



DEFERRED DEEDS AN OPTION FOR PURCHASING PROPERTY?

By Scott Cotton

Owning a piece of the country is a dream enjoyed by a growing number, but most people don't have enough cash to pay for rural properties all at once.

To address the financing challenges faced by many, entities selling land parcels may offer "contract for deed" as an alternative to a mortgage loan.

Mortgage Loan vs. Contract for Deed

Mortgage loans with banks and other approved lenders go through a dramatically different process than contracts for deed. Mortgage loans, and the firms providing them, have to follow detailed processes set forth in state and federal law.

These lending firms are audited by government inspectors to guarantee appropriate business practices. Mortgage loans involve a promissory agreement, credit checks, title insurance, and appraisals and an escrow account administered by the lender. When the loan has been granted, the purchaser actually owns and records ownership of the property along with a lien recorded on the part of the lender's financial interest at the county courthouse.

If a purchaser neglects to make good on a financial lien commitment, the lender can take legal action to regain the amount of funds committed by the lender with the remaining equity still belonging to the purchaser. A landowner who purchased property

via a mortgage loan retains all increased value and appreciation above and beyond meeting the financial lien.

By purchasing land parcels on a contract, the buyer usually signs a private contract and makes a deposit on the purchase with the understanding a monthly sum will be paid to the landowner.

Contracts for deed are often one of the options if a purchaser cannot provide suitable down payment or does not qualify for conventional mortgage loans. These agreements have a wide variety of conditions and clauses agreed to by both parties. Once these arrangements are made, the buyer usually has the civil right to start using the land, including erecting a residence.



This contractual use is the primary benefit of purchasing with a contract or deferred deed. Contract land sales are referred to as deferred deeds because the buyer does not actually receive a deed and record a change of ownership at county courthouses until the conditions of the contract are met. If the buyer defaults on payments or terms, the land and sometimes the improvements may revert to the original owner. This element protects the land seller by safeguarding their investment and offering agreeable payments for the buyer. The buyer may make payments for five to 20 years depending on the contract and pay an interest charge each payment for the privilege of financing convenience.

Potential Nightmares

Some of the pitfalls encountered when purchasing land on contract relate to improvements made on properties. Reading and having contracts legally reviewed prior to committing is important. A buyer can lose his or her investment when a contract is breached or rescinded. If conditions of the contract waive all improvements back to the owner in case of default, a buyer can be forced to simply walk away from significant investments they made, such as a house, outbuildings, or infrastructure.

Within such agreements, the equity developed by a purchaser may not be protected. In fact, there may be language agreed to by both parties that any improvements or equity developed reverts back to the property owner since, until the deed is actually transferred, the purchaser is just a contractual tenant.

Note that property owners selling contract for deed usually want the agreement to succeed so they can

have a predictable cash flow. But in cases where the purchaser defaults on contract decisions, there are usually conditions set to recapture all possible value back to the owner.

The purchaser often pays his own costs if seeking legal regress in court, and, unfortunately, some contracts require the purchaser to cover the legal costs of the property seller. Closely reading the contracts and getting a legal and financial review before committing is crucial.

Other pitfalls encountered when purchasing land on contract are related to county, state, and federal land-use regulations. Although many elements of local and state regulations become obvious when building a residence, many, such as easements, water regulations, zoning regulations, land-use guidelines and other issues, are not initiated by agencies until the deed transfer is recorded.

In plain language, government entities often do not actually know the identity of the contractual tenant until the deed is recorded. This makes it difficult for the agencies to provide protection, assess taxes, and manage land-use guidelines on parcels sold by contract. A buyer may not become aware of certain requirements and the status of legal rights for years. Unfortunate examples include having to remove unallowable buildings and vehicles or change a land use once the deed is recorded.

Before Entering into an Agreement

All of this boils down to some recommendations for people considering purchasing land using a deferred deed or contract for deed:

- Read the purchase contract carefully and confer with legal counsel licensed in the state containing the property.
- Make sure you know what will happen to added infrastructure and investments.
- Contact your local county planning office for zoning ordinances.
- Contact the Wyoming State Engineer's Office for information about water rights, wells, and more.
- Contact the county weed and pest control district for ordinances.
- Visit with emergency service agencies about coverage.
- Find out how many parcels have been re-sold under adverse conditions in an area.
- Contact an insurance broker and discuss your plans.
- Contact lenders about other purchase options and future refinancing options.
- Visit with other landowners about the land's status and condition.
- As with all land purchases, it is advisable to visit the area in multiple seasons to ensure you will enjoy the location should you plan to live there year-round.

Do your homework, and we strongly urge you to consult a lawyer. Your dream of owning a place in the country can become a reality, and caution can help your dream have a happy ending.

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