



## ***Freddie Mac – Land Contract Rules: Refinance or Purchase?***

There is a lot of confusion when it comes to paying off a land contract with a first mortgage. Should it be treated as a refinance? A purchase? What documentation is needed?

Here are Freddie Mac's rules as of December 16, 2011.

### **Land Contract – Contract for deed documents**

- A copy of the executed land contract or contract for deed must be included in the file
- Payoff letter from land contract holder
- Land contract/contract for deed payoffs on a manufactured home are NOT eligible

### **To be treated as a Purchase**

- Land contract/contract for deed must be less than 12 months old at the time of mortgage application
- None of the loan proceeds can go back to the borrower
- LTV is calculated by using the lower of the following two:
  - Current appraised value, or
  - Total acquisition cost (price on land contract plus documented improvements and cost of improvements to the property)

### **To be treated as a No-Cash Out Refinance**

- Land contract/contract for deed must have been executed at least 12 months prior to the application date.
- LTV based on current appraisal
- 12 months payment history must be documented via a third party (i.e., cancelled checks, money orders, etc.)
- Must meet standard no-cash out refinance guidelines.