

## A Land Contract Gone Bad

Written by Steve Marr  
Monday, 13 August 2012 02:16

---

A businessperson sold a building five years ago for \$850,000 with \$80,000 cash down. Interest payments were at 6% with the balance due after five years with a balloon payment. The interest was paid each month on time and the balance is now \$770,000.

However, the property value has dropped from \$850,000 to around \$275,000. When the buyer saw the value plummet, he notified the original seller that he was defaulting on the contract and would sign the deed back to the seller.

The seller was outraged, claiming that the buyer had an ethical responsibility to pay the balance, and asked me for guidance about the best way to collect. I read the contract, and while I am not an attorney, I explained that the seller had a problem. The land contract called for payment in full, but the only collateral was the property. There was no personal guarantee nor were any other assets pledged as security. In essence, the contract called for paying the note in full or returning the property. The buyer had maintained the property and made all interest payments. He just decided not to follow through on the final payment amount of \$770,000, given the decreased property value. The buyer had two ways of fulfilling the agreement: pay the money or return the property.

The seller wanted to believe that there was a personal guarantee, either legally or ethically; but there was none. The seller assumed that his security was that the property would hold value or increase over the next five years. Unfortunately commercial property values dropped.

The seller believed that this scripture applied: "The wicked borrow and do not repay, but the righteous give generously. (Psalm 37:21, NIV) However, I explained that he was getting paid. He would get the property back rather than cash. If the agreement had been written differently, specifying that cash was due and providing a personal or other guarantee; then, the buyer would be required to pay.

Every business investment has some risk, and someone assumes that risk. In this case, the seller believed the property value protected him, that if the buyer failed to pay he would take the property back and resell. In this case, the seller assumed a risk he did not fully grasp. James points out, "Why, you do not even know what will happen tomorrow. " (James 4:14, NIV) Since the future is not predictable, any investment places us at some risk.

Digging a bit deeper with the seller, I learned that he had received another offer for the property of \$750,000 cash, an offer he declined to accept the higher \$850,000 land contract. Every day we make business judgments, some better than others. In retrospect, the seller should have taken the \$750,000 cash offer. Without knowledge about the declining land values in the future, he did not.

I told the seller that he was stuck with his agreement and needed to accept the property back as full payment with a good spirit. The buyer was using the property for his business and offered a

## **A Land Contract Gone Bad**

Written by Steve Marr

Monday, 13 August 2012 02:16

---

reasonable rental agreement, an agreement I advised the seller to accept.

Steve Marr, Your Christian Business Coach

Subscribe to the free Business Proverbs e-mail here: <http://bit.ly/ncixc1>