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REAL ESTATE

Creative Financing Explained: Seller Financing, Subject-To, and Lease Options

By Scott Tischler · July 28, 2026 · 10 min read

Most people think buying real estate means one thing: go to a bank, qualify for a loan, put money down, get the keys. That is one path. It is not the only one, and over 25-plus years of investing I have closed plenty of deals that never touched a traditional mortgage. I bought my first property in 1998, sold my portfolio ahead of the 2008 crash and re-entered, and along the way bought everything from single rooms I rented out to a 48,000-square-foot warehouse. **Creative financing** was often how the harder deals got done.

This is education from a practitioner, not personalized financial, legal, or investment advice. Creative finance touches real contracts, real law, and real people's money. Use good local counsel and a title company on every deal. And do it the honest way — the reputation you build is worth more than any single transaction.

What is creative financing?

Creative financing is any method of structuring a real estate purchase that does not rely on the buyer getting a new conventional bank loan. Instead of a lender providing the money, the deal is financed by the seller, by the existing mortgage, or by a contractual arrangement between buyer and seller.

Why does it exist? Because the standard bank path leaves a lot of good deals on the table. A seller who owns their property free and clear might prefer steady monthly income over a lump sum. A buyer with a solid income but a thin credit file might be a great risk that a bank's rigid box rejects. A property that needs work might not qualify for conventional financing at all. **Creative finance widens access — it lets motivated buyers and sellers transact when the bank says no or when a bank simply is not the best fit.**

Done right, it is a win-win. Done carelessly or deceptively, it hurts people and lands you in court. The structures below are neutral tools. The ethics are on the operator.

Seller financing: the cleanest structure

Seller financing (also called owner financing) is when the seller acts as the bank. Instead of you getting a mortgage, the seller lets you pay them directly over time, usually with interest, under a promissory note secured by the property. You take ownership; the seller holds a lien until you pay them off or refinance.

This works best when the seller owns the property outright or has significant equity. You and the seller negotiate the terms directly:

- **Purchase price**
- **Down payment**
- **Interest rate**
- **Amortization and monthly payment**
- **Term and any balloon** (a date by which the remaining balance is due, often a few years out)

Why a seller would want this: it can spread out their tax hit, generate reliable monthly income at a better yield than a savings account, and help them sell a property faster or at a better price. Why a buyer wants it: flexible qualification, potentially lower closing costs, and negotiable terms a bank would never offer.

Do it right: use a real promissory note and mortgage or deed of trust, record it properly, use a title company or attorney, and make sure the price and interest rate are fair to both sides. A seller-financed deal that buries the buyer in an unpayable balloon, or that overcharges a desperate seller, is not clever — it is a problem waiting to happen.

Subject-to: buying with the loan in place

A subject-to purchase means you buy a property "subject to" the existing mortgage staying in place. The seller's loan is not paid off at closing; instead, you take title and make the payments on the seller's existing mortgage. The loan stays in the seller's name, but you control the property and are responsible for keeping the payments current.

This shines when a seller needs out — a relocation, a hardship, an inherited property they cannot manage — and there is little equity to justify the cost of a new loan. You step in, take over a mortgage that may carry a below-market interest rate, and give the seller relief.

Subject-to is the most misunderstood and most abused structure in creative finance, so be clear-eyed:

- **The due-on-sale clause.** Almost every mortgage lets the lender call the full balance due if the property transfers. Lenders rarely enforce this while payments are current, but the risk is real. Both parties must understand it.
- **The seller keeps the liability.** The loan stays on the seller's credit. If you stop paying, you damage a person who trusted you. That is why this structure demands the highest integrity.
- **Full, written disclosure.** The seller must genuinely understand what they are agreeing to. Never rush or pressure a distressed seller into subject-to. Put everything in writing, use an attorney and title company, and make sure the seller has independent understanding of the deal.

My rule on subject-to: if you would not be comfortable explaining the exact structure and its risks to the seller's own attorney, do not do the deal.

Lease options: control now, buy later

A lease option combines a lease with an option to purchase. You lease the property from the owner for a set period, and you hold the exclusive right — but not the obligation — to buy it at a pre-agreed price before the option expires. Part of your rent may be credited toward the eventual purchase.

Two pieces make it up:

1. **The lease:** a standard rental agreement, often with the tenant-buyer handling more maintenance than a typical renter.
2. **The option:** for an upfront **option fee**, you lock in the right to buy at an agreed price for a defined window.

This is a great fit when a buyer needs time — to repair credit, save a down payment, or season income for a future mortgage — while still locking in a price and living in the home. For a seller, it produces rent plus a committed future buyer and an upfront non-refundable option fee.

Structure it fairly: be explicit about the purchase price, the option period, how much rent (if any) credits toward the purchase, whether the option fee applies, and what happens if the tenant-buyer does not exercise. The abuse to avoid here is setting a buyer up to fail — a term too short or a price too high — just to pocket a series of option fees. That is not investing; that is churning people.

Wraps: financing on top of financing

A wraparound mortgage, or "wrap," is a form of seller financing layered on top of an existing loan. The seller keeps their original mortgage and creates a new, larger note with the buyer that "wraps around" it. The buyer pays the seller on the wrap note; the seller keeps paying their underlying mortgage. The seller typically profits on the spread between the two interest rates.

Wraps blend elements of seller financing and subject-to, so they carry the same due-on-sale exposure and the same need for airtight documentation and disclosure. Because there are two loans stacked, a **servicing company** that collects the buyer's payment and ensures the underlying mortgage is paid is a smart safeguard. This is advanced territory — use experienced counsel.

How do the structures compare?

Here is the quick-reference view I keep in my head when I size up a deal.

Structure	Who "lends"	Title transfers at close?	Best when	Primary risk
Seller financing	The seller	Yes	Seller owns free and clear	Buyer default; balloon risk
Subject-to	Existing lender (stays in place)	Yes	Low equity, seller needs out	Due-on-sale; seller keeps liability
Lease option	No lending; lease + option	No, later	Buyer needs time to qualify	Buyer never exercises; terms unfair
Wrap	Seller (over existing loan)	Yes	Seller has a low-rate loan to leverage	Due-on-sale; two-loan complexity

When does creative financing make sense?

Reach for these tools when the conventional path does not fit and a fair structure serves both sides:

- **The seller values income or speed over a lump sum** — seller financing or a wrap.
- **There is little equity and the seller needs relief fast** — subject-to, done with full disclosure.
- **The buyer is strong but not yet bankable** — a lease option buys time honestly.
- **The property will not qualify for a bank loan** in its current condition.
- **Interest rate arbitrage exists** — an assumable-in-practice low-rate loan is worth preserving through subject-to or a wrap.

And when should you not? When the only way the numbers work is by misleading someone, when a distressed seller does not understand the deal, or when you are skipping title and legal review to move fast. **If the deal only works because someone does not understand it, walk away.**

How do you do creative finance ethically and legally?

This is the part that matters most, and it is where I plant my flag. Creative financing has a reputation problem because a minority of operators use it to prey on desperate people. Do the opposite.

- **Full, plain-English disclosure.** Every party should understand exactly what they are signing, including the risks. Explain the due-on-sale clause. Explain the balloon. Encourage the other side to get their own attorney.
- **Real documents, properly recorded.** Promissory notes, mortgages or deeds of trust, option agreements, leases — drafted or reviewed by a qualified attorney and closed through a title company or escrow.
- **Fair terms on both sides.** A price and rate that a reasonable person would accept with full information. If you would be ashamed to explain the terms out loud, they are wrong.
- **Follow the law.** Owner-financing consumer protections (such as the Dodd-Frank and SAFE Act rules in the U.S. for owner-occupant buyers), state licensing, and disclosure requirements are real. Know the rules in your market and comply.
- **Do what you say.** Make the payments. Honor the option. Keep the underlying loan current. Your word is the collateral that makes creative finance work at all.

Creative financing widens access to real estate — for buyers the bank rejects and sellers the bank cannot serve — and that access is a genuine good when the deals are fair. The structures are powerful because they are flexible. That same flexibility is exactly why they demand more honesty, not less. Learn them, use good counsel, treat the other side the way you would want to be treated, and creative finance becomes one of the most valuable tools in your investing career.

Key takeaways

- Creative financing structures a purchase without a new conventional bank loan, widening access for buyers and sellers the bank cannot serve.
- Seller financing makes the seller the bank via a promissory note; it works best when the seller owns the property with significant equity.
- Subject-to means taking over the seller's existing mortgage, which stays in their name — powerful but demanding full disclosure because the seller keeps the liability.
- Lease options give a buyer the right to purchase later at a set price while leasing now, ideal when the buyer needs time to qualify.

- Wraps layer new seller financing over an existing loan and carry due-on-sale risk plus two-loan complexity, so use a servicer and counsel.
- Ethics are everything: full plain-English disclosure, real recorded documents, fair terms, legal compliance, and keeping your word.

Frequently asked questions

What is creative financing in real estate?

Creative financing is any way of structuring a property purchase that does not rely on the buyer obtaining a new conventional bank loan. Instead, the deal is financed by the seller, by the property's existing mortgage, or by a contractual arrangement like a lease option. It exists to let motivated buyers and sellers transact when a bank says no or when a bank is not the best fit for either party.

What is seller financing?

Seller financing, or owner financing, is when the seller acts as the bank and lets the buyer pay them directly over time, usually with interest, under a promissory note secured by the property. The buyer takes ownership while the seller holds a lien until the loan is paid off or refinanced. It works best when the seller owns the property free and clear or has significant equity.

What does "subject-to" mean when buying a house?

A subject-to purchase means you buy a property subject to its existing mortgage remaining in place, so the seller's loan is not paid off at closing. You take title and make the payments, but the loan stays in the seller's name and on their credit. Because the seller keeps the liability and the loan carries a due-on-sale clause, this structure requires full written disclosure and the highest integrity.

How does a lease option work?

A lease option combines a rental lease with an exclusive option to buy the property at a pre-agreed price before the option expires. The buyer pays an upfront option fee to lock in that right, and part of the rent may be credited toward the eventual purchase. It suits buyers who need time to repair credit or save a down payment while still securing a price and living in the home.

What is a wraparound mortgage?

A wraparound mortgage, or wrap, is seller financing layered on top of the seller's existing loan. The seller keeps their original mortgage and creates a new, larger note that wraps around it; the buyer pays the seller, who continues paying the underlying loan and profits on the interest-rate spread. Wraps carry due-on-sale risk and two-loan complexity, so a servicing company and experienced counsel are strongly advised.

Is creative financing legal?

Yes, creative financing is legal when done properly, but it is governed by real rules that vary by location. In the U.S., owner-financing to owner-occupant buyers can trigger Dodd-Frank and SAFE Act consumer protections, and state licensing and disclosure laws apply. Use real, properly recorded documents, close through a title company or attorney, and comply with local law on every deal.

What is the due-on-sale clause and why does it matter?

The due-on-sale clause is a provision in most mortgages that lets the lender demand the full loan balance if the property is transferred. It matters most in subject-to deals and wraps, where the original loan stays in place after the sale. Lenders rarely enforce it while payments are current, but the risk is real and both parties must understand it before closing.

How do I do creative financing ethically?

Give full, plain-English disclosure so every party understands exactly what they are signing and its risks, including the due-on-sale clause and any balloon payment. Use real documents drafted or reviewed by an attorney, close through a title company, set fair terms both sides would accept with full information, and follow the law. Above all, keep your word — make the payments and honor the agreement.

About the author. Scott Tischler is the Founder & Chairman of AIrecommend.ai and a practitioner-authority on AI search and Answer Engine Optimization. With 20+ years in marketing technology — including American Express, MetLife, and UBS — and executive study at Wharton, Harvard, Yale, and Oxford, he helps businesses become the ones AI recommends.