

Buying A Home With Loans From Family And Friends

Asking for a home loan from a friend or family member is difficult; even if they are people close to you. The money involved is big and you probably see each other frequently or at least once a year. If they turn you down, you might feel uncomfortable with each other. But if you could show them how it could also work for their advantage, you'll achieve a favorable result.

- **Asking for the loan**

Thomas Fox, community outreach director at Cambridge Credit Counseling said borrowers should approach a private home loan the same way they would a mortgage from a bank. Before you go talk to a relative or friend asking for a loan, you should come up with a plan or proposal.

"Borrowers should be realistic about what a practical repayment plan would be and not try to borrow more than they can repay. You have to treat it the same as any kind of loan and be realistic," he says.

When you have a contract for the loan, even if it is with your parents, they can sue you for missed payments.

- **What private home loans have in common with traditional loans**

Private home loans or private mortgages are also called intrafamily mortgages. They are not very different from a loan you could get from a bank or credit union.

- Both parties - lender and borrower, sign a promissory note or a mortgage note. This note contains the terms of your agreement.
- The promissory note states the following: amount that was borrowed; the interest rate; frequency and date of payments.
- There will be a deed of trust which gives the lender the right to foreclose the property when the borrower fails to pay according to the payment plan.
- The lender holds a lien on the mortgaged property.

This set-up is also for the protection of the borrower. The lender cannot ask for full payment abruptly or foreclose on the property because of personal reasons. Your friend or relative can't just change the payment plan because they changed their mind and want the money back.

- **How borrowers can benefit from private home loans**

- You can get better interest rates. You can negotiate with the lender interest rates that is more reachable for you. The lender can still benefit from this arrangement even if the interest rates you propose is less than what the banks apply.



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- You can propose a payment term that's doable for you. It can be monthly, semi-weekly or any other. But even if your lender is generous, don't take advantage. Live up to the terms you agreed on.
- Federal tax deductions that apply to institutional loans can also be applied to private home loans.
- **How Lenders Benefit from private home loans**
 - Even if the interest rates your proposed are less than what the bank applies, they can still get more compared to other investments like a savings account in the bank or other investment.
 - This will give your friend or family extra income. The promissory note gives them a sense of assurance that they can expect a certain amount from you based on what was agreed upon.
- **What happens if you miss payments?**

Sometimes unexpected things happen that will cause us to miss payments. You might suddenly lose your job or accumulate medical costs that you didn't financially plan for. Discuss this situation with your lender. This also applies to institutional loans. The loan can be modified like lowering or postponing the payments but for a longer loan term. But don't avoid your lender's calls. It might lead to more problems.



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