



How A Buyer Can Refinance Quickly

If the seller has enough cash to do the transaction this way, there are a number of ways to have the new buyer refinance quickly. I recommend having the new buyer get an equity line or a six month line of credit. There are 6 reasons why one may want to start with an equity line and get a permanent mortgage later.

1. The buyer can typically refinance within a week or two, fully paying off the seller and the closing costs may be between \$0 and \$500. The loan may be as low as prime -1 % or as high as prime plus 2%. Sometimes these 6 month notes can be obtained with no payment until the end of 6 months.
2. The closing costs on an equity line or line of credit have ranged from \$0 to \$500. Thus it does not cost me much to do the loan and later refinance with a permanent mortgage.
3. It gives added flexibility in case I want to immediately resell the property without wasting closing costs on origination fees etc.
4. This method allows some time to pass before the buyer gets a permanent mortgage. This possibly has some benefits. Specifically, allowing time between the purchase and refinance may allow for more leniencies with the rules for appraisal. The appraisal might come back higher just because the new buyer waited a few months. It also may add leniency from the underwriter and may prevent problems that would hold up or even cancel the closing. The cost of this method is really just the additional closing costs of the first loan (maybe just a few hundred dollars or less).
5. Using the six month note with a local branch allows enough time for the property to season to use major brokers. This could ultimately result in getting a better rate than if you refinance right away with a local bank with a 15 or 30 year fixed mortgage. Often the rates are lower through major brokers, but many major brokers who offer the best rates won't allow the immediate cash out refinance.
6. If you have a good business plan and relationship with a local bank, they will probably let you put a 6 month note on the property in your L.L.C.'s name if you sign for it personally. I know it is significantly more complicated and requires a little more work, however, .5% reduction in interest rate over 15 or 30 years will probably be worth your time and effort depending on the cost value you put on your time. For me, it is worth it.

If the seller can wait a little longer, the buyer can refinance right away with a longer term loan like a 15 or 30 year fixed. This method is advisable if the new buyer knows that they will be renting this property for an extended period and knows that they will not quickly resell. It is very difficult, however, to get a major mortgage company to underwrite such a transaction.

Typically these need to be done by a relatively strong buyer by a local bank, or a bank that does not have seasoning requirements. Most major mortgage companies can refinance the new buyer after 6 or 12 months if the buyer and property qualify.

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