing of the sort.

*The so-called property flipping schemes work as follows:* Unscrupulous investors buy cheap, run-down properties in mostly low-income neighborhoods. They do shoddy renovations to the properties and sell them to unsophisticated buyers at inflated prices. In most cases, the investor, appraiser and mortgage broker conspire by submitting fraudulent loan documents and a bogus appraisal. The end result is a buyer that paid too much for a house and cannot afford the loan. Since many of these loans are insured by the Federal Housing Authority (FHA), the Senate has held hearings to investigate this practice.

Despite the negative press, neither flipping nor double-closings are illegal. The activities described above simply amount to loan fraud, nothing more. Newspapers have inappropriately reported the activity as illegal "property flipping," rather than simply "loan fraud." As a result of this mislabel, some lenders have placed "seasoning" requirements on the seller's ownership. If the seller has not owned the property for at least twelve months, the lender will assume that the deal is fishy and refuse to fund the retailer's loan. If you stay in control of the loan process and steer your buyers to a mortgage company that doesn't have a hang-up with double-closings, then seasoning isn't an issue.

### **Two possible solutions:**

If your tenant/buyer has found a lender that is really stuck on the "seasoning" issue, you have two options: (1) sell your option to the tenant, or (2) have the owner buy you out of the deal.

If you sell your option the your subtenant, just assign your option to the tenant and let him close directly with the seller. From a tax standpoint, you fare better by selling the option, since it qualifies for long-term capital gains treatment. However, the tenant/buyer may not have enough cash to pay you the difference between your option price with the owner and his option price with you. You need to trust that the parties involved will pay you at closing (that's a lot to trust!).

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The other way to solve your problem is to approach the seller and ask him to buy you out of the deal. "Buying you out" means that the seller is going to pay you to cancel the lease option agreement so that the owner can enter into a purchase contract directly with your subtenant. It would be best if the seller paid you in cash before he closed with your subtenant. If the owner wants to wait until the subtenant closes the sale with him, you still have protection if you have a performance mortgage recorded against the property.

Thanks for taking the time to read this report. I hope you found the ideas thought provoking and beneficial.

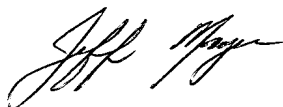
My goal with this report is to help point you in the right direction and give you some guidelines to help you make the right decision.

I know for you making the right choice is worth thousands of dollars and a great sense of "peace of mind." If there is ever any way I can be of service to you or anyone you know, please give me a call. ***Your initial consultation is always under no obligation and completely free of charge.*** We'll sit down for 15-20 minutes and I'll show you everything you need to know when buying or selling a home. No pressure... just plain honest talk about what it's going to take to get you the results you need.

If you have any questions or would like more information, please feel free to contact me anytime.

I look forward to hearing from you soon!

Warmest regards,



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