Land Contracts

Institution Affiliation

Date

**Part 1: Introduction**

According to Cornelius (2010), land Contract is an agreement between a buyer and seller of property in which the buyer makes payments toward full ownership and the title or deed is held by the owner until the full payment or obligation is fulfilled. It is also known as a contract for deed, agreement for deed or an installment sale agreement. Ownership is passed on after the buyer fulfills all the requirements in the agreement. Land contracts sometimes involve third parties who the buyer with a loan to be used in the purchase of the land. If this happens, then a lien is placed on the property so that the property is used as security to ensure that the third part is paid back the amount of money he or she loaned the buyer.

In Michigan, purchasers will gain title to the land. They will be considered as the possessors of the land. However, the title gained is just an equitable title while the real owner remains with the legal title. The equitable title allows the buyer to obtain property interest while legal title shows the real owner of the land. The buyer gets to use the land although she or he lacks the absolute ownership of that land. Statutory provisions provide that the interest rate when buying land cannot be more than 11%. In case of a loss of land as a result of forfeiture, the owner cannot claim the land. The law also prohibits disclosure of information or problems facing the land or the home by the seller to the buyer. China land contracts only allow the selling of rural land, this is because urban land is owned by the state and can therefore not be sold. Article 39 of The Property Law of the People’s Republic of China allows all owners to possess, utilize and dispose of land as they wish.

**Part 2: Advantages of Land Contracts**

**From The Sellers’ Perspective**

A land contract allows the sellers to contract with any person under the terms the seller desires by virtue of the freedom of contract. This, in turn, makes it easier for the sellers to sell their land. The buyer also gains tax advantages whereby taxable income is spread out with the incomes and in most cases; the buyer is responsible for paying property taxes and insurance, therefore, taking the tax burden from the seller. Cornelius (2010) states that land contract with a trust-worthy buyer will also allow the seller to receive regular and consistent cash flows despite him or her not being the manager of the land due to the equitable title being passed to the buyer on payment of the first installment.

Most countries allow the seller to collect interest payment on the payments for the property, this, in turn, allows the seller acquire higher payments. In case of a breach of the contract, remedies are provided to the sellers which allow the sellers to take back their property hence an easy cancellation of the contract. The cancellation process is also less expensive and less hectic when compared to a foreclosure. The seller offers a chance for buyers to pay the down payment and further installments towards the purchase of the land, unlike the traditional financing which requires a buyer to pay the money required in one proceeding. This allows the seller to acquire a large pool of buyers interested in the property.

**From The Buyers’ Perspective**

Qualifying for a contract deed is easier when compared to qualifying for a traditional mortgage as the buyer only has to show a consistent income flow and good credit. Factors like foreclosure which affect qualification in traditional mortgages are not considered in vetting the buyers. More so, the buyer is also able to negotiate for terms that suit his credibility and finances. The closing cost in a contract deed is low due to lack of the junk fees found in traditional financing. To avoid a large balloon payment due to interest accumulation, the buyer is forced to pay off the contract deed faster thus fast ownership of the legal title. The seller will not ask for appraisals, surveys and title searches unlike in traditional financing which in turn allows quick closing of the agreement.

**Part 3: Parts Entailed in the Contract**

The contract should contain payment terms which show the amount of money to be paid as down payment, the interest rate that will be charged, the period of time the contract will take and the amount to be paid as monthly installment. The contract should also contain conditions showing the transfer of equitable title to the buyer and the receipt of title insurance policy. The buyer is expected to sign in order to show a willingness to be bound by the terms of the contract (Jennings, 2008). The contract should clearly state who pays the property’s taxes during the duration of the contract. It is also advisable for the contract to have provisions requiring the seller to deliver warranty deed and to pay the taxes required when delivering the deed.

The contract should also provide conditions addressing the buyer’s rights during the contract agreement including; liability and casualty insurance, transfer of buyer’s interests, the condition of the property when in possession of the buyer and whether the buyer can make changes to the property. Provisions that express the seller’s right to place mortgage on the property and the legal remedies available upon breach of the term of a contract and the recording of the land contract with the county register of deeds upon execution should also be provided.

Land contracts can be bought in; Zillow.com, Realtor.com, Homes.com, Craigslist.org, Land contract realty.com or any local real estate company/website.

References

Cornelius, A. L. (2010). *The law of land contracts*. Chicago: Callaghan & Co.

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Jennings, M. (2008). *Real estate law*. Mason, Ohio: Thomson/South-Western West.

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