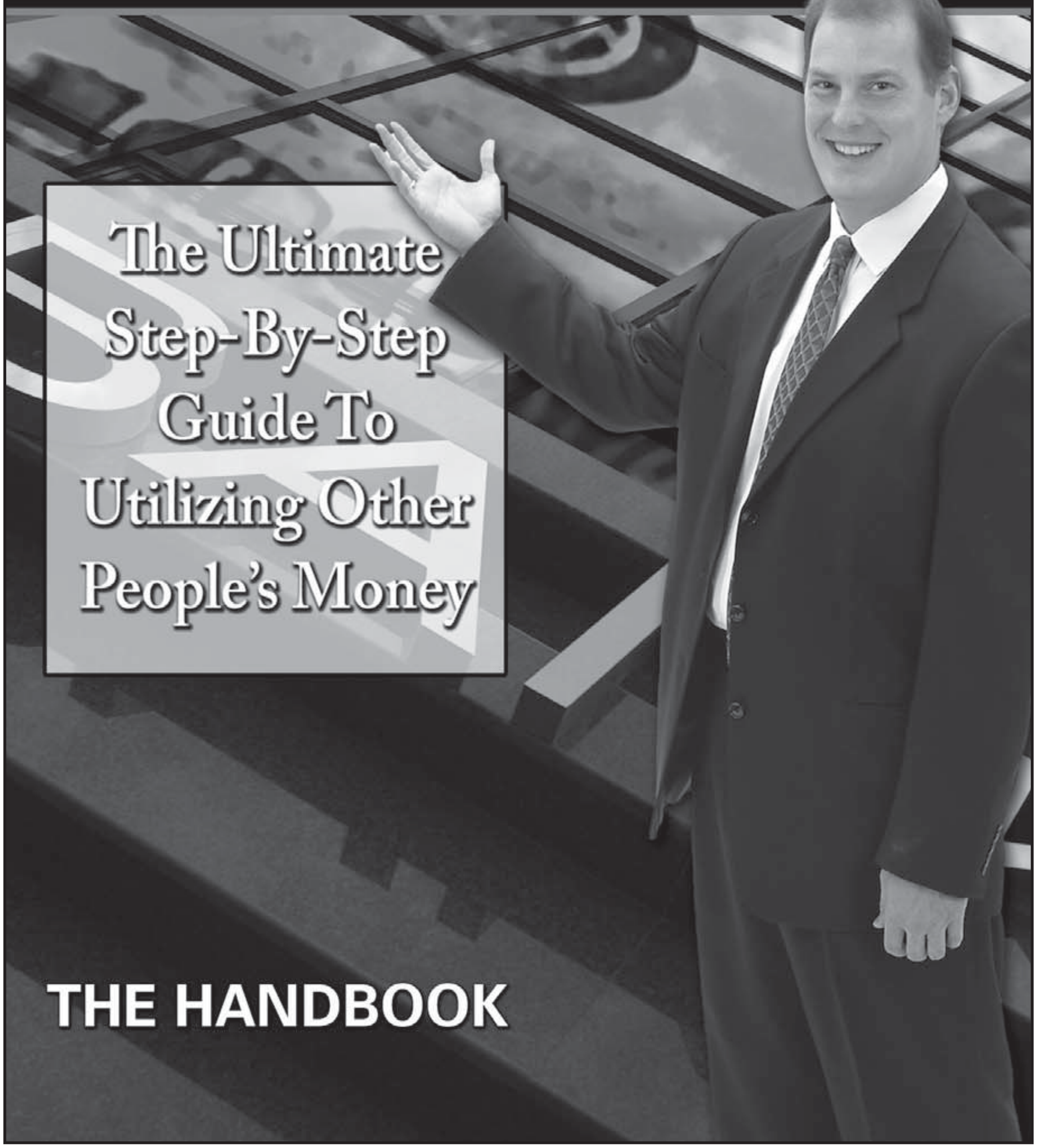
Don DeRosa

PRIVATE LENDING 101



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Introduction

You must learn to use other people's money to buy real estate

I grew up in a family that has had real estate in its portfolio. My father bought duplexes. He would buy a duplex; fix one side up and rent the other one. Once he got that side fixed up, he would rent it and then fix up the originally rented side. Once he got those two sides fixed up, he'd keep it for four or five years, turn around and sell it. He got to a point where he held about five properties, and he held those forever. To this day, my mother is living off of those rents plus the fixed income that she receives. So I always knew that real estate was where I wanted to be.

Now, I buy anywhere from ten to twenty properties a month. I keep half of them, and sell the other half. I have seven people in my company right now, including my partner and me. Now we're branching out into the mortgage side, the listing side and a land development company.

We've taken the business, in just a few short years, from a one-person show to a fairly decent-sized business. So what has made the company so successful?

Three Essential Tools

I attribute our success to three basic real-estate tools. First, I learned how to buy houses "subject-to" an existing mortgage. That's the topic of my most comprehensive course, *Building Wealth with Real Estate*. Second, I learned how to short-sale; I teach that course as well, *Short Sale Profits Made Easy*. Finally, I learned how to use other people's money to buy real estate.

In this course, I'll teach you about this third tool. Together, these tools provide a system for making big money in real estate with very little risk. It's a system I believe in, and that's why I teach it to others.

These tools provide a system for making big money in real estate with very little risk

In every course that I teach, I give you a start to finish approach. I want you to know how to connect the dots. How do I take it and plug it into my system?'

Before I get into private lending, though, let's talk briefly about the other tools. First, let's talk about buying houses subject to an existing mortgage. I'll refer to this as "subject-to" throughout this course.

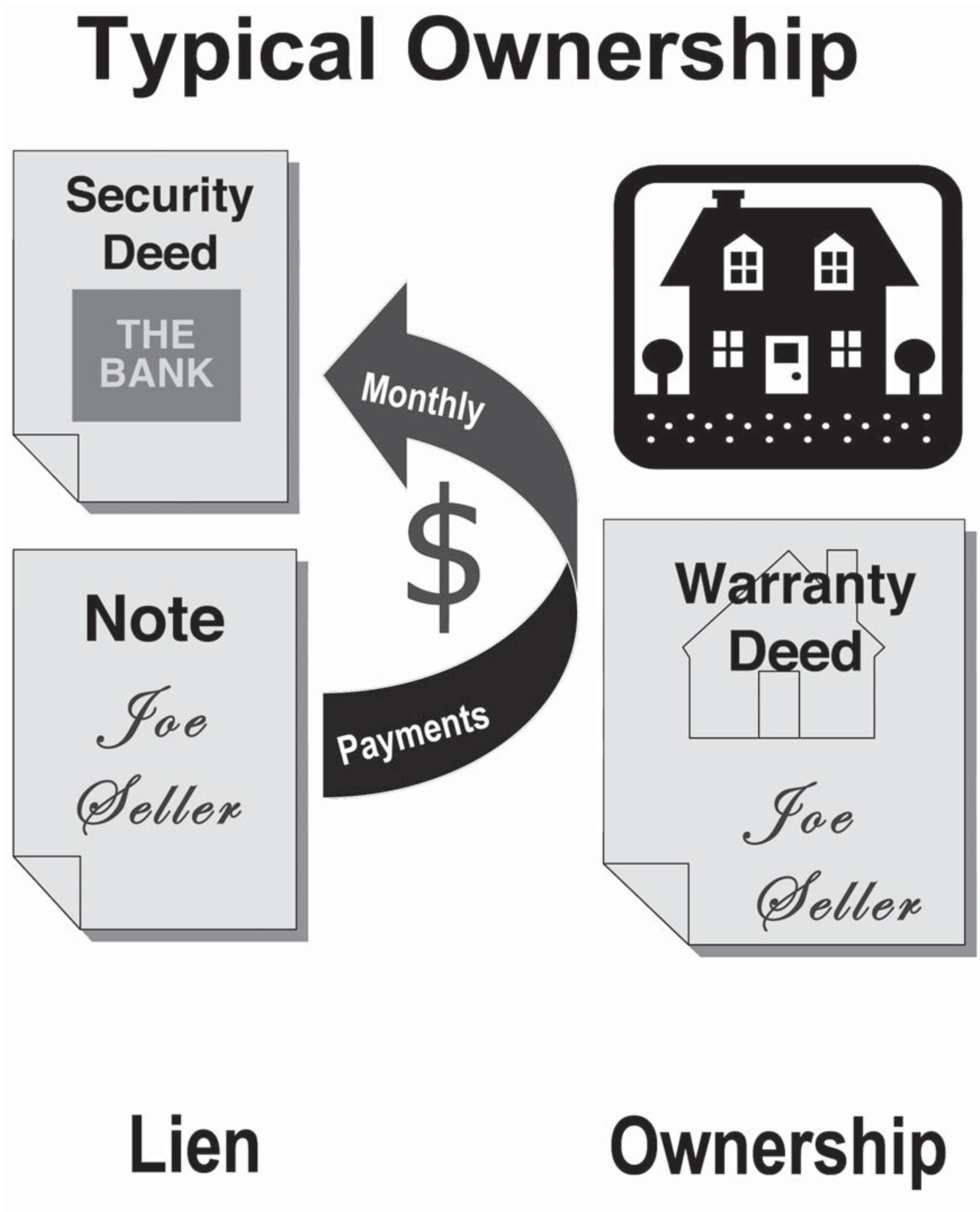
Let's say I guarantee you a $20,000 profit for buying a house, and you wouldn't have to use your credit, you wouldn't have to sign a note, and you wouldn't even need your own cash. Would you buy the house? Of course you would!

It's easier than you might think. The secret is to buy the house subject to an existing mortgage, and use someone else's money to do it.

You see, when you buy subject-to, you utilize the existing financing that's on the property. In other words, you buy someone's home, and you leave the seller's mortgage in place. The seller conveys the title to you so you get ownership. The loan stays in their name, so you have no liability. That's the basics of it.

Let's take an example. Let's say Gene has a house for sale for $100,000. I offer to give him $100,000 cash. In return, he's going to pass a warranty deed to me, which is how ownership is conveyed in Georgia.

But what if I don't have $100,000 cash? Well, I might go to a bank to get a loan, but there's another way to do it.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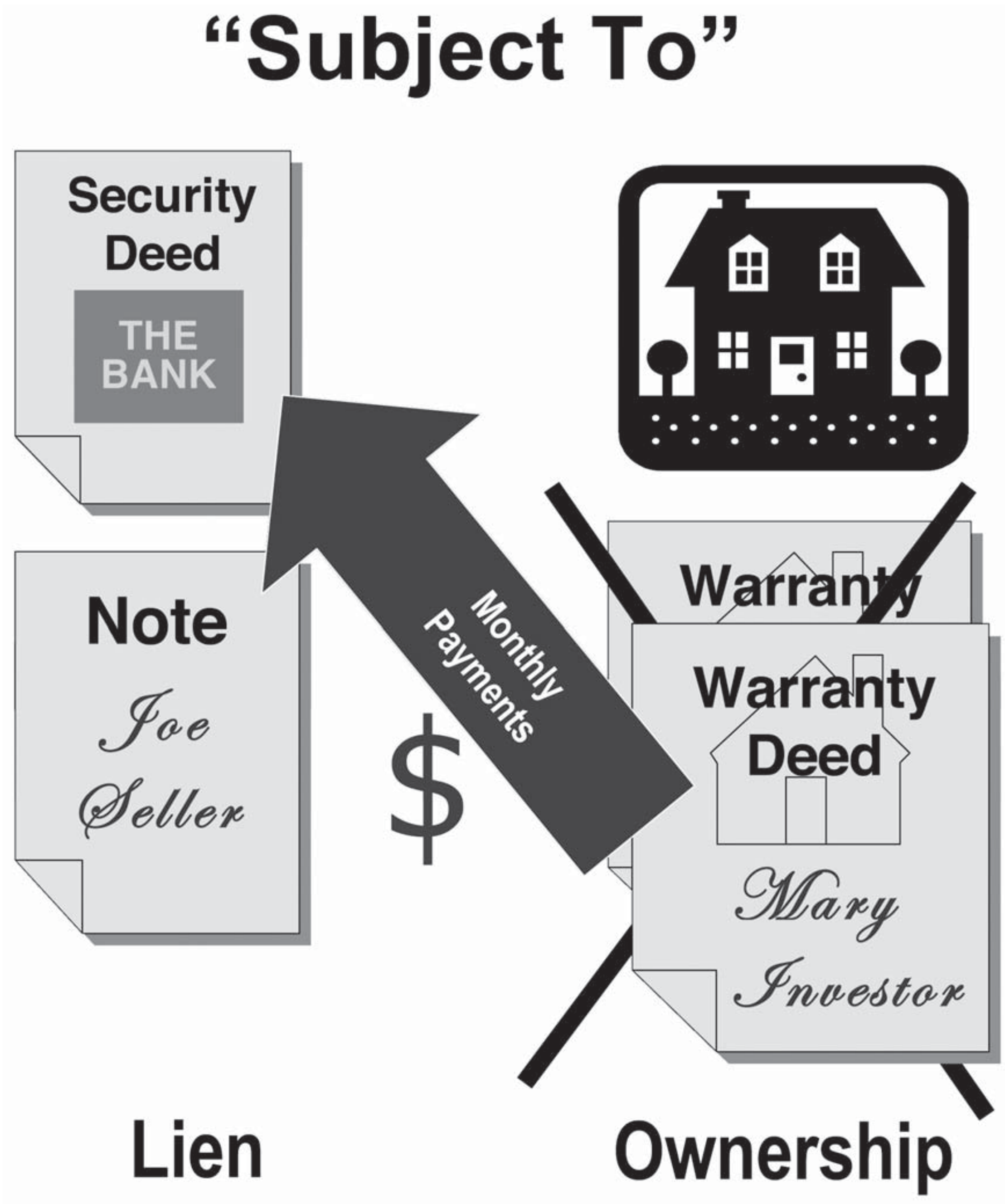
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Let's say instead I go to Jeff. I say, "Jeff, I'd like to borrow $100,000." And he says, "Okay, great. You need to sign a promissory note." A promissory note is simply a promise to pay, based on certain terms and conditions.

But that's not all. Jeff is also going to say, "I like you. You seem like a nice guy, but I need collateral. I need something that you'll have to give to me if you don't pay me back." And that's where the security instrument comes in.

In a subject-to transaction, the only thing that really changes during the transaction is the warranty deed

There are three types of security deeds: a mortgage, a security deed, and a deed of trust. They all basically say that if I don't pay back the loan, Jeff gets the house. In other words, it allows for a foreclosure.

When a house goes into foreclosure, the bank is simply exercising the default clause in the security document, which allows it to come in and grab the warranty deed out from under the owner. The document that allows it to do that is a security deed. The bank (or, in this case, Jeff) takes that security deed to the county clerk's office and records it there. That creates a lien on the house.

In a subject-to transaction, the only thing that really changes during the transaction is the warranty deed. The warranty deed basically gets passed from your seller to you. In other words, the name on the warranty deed changes. In exchange, you take over the mortgage payments and you make them to the bank.

The Due-On-Sale Clause

There's a due-on-sale clause in almost every security deed. A due-on-sale clause says that if the house changes hands, the bank can collect the whole mortgage amount. In my subject-to course, I show you how to get around

There is no due-on-sale jail

that. For now, just remember that if you transfer title, no one is going to put you in jail. There is no due-on-sale jail! The bank has the right to call the note due, but banks don't want houses. They want money. As long as they're getting their money, they'll rarely call a note due.

Of course, I can't guarantee that a loan won't be called due, because there's a possibility every single time. But I will tell you that I've purchased a lot of homes, all of which I purchased subject-to, and I've never had any of them called due. Mostly it's because I make the payments and I do business right, and I don't give the bank any reasons to enforce that clause. There are also some tricks of the trade that keep the lender from noticing that the property has been transferred; still, a lot of my lenders know that I own these homes, but as long as the money keeps coming in, they're okay.

How did the due-on-sale clause come about? In the 1970s, interest rates were in the high double digits. So when people bought houses, instead of getting new loans they'd ask the seller, "Can I assume your loan?" Back then, most loans were assumable. So the buyer would take over an assumed loan at 7%, 8%, or 9%. Well, the banks were missing that yield spread, saying, "Wait a minute! We could be getting 16% but we're only getting 8%!" So they decided to start putting a due-on-sale clause in their mortgages.

But there was a problem. A lot of people legitimately transfer titles back and forth into different entities like trusts, mainly for estate-planning purposes. And the banks tried to close all the loopholes for doing that.

In the end, Congress passed a law saying that if a property is put into a land trust for estate planning purposes, the lender cannot call it due. That's why when you take title, you take title in a land trust. And the land trust also helps hide who owns the property, so that if someone wants to come after your assets some day, it makes it a little more difficult to find out that you own it — you're not on the public record.

The land trust helps hide who owns the property

For purposes of this course, though, I just want you to understand the concept of "Subject-To." Just understand that when you buy "Subject-To," the seller deeds you the house, leaves the existing financing in place, and you simply make the payments to the bank. But you DO own the property.

1 Private Lenders: The Basics

Usually to find a private lender,
all you have to do is ask

So who are private lenders?

Private lenders are individuals who have money to invest, but are not in the business of lending money. A private lender can be anybody. Let me ask you: Do you have an old 401k sitting in the bank earning absolutely nothing? Why not roll that money over into an IRA, and then earn a decent return secured by real estate?

There are A LOT of people with old 401k accounts! The secret to finding these people is, simply ask. There's no magic pill. It takes a little effort, and you need to know what to say. But all you have to do is ask.

Real estate cycle of prosperity

Before we go any further into private lending, let's talk about the real-estate cycle of prosperity. Picture a conveyer belt — an automobile assembly line, if you will. You can't build a car by putting the tires on first. Tires aren't the first things that go on. I've never built a car, but I can tell you the tires don't come first.

Real estate is the same way. Picture real estate as a conveyor belt, or an ongoing cycle. What goes on the conveyor belt?

First and foremost, you need to conquer your fears. Maybe you're afraid of talking to people, or afraid of the paperwork, or of taking the risk, or even of succeeding. You have to be able to conquer your fear, whatever it is.

The second thing you must do is plan your goals. We discuss this in detail in my *Building Wealth* course. Goal-planning is essential, and you've got to do it in writing.

Third, you've got to set up a marketing plan and marketing budget. I have found that it will take about $700 of marketing for each house you plan to buy.

Finally, you've got to set up a system of organization that will make it easy to get things done.

You've got to set up a system of organization that will make it easy to get things done

I talk about all these topics in detail in my *Building Wealth* course. If you don't get it there, be sure you get it somewhere!

Once you begin marketing, you'll find there are people who want you to buy their house. So now you need to determine whether the house is worth your effort. This is called pre-screening.

I go through these steps five or six times a day when I'm dealing with houses I might buy. You need to put a process in place for all of these steps. If you get bogged down in any one of these steps along the way, your business will shut down. It will basically just turn off.

Once you get through the prescreening stage, then you've got to learn to construct good, solid offers, then you've got to fund the deal — that's where we are today.

This course is about the funding stage of the transaction. We don't want to use our own money. We want to use someone else's. Then we want to close on it, fix it up, and sell it.

Now, what happens when the system breaks down? Well, obviously you don't reach your goal. And what's your goal? Well, you'll have specific goals but one big one is financial freedom, right? This is not a hobby, right?

We're going to focus a little bit on conquering your fears and goal planning, but we won't spend a lot of time on that. This course focuses on finding the money. But you need to understand that conquering your fears, budgeting, and goal-setting are probably the most critical things you can do to ensure success.

Let's Assume . . .

You know which direction you're going and you know how much money you want to make from each house

Now, before we begin, let me tell you my assumptions. First, I'm going to assume that you've already set your goals for your company. You know which direction you're going and you know how much money you want to make from each house. You know how much money you want to make each month and each year, and you know what you want your retirement to look like.

I'm also assuming that you have your office already set up, and that you've spent some money on marketing. I'll assume that you're already working and generating some leads. And I'll assume that you've taken some calls and prescreened them, and run them through your spreadsheet. We'll talk about that spreadsheet later, but I'll assume you know how to work with one already. (If you haven't worked with a spreadsheet, and you're brand new, you're going to need some additional information because you'll be missing some steps.) And finally, I'll assume that you've seen the property, negotiated with the seller, and gotten the house under contract.

Once you have the house under contract, that's where the private money comes in, and that's where this course begins. Here's what we will cover:

- Conquering your fears, which we have already discussed.
- Why businesses fail.

- Why investors fail.
- What you should be focusing on and what's stopping you.
- Finding private lenders.
  - Who are they? How do you find them? How do you negotiate and build credibility?
  - How do you complete the paperwork? This is a big fear for most people.
  - How to secure future business, because it only takes a handful of the right people to set things in motion for good.

All it takes is you opening your mouth and putting a few simple things in place

The hardest part is finding private lenders, but all it takes is you opening your mouth and putting a few simple things in place.

2
Why Businesses Fail

You've got to have a good mix of loans, between the ones that are turning over quickly and the ones that are longer-term

There are three main reasons today for business failures. The first is because the company is under-managed or mismanaged. Usually this is because the business person doesn't have enough education to manage his business properly. He doesn't have enough staff, or he's overstaffed, or he's not utilizing technology, or he simply doesn't know what to do. When you first start as a new investor, you're going to be under-managed. So you'll have to concentrate on getting an education.

So let's say some time has passed and now you've got an education. You know what you're doing. But no one is calling because nobody knows what you do. You're suffering from the second common cause of business failure: you're under-exposed. So you've got to do some marketing.

But there's still one more cause for business failures, and that's under-funding. The need for marketing applies for finding private lenders as well as for finding houses, and that's because you must have access to money by the time you find a house to buy.

Now, once you get a few people on board, you'll be able to return to them again and again for new loans. But to do that, you've got to turn at least some of the loans around for them pretty quickly. Why? Because if all your lenders have loans out to you, you'll become under-funded again. Your money will be trapped out there. So you've got to have a good mix of loans between the ones that are turning over quickly and the ones that are longer-term.

Increase your marketing and get better deals coming in

Depending on how many houses you want to buy, you may need a lot of lenders. Remember, almost every house you buy will need about $15,000 to $20,000 in cash, and you don't want any of it to be yours. So if your goal is to buy four or five houses a month, you'll need enough lenders to supply you with $60,000 to $80,000 per month.

Now, let's look a little more at how these business mistakes can do you in, starting with underexposure.

Tell me if the following scenario sounds familiar: You do a little bit of marketing and two or three calls come in. Then you stop marketing. You start working with those three callers, trying to wring a deal out of one of them. And maybe none of them are good deals. Or maybe one of them is a good deal, but you rest on your laurels and you don't market any more. Then, when the deal is completed, you've got no one else calling you. Once again, you're underexposed.

This error is easy to fix. Just increase your marketing, get better deals coming in, and then you can select which ones you want. Then it becomes easy. If it's hard now, it may be because you're not doing enough marketing.

Then there's under-management. Perhaps you don't know what to do with the deal when it comes to you. Remember, there are three techniques that every real-estate investor should be educated in: subject-to, short-sales, and private money. We talked about "subject-to" a little earlier. Now, why do I say short-sales? Because if you're doing marketing, you'll see overleveraged properties every day. If you know how to do a short sale, you can make money on them. Now, I have a course that focuses on short-sales, which deals with second mortgages. A lot of people teach it, and I'm not trying to sway you one way or the other.

I come from an engineering background. We did a lot of engineering studies and I learned to focus on the path of least resistance. In real estate, the path of least resistance is the motivated seller. And people who are over-leveraged are very often motivated. But you've got to know when to short-sell and when not to.

People who are over-leveraged are often very motivated

Let's say the house is worth $150,000 and they have a first mortgage of $140,000 with no second mortgage. It needs paint and carpet. I get people calling me all the time saying: "Hey, can I short-sell that?" Maybe — but it's not worth your time, because it doesn't have enough equity.

I recommend that when you're doing short-sales, you focus on second mortgages only, unless you find a house that's completely trashed. Then the lender doesn't want it and then you can go at it. That's because you have to have a motivated lender as well as a motivated seller. Usually, the lender is only motivated if there's a second mortgage. That's because if a home goes into foreclosure, the holder of the first mortgage will get all the money. The holder of the second mortgage won't get anything. It'll get wiped out. So if you offer ten cents on the dollar, then the second mortgage lender thinks: "Let's see: do I want zero or do I want ten cents on the dollar? Okay. I'll take the ten cents."

Knowing how to manage your business means knowing how to utilize your capital in the best way you can, and doing so on the path with the least resistance. That means you need to learn three skills. First, how to buy subject-to, so you can use the leverage of the loans already in place. Then, you only have to bring small

Learn to short-sell so you can take advantage of over-leveraged properties

amounts of cash to the closing table for closing costs. Second, learn how to use private funds in small amounts, so that you don't have to come up with $80,000 or $90,000 for just one house. Learn to spread it out over three or four houses. Don't spend $80,000 on one house just to make $20,000. It's obviously a better return-on-investment when you use $20,000 to make $20,000. And finally, learn to short-sell so you can take advantage of overleveraged properties.

Finally, there's the mistake of under-funding. Do you know anyone in sales? What do most companies drive home to their salespeople? Revenue dollars! Sales! Sell, sell, and sell. "I want revenue, revenue, revenue!" Why? Because revenue hides a lot of sins. If you have a lot of revenue coming in, it matters a lot less what your expenses are. If your revenue is more than your expenses, you're good to go.

You are no different. Start thinking like a corporation, because whether or not you incorporate, you are a business. Stop thinking like an individual even if you're a one-person show. Focus on buying houses, because that's your revenue. You make your money when you buy your house. You won't realize that money until you sell, but you make it when you buy. So you need to find private money to buy houses. I focus on these two areas — finding houses and finding money. In fact, right now, the only area that I focus on is finding private money. I hired somebody to do my buying for me! I don't even buy the houses anymore.

Now, I've been asked whether I recommend a particular revenue-to-expense ratio. No, I don't. I just recommend revenue, revenue, revenue. Just drive your business with revenue. If I have enough revenue coming in, I don't care what my expenses are. Doesn't matter! You know, I don't mind if I pay a million dollars in taxes. You know why? Because that means I made a boatload of money last year.

You've got to look at real estate as a numbers game, just like any sales-driven business

You've got to look at real estate as a numbers game, just like any sales-driven business. When you first start, and you get your first house, you won't make it big. If you think of your business as a big funnel, you've got to fill it up before income starts coming out the bottom. You have to fill your funnel with houses, right? You have to go on many appointments, and you have to get as many deals in the funnel as possible.

I'll give you a perfect example: listing agents. A listing agent's main function is to get as many listings as possible. Why is that? Well, they get a commission, but what if they go out and just get one listing and stop? Are they going to eat that month? No. But if they go out and get five this week, and five next week, and then five the week after that, sooner or later the first five are going to sell. And then five after that. And that's how listing agents develop a flow of income that keeps coming.

Real estate is a numbers game. People come to me all the time and they say: "Don, I've been marketing, but I haven't been buying any houses!" Well, why is that? The first question I ask them is this: "How many offers have you made?" And perhaps they'll say: "One." Well, you're not going to buy houses if you don't make offers. You're not going to make offers if you don't see houses.

If something isn't going well, you've got to look yourself in the mirror and say: "Okay, wait a minute. Am I the reason I'm not buying houses? Is it me? Is it the system that's not working, or is it me?"

Recipe for Success

You've got to put your goals in place

A recipe is a wonderful thing, because if you follow it, you *will* get results. Here's my recipe for success:

1. <u>You've got to put your goals in place</u>. I wish I had enough time to cover goals in every one of my seminars, because I think it's the building block and foundation of every business. Please take some time to do this. Get my *Building Wealth* course or buy a book on goal setting. But do it.

2. <u>You've got to put systems in place</u>. In other words, you've got to set up your business in such a way that you can hand it over to somebody else and it will get done. And you've got to set things up so you can duplicate easily the things that you do time and time again, sort of like muscle memory when you exercise. I don't think that you should ever shut yourself off to the point where it's completely automated. But you can enjoy life a lot more when you don't have to worry about a whole lot of little things.

3. <u>You've got to work hard</u>. One of the things those 3 a.m. infomercials don't tell you is how much hard work you have to do to find one of those diamonds in the rough. Instead, they tell you all the success stories: "I made $90,000 in my first transaction!" Can it happen? Yes. Does it happen? Yes. Will it happen to you? Maybe, maybe not! But don't count on it. It takes hard work and effort. Anything good in life takes hard work!

4. Finally, you've got to have confidence. I don't care what aspect of real estate you're in, you have got to have confidence. When you meet with a seller — even your very first seller — it is extremely important that you present yourself as if you know everything you need to know. Sellers are like animals in the wild. They smell fear. They'll know if you don't know what you're doing. And then, when somebody comes in behind you — because they will — they'll get the deal, just because they can assert themselves better. So even if you don't have the knowledge, you need the confidence. And that goes double when you're asking people for money! When I started, I had a horrendous time asking people for money. And you know what changed my thinking on that? I used to think in the back of my mind that I needed them, that I was asking a favor of them. I don't think that way anymore. Now I realize that I'm doing them a favor. They're not doing me a favor. And that made all the difference in the world. I just say to someone, "Do you know anybody that would be interested in investing in real estate? I'd give him a pretty decent 10% return, secured by real estate. You know of anybody that may be interested in that? You do? Okay, well let me give you a card now!" Now, what he could say is: "No, I don't know anybody, but I might be interested". That's really what I'm trying to get from him. All I'm trying to do is start a conversation. I don't go up and say: "Hey, can I have $10,000 to invest?"

Even if you don't have the knowledge, you need the confidence

Here's an important secret about getting private lenders: Don't look for money when you need it, because you can never find it. When you need something you can't find it. But when you don't need it, it gets thrown at you!

So when you talk to people, say: "Hey, do you know of anybody that's interested in this? Here, let me leave you a brochure; let me give you a CD." Even if they put it on their desk, and come back to it a month later, it's still there. It's something that reminds them of you. We'll talk more about that sort of marketing later on.

Once you face fear, you realize there was really nothing to be afraid of

Conquering Our Enemies

Does fear motivate you? Or does it paralyze you? Fear can do both, because it depends on what type of fear it is. If fear motivates you, that's what is called good fear. If fear basically disables you, then it's bad fear.

When I first started, I had a fear of paperwork. So what did that do? It shut me down in my tracks for about two weeks. Finally, though, I talked to my investor buddy that I met the day I started. He said: "Don, just write the paperwork. Just put a stipulation in there that says 'subject-to my partner's approval'. And then if it turns out you don't want it, just tell them: "My partner said no." And I said to my friend: "But I don't have a partner. It's just me." He answered: "Are you married?" Well, yeah, I am. "Then you have a partner. Just tell them your partner said no!" And it clicked!

So when I did my first deal, I thought: "Okay, let's just hope he's right." And after I did it, I wondered, what the heck was I afraid of? This is true for just about every fear that you have: once you face it, you realize there was really nothing to be afraid of. You're still here in one piece; you're still healthy, everything is still intact!

Use good fear to motivate you

Fear is really very common in this business. Perhaps you know investors who have been taking seminars for a year now, and they've never purchased a single property. Why is that? Because they're afraid of something! I promise that if you figure out what you're afraid of, and you do the things I tell you to do and work through your fear, you won't have that fear again. So ask yourself: What are you afraid of?

But remember, there's good fear, too, and it can motivate you. For instance, I was afraid that I wouldn't have enough money in my estate to take care of my kids' college education and my retirement, so I knew I had to do something to make more money.

What if your fear has to do with what others will say? What if you've got naysayers in your life?

Let me tell you a story: When I first started and I wanted to do real estate, there was not a single person in my family, except maybe my wife, who thought this was even a remotely good idea. They thought that I would be a crook, that I was taking advantage of people, that it wouldn't work, that it was a scam, everything under the sun. And do you know why they thought that? Because they didn't have a clue; they didn't know anything about it! But let me tell you, the first time I brought a $35,000 check home there wasn't a naysayer in the group.

Now, I realize that what some people think, like your spouse, really is important. It sure helps if everybody is on board with you. But when people snatch away your dreams, that's wrong. That's wrong!

I've heard Robert Kiyosaki say: "If you want to be a millionaire, you have to hang around people that are

You've got to take risks because risks brings rewards

multimillionaires." And I hate to say this, but if you hang around people that make $30,000 a year, guess what you get? You get the mentality of someone who makes $30,000 a year. You get: "I can't do this; that's never going to happen!" They make every excuse in the world. And that's just because they don't have the same desires. If they truly had a desire for something, they would be in that same boat that you are in, pushing forward. Because everyone has a need to do something in his life — some people just haven't found out yet what it is. I have a good friend who loves hockey. He was the best hockey coach I'd ever seen. He should open up a rink and do clinics. But you know what? He's afraid.

You've got to take chances. You've got to take risks. Risks bring rewards! But educate yourself, so you're taking an educated risk, which then minimizes or mitigates the risk.

In fact, with real estate investing, we can almost eliminate it by doing subject-to transactions, because you're not putting loans in your name, and you're not going to the bank. If you're using other people's money, is that money coming out of your bank account? Is it draining from your bank account? No sir.

What's Stopping You?

So, what is stopping you? Let's look at some common obstacles:

- Lack of knowledge. This one is easy to overcome. You're taking this course. You're getting educated.

- Lack of time. I'll be the first to tell you I understand. I have three kids. I have a wife. And they want a lot of my time. But if you work a 9 to 5 job, what is your life like? You come home after work; you eat dinner; and if you're like me, you go in and plop your butt down on the couch, grab the remote and go: Click. "What's on tonight, honey?" Then you watch TV for the next two hours until you get tired, and you go to bed. And then you wake up and do it all over again. That's called running on a treadmill. Instead of sitting home watching TV, start getting an education! Buy a book, buy a course, go to the library, go on eBay, and get the tools you need. Start using those two hours to educate yourself.

It does take money to make money in this business, but it doesn't have to be your money

- Lack of money. Now, unlike other "gurus," I will be the first to tell you that it takes money to make money in this business. Anybody that tells you differently isn't being truthful. But it doesn't have to be your money. That's what you're about to learn.

- Lack of credit. When you learn how to buy subject-to, you don't need credit, because you're utilizing someone else's existing financing. I haven't put a loan in my name in seven years. And that was when I bought my own personal house. So once you learn how to do subject-to transactions, you won't even need credit. You should have credit available, of course, and you should take care of your credit, because you'll use it in other aspects of your life. But you don't need it to buy houses.

- Too much hassle. You say you don't want to be a landlord and deal with tenants? You don't have to! Everything that I buy, I buy subject-to, and I lease-option it out. In about a third of my homes, once I put the tenant in, I never see them from one year to the next, until they call me and say: 'We're ready to cash out'. Unless, of course, they don't pay me rent. Then they see me quite often!

- I can't! Well then, you might as well close this book, and quit right now, because there is nothing I can say that's going to change your mind.

Figure out what's stopping you, put it to bed and don't look back

So are you ready to begin? All right, what can start you down this path? Simple: Take action! I can give you all the great information in the world today, but if you don't go out tomorrow and start using it, it'll be wasted. So figure out what's stopping you. Put it to bed and don't look back.

Still uneasy? Here's a secret, especially for new people: if you never write big checks and never go to the bank and sign on the dotted line, then you will never lose money in this business. I made that mistake one time and it cost me $40,000. It was the first rehab I ever did. I bought it from a wholesaler. I didn't do my due diligence, didn't do my homework, didn't look at the comps, trusted their numbers on the repairs, and didn't do my own homework. Why? Because I didn't really know much. I figured: "Well, they're the experts. They know what they're doing. It must really be worth it."

$40,000 later I had to admit that it was the best seminar that I ever went to. It taught me what not to do. I knew if I did that too many more times, I would wind up a statistic. From that point forward, I have never written big checks and I have never gone to a bank for money. I probably could do it now and be all right, because I've done it for so many years. I know what a good deal is versus a bad deal. But if you're starting out, don't put loans in your name and don't write big checks out of your equity line.

If you've never purchased a home and you've got a big equity line, maybe you're just itching to use that equity line, because that's what I see a lot of people do. They say: "Oh, I have a $100,000 equity line. I want to go out and buy a foreclosure!" Wrong answer! Use that equity line to get yourself some education, or to do some marketing. Use that equity line to get sellers to call you. And learn how to buy subject-to. Then use other people's money. Keep using your equity line — if you need it — to feed the administrative side of your business.

If you put your own money into houses, your risk level goes up

Obviously, there is no right or wrong way of doing it. It's just my way! Invest how you want. I'm just telling you if you put your own money into houses, your risk level goes up proportionally. If you invest subject-to, using private funds, your risk goes to just about zero.

Now, perhaps you live in a city where there are lots of real-estate investors doing what you do. It seems like everyone is doing the same thing. Will you be fighting over crumbs? Are you going to have to run TV ads to make it?

No. The way to make it in this business is to educate yourself. The more educated you are, the more you can determine what is a deal and what's not a deal. I'm in Atlanta, and there's lots of competition here. But do you know what? Even with all that competition, I still buy 10 to 15 houses a month. You can beat your competition by knowing more, by being consistent and by working harder.

It all comes down to money. If you can walk into a seller's home and offer them more money, and still make it a good deal for you and them, you'll get more deals than the average investor.

And here's something perhaps you don't know: the average investor is broke. That's not a slam at other investors. But look at what's being taught. Most courses teach you to buy as many houses as possible with the least amount of money possible. Well, that's great, but in a competitive environment, that's not always feasible. You've got to win the deal.

Most of your competitors are the ones without much money... Raise yourself above that level and there isn't much competition

It wasn't until I figured out the private money game that it clicked for me. My business changed completely. Why? Because when I was working with my own money, I couldn't buy very many houses. It's not easy to find a home where the seller is willing to make the next two mortgage payments!

Because I educated myself, I can pass up the deals where there's not much room for profit. Instead, I can go to the person that says: "Hey, I've got a boatload of equity, but I just want twenty grand." Okay, where do I sign? Most investors can't find the twenty grand to get that, so they bypass it. Or they make such dirt-cheap offers that they tick the seller off, and the seller ends up going somewhere else.

You see, most real estate investors lack funds. They don't have enough money available to them to make those kinds of offers. Most of your competitors are the ones without much money. When you start raising yourself up above that level, there is not as much competition. It's still there, but you have different players in the game.

When you're dealing with a situation that needs just one thousand or two thousand dollars; or with a person that's not behind on their payments, is moving to New Hampshire and just wants to deed you their house; well, any investor will go in and try to jump on that one. But when you get one where the seller has $60,000 or $80,000 worth of equity, and only wants $30,000 of it or even $40,000 of it, that's the one that you want to be able to get.

The private money game can change your business completely

3 Why Real Estate?

You need to understand all the benefits of the real estate game, so that when you're talking to your private lenders you are confident

Before we discuss the who, what, and where of private lending, we must first discuss the *why* of real estate. This is important, because you need to understand all the benefits of the real estate game, so that when you're talking to your private lenders you are confident. You'll be able to tell them why it's such a sound investment.

When you deal with private investors, you'll find that many of them prefer the stock market or mutual funds. Why? Because that's what they know. You need to show that there are better alternatives. The stock market goes up and down, up and down, up and down. Well, most people don't day trade, or know the ups and downs, or study the stock market. Most people put it in the stock market and hope the thing goes up over the long haul. That's what they say, right? "It's going to go up, you're money is going to grow over the long haul."

Well, let me give you an example of the long haul. I put $5,000 into Goodyear Tires. I bought at $21 a share. My stock broker said: "It's only going to go up." Now, if you want to see a stock tank, you let me put one penny in it, and you watch it tank. It will drop like a rock. I no sooner put that money in that company than the stock just started sliding. I sold it for $7 a share four years later. Now, how is that growing your money? I could have quadrupled that $5,000 in the same amount of time in real estate. My stockbroker didn't believe me when I told him that, so I started showing him. And he said: "Hey, I need to start throwing some money your way!" People just don't know. They think the stock market is where the money is.

Put your private lenders, especially the first ones you get, into an investment that's going to turn quickly

So what if you earned an average of 10% per year for 15 years, what would you have? With simple interest, you would make $500 in the first year. That's if the stock went up. You'd get $15,000 after fifteen years! Or if you reinvested the earnings (compounding) you'd have about $22,000.

Now, I borrow all my funds at 10%. But my private lenders actually get higher than a 10% return because I guarantee them four month's prepaid interest. And a lot of times, we don't hold a house more than two months. So even though they're getting a 10% return on paper, we're turning it more frequently for them, so they're really getting a higher return.

So here's my suggestion: put your private lenders, especially the first ones you get, into an investment that's going to turn quickly. You do not want your first investor sitting out there two years later waiting for your lease-option tenant to cash you out. He's going to be sitting there thinking: "Okay, I've had this money out there for way too long. Is this guy really going to do what he says he's going to do?" You need to create a history with your lenders, and that's not the way to do it.

So, why is real estate such a good investment? Simple: Shelter is one of the basic necessities of life. I don't *have* to buy Michelin Tires. But I have to have a home. Everybody needs a place to live.

Real Estate is the I.D.E.A.L. Investment Vehicle

Let's take a look at five reasons that real estate is the ideal investment vehicle:

- Income. Real estate generates income that pays for the investment. This is called positive cash flow. What other investments are out there where you can invest and where someone else will pay? You put a little bit of money in, and in some cases none of your money, and somebody else pays for that investment for you. What a great thing! Let's say you purchase a house for $100,000. If the payment is $665 on a fixed rate, it is always going to be $665, right? Over the years, though, you can increase your rent. Remember our original stock market example? If you took the same amount, $5,000, and invested in real estate for the same amount of time, you would have $84,000, not $15,000.

Real estate generates income that pays for the investment

- Depreciation. This is one of the tax benefits of real estate. Current law allows you to deduct a portion of the value of the house over 27.5 years. This is one of a few non-cash deductions (meaning that you don't actually lay out money to take the deduction — a good thing!) that can offset income.

- Equity build-up. Most loans are amortized over 15 to 30 years. Every month you make a payment, a portion of the payment pays down the principle. So who's paying your note? Your tenant! Are you paying it? No.

- Appreciation. Residential real estate tends to increase in value over time. That's appreciation. A $100,000 home purchased in October of 1990 would now sell for an average of $164,000!

- Leverage. Leverage is the ability to use a small amount of money to control the purchase of a large

Real estate is one of the last true tax shelters

real estate investment. Let's look at a simple example. Suppose a home is worth $150,000 as is and has a $140,000 loan on it. If you take over the property "subject to" (i.e. get the deed and make the payments on the existing financing) and have to invest $10,000 in closing costs, holding costs and repairs, but then can sell it for $160,000 in a month, you've doubled your money — or made 100% on your $10,000 investment [$160,000 sales price — ($140,000 mortgage + $10,000 investment in repairs, etc.)] = $10,000 profit/$10,000 investment or 100%, even though the house value has only increased $10K/150K or 6% through your efforts.

I'm telling you this so you can explain it to private lenders. These are the things that I want you to understand, so that when you're talking with them, you can explain the benefits of real estate — why it's a smart, safe, tax advantaged investment.

Real estate is one of the last true tax shelters. If a house is $100,000 and the house breaks even on cash flow, the house shows a loss of $3,600+ every year for 27.5 years. Even if it breaks even, you still have a $3600 write-off each year for 27 years (there may be some limits — ask your CPA) . If you keep the house for 12 months and you sell it, you get a better tax benefit. It gets taxed as long term capital gain with better tax rates than "ordinary income."

You can also do a "1031 exchange," where you can completely defer the gain on the sale of investment property. This is beyond the scope of discussion here, but is must-know for any real estate investor. Please check with your accountant about "1031 exchanges."

Ways to Make Money in Real Estate

There are lots of ways to make money in real estate: rehabbing and retailing, wholesaling, getting the deeds (subject-to), lease-options and options. I have all of these tools in my toolbox. However, I never do lease-options unless I buy subject-to. I will sell on a lease-option, but I don't buy and sell on a sandwich lease option (where you lease option from the seller and turn around and lease option to another buyer). They're a little risky for me. I like to have more control.

It's far better to get the deed via "subject-to" techniques and be in control through ownership

Sandwich leases are easy to get into, but so are subject-to deals, once you learn how to overcome the objections of the seller. It's far better to get the deed via "subject-to" techniques and be in control through ownership. I always use private funds no matter how I decide to exit the property; I don't recommend that you use private funds on a sandwich lease-option, though. Why? Because you don't have title; you can't secure the property and give your lender a security deed, and your lender shouldn't be too eager to make the loan on a property that you can't secure. Even if your lender trusts you, don't put them in that position.

And then, if your seller goes out and does something like filing for bankruptcy, and your lease option buyer suddenly says: "Hey, I want to buy!" you're in a world of hurt. You can't convey title to your buyer, because you don't own the property (you're only leasing it with an option to buy) and it's tied up I bankruptcy. Ouch! You're in trouble.

Wholesaling. The only time I use private funds for wholesaling is if I have to do a double close. In other

Amaze your investors with quick prepayment

words, where I have to have money to buy a property that I am going to turn around and sell the same day. I'll bring funds in just long enough to close it, and then I'll turn around and re-close, selling to my new buyer. We did this on a land deal recently. We had to bring $40,000 cash to the closing. We couldn't do a 'double closing' where we wouldn't have to lay out any money, because they wouldn't let us. So I had to bring $40,000 cash, and then two seconds after buying the property, I brought a seller to my end-buyer for $46,000. My private lender was ecstatic! I paid him four month's prepaid interest for the use of his money for about 30 seconds.

4 Pretty Houses

Before you start borrowing private funds, you need to figure out which direction you're headed

Now it's time to set your goals. To do that, you need to determine what type of business you want. Before you start borrowing private funds, you need to figure out which direction you're headed. You need to figure out what kind of houses you're going to invest in. Are you going to buy pretty houses and borrow small amounts of money on subject-to deals? Or are you going to do rehabs, where you buy at 60 cents on the dollar, where you bring all cash, fix it up and then sell it. Each requires different strategies and different amounts of cash. So step back, decide what you want to do, then set your goals and move forward.

Pretty Houses vs. Ugly Houses

I go into this more in my *Building Wealth* course, but let's review the characteristics of pretty houses and ugly houses.

<u>Pretty houses</u> can be in any area. They are not easily identified. You can't tell from the outside that they're having financial trouble.

On an <u>ugly house</u> you see the big old hole in the roof, and the big old hole in the lawn, and all the windows busted out. Ugly houses are easy to spot from the street. But with a pretty house, you have no clue.

Pretty houses require less capital, if you take them over subject-to. Usually they need less than $5,000 — $7,000 in repairs; perhaps the house just needs carpet and paint inside and out. Ugly houses require large amounts of cash because you're looking at an all-cash deal, and usually they're 65 to 70 cents on the dollar.

Ugly houses require large amounts of cash because you're looking at an all-cash deal

5 Finding Private Lenders

The best place to find the money to buy is through a private lender

We've covered under-management and under-exposure. That brings us to the reason you purchased this course: the problem of under-funding. Here are some of the things we're going to cover now:

- Why do you need private lenders?
- Who are they?
- How do you find them?
- How do you structure the transactions?
- What paperwork is needed?

Let's assume that you've found a house and you've now got it under contract. How are you going to find the money? Answer: You're going to look to private lenders.

What are You Looking for in a Private Lender?

What are you looking for in a private lender? Well that depends on your goals and objectives. Are you buying and holding? Are you buying for cash? Are you buying homes subject-to?

I buy all my houses subject-to and that helps me determine the kind of lender I need. My average loan is anywhere from $15,000 to $25,000. That loan covers holding costs, acquisition costs, repairs and marketing. (We'll go over these four items so you'll know how much you need to borrow). I borrow at 10%, with the exception of one lender who's a little savvier than the average private lender; he gets six points over the prime rate.

The easiest investors to get are those with 401k accounts from previous employers

Before you choose a private lender, you need to ask yourself some preliminary questions:

- Are you looking for a partner with whom you can split the profit, or do you just want to pay a set amount of interest?

- Do you want somebody with credit, or money, or both?

These questions are essential. If you're talking to the wrong lender for a particular transaction, you're wasting your time. It's not going to work. So how do you decide?

Well, that depends on what you're looking to do. How many houses are you planning on buying? I have one student that wants to buy one house every quarter. His private lending needs are totally different than someone that wants to buy one house a week.

Starting the Conversation

The easiest investors to get are those that have 401k accounts from previous employers. You just have to open your mouth! And then you have to have confidence in what's coming out of your mouth. It's just like anything else. If you don't fill out an application, are you ever going to get that job? No. And if you don't open you mouth, people are not going to give you money.

So if you're afraid to ask people for money, and you can't get over that fear, you're going to have a tough time. The key is to realize that your lenders aren't doing you a favor. You're doing them a favor, because you're making them a return on their money that they're not able to get anywhere else.

You're doing them a favor, because you're making them a return on their money that they're not able to get anywhere else

Right now you probably don't have much confidence, because you've not done it enough so you're comfortable yet. But once you start getting some successes under your belt, the word will get out. I'll show you some marketing techniques, but basically all I use is what the good Lord gave me. My marketing consists of an audio CD and a little booklet. That's it. I've secured three million dollars with just these tools! You see, once you find one lender, and you give them a good return, guess what happens? They tell two people, and so on, and so on, and so on. Because everybody's looking for a good investment, I don't care who they are.

So if you have no idea how to get lenders, find people that have old 401k's left over from a previous employer. Later in this course we'll discuss how to take that money and move it over to another account, called a self-directed IRA, which your lender can use for investments.

Now, many accounts that call themselves self-directed aren't really self-directed. The bank holding the account will only let you invest in certain things. So be careful when you open an IRA. Make sure you can really direct the investments any way you want. If so, it's a true self-directed IRA. I'll show you two or three companies that are custodians for these accounts.

Stay away, too, from lenders who loan money from their personal savings account or any other account that they may need to liquidate quickly, unless they just have more money than they know what to do with. Why?

Most people think that in order to be a private lender you have to have lots of money, but you don't

Because if you have a friend or family member who has depleted their savings account and they hit some kind of financial bump in the road, they're going to be asking for that money back. They're going to hound you, saying: "Hey, when can I get my money out? I need my money!" Their money is too valuable to them, so they need to keep it liquid.

You really don't want someone putting money in and taking it right back out. True, you can replace that lender with another, but it's a hassle to everyone and it's a messy transaction. So if you can stay away from that side and focus more on IRAs and 401ks, those are your best targeted opportunities.

Most people think that in order to be a private lender you have to have lots of money. You don't! There are many people out there who have old 401ks with $15,000 or $20,000 just sitting there, waiting to be used. You just need to open you mouth and say: "I'll use it. Let me show you how I can utilize your funds and give you a solid 10%, 12%, 15% return on your money!" Are they going to say no? They may say no if you ask them too boldly right up front. But if you use what I call a two-step approach, which I'll show you later, they're going to slowly start coming around to you.

Let me give you an example. When I first started in this business, I tried to borrow $5,000 from my sister to buy a house. She looked at me like I had horns growing out of my head, and said: "Are you crazy?" About a year later, when I was making a lot more money, she came to me. You see, I finally convinced my mother, who is on a fixed income and had a house that was free and clear, to take some equity out of her house and lend it to me. Then, I would pay her a monthly annuity for the use of that money. Of course, I paid her much higher interest than I would anybody else because she was my mother. Well, my sister got wind of that, and wanted in too. So eventually, I did borrow from my sister, and I paid her 12%.

Look for money when you don't need it

By this time, people were throwing money at me saying: "Can you use my money? Can you use my money now?" But before when I needed it, I couldn't find it. The moral: *look for money when you don't need it.*

You should be looking for money every day. When you're at your job in the hallway, you should be asking people: "Hey, do you want to partner up? Do you have any IRAs? Do you have any 401ks?" Wherever you go! It could be at a church function or a tennis gathering. Whenever you're with a group of people, tell them what you do. Tell them how you can help them by them lending you money.

Now, you shouldn't try to sell them on it the first time you talk about it. You should ease them into it and tell them how you're helping others get 10% return. I have one guy right now whom I've been talking to for two years. Recently he called me and said: "Hey, do you still do that real estate thing? I might have about $25,000 if you're still interested." It took me two years to get that $25,000 out of him. And this will happen to you too.

Don't think for a minute that you'll walk outside and get $3 million dollars like that — it is just not going to happen. It shouldn't happen! It's going to take time, just like your marketing, just like the other aspects of your business. It's going to take time to get the knowledge, to get the systems into place, to make contacts so that you have a network created.

Why Do You Need Private Lenders?

If you depend on using your own money, sooner or later you're going to run out

There are many good reasons to use private money:

- Having private lenders allows you to close quickly. If I had to close on a house today I could put $25,000 on a house. I could pick up a phone, and within 2 hours I'd have money at the attorney's office in the form of a certified check. Why? Because I have private lenders ready, waiting, willing and able to send me a check at my call. I've groomed them and said: "Okay, we're ready. You're in line. You're next." If I didn't do that, I'd have to pass on a lot of deals because I wouldn't be able to find the money fast enough. Even if you've got bank financing lined up, you can't close as quickly as you can with a private lender.

- You can buy houses that the banks aren't willing to finance. If the house needs a lot of repairs, banks will not lend on it. I had a buyer try for a bank loan the other day on one of my houses, and he couldn't get the loan because the house didn't have carpeting. So I had to go put carpet in it so we could close.

- You will not survive the cash flow game if you use your own money. It takes money to make money. It doesn't have to be your money, but you still need it. If you depend on using your own money, sooner or later you're going to run out.

- You can make all-cash offers more readily if you have private money. And that means you can get the houses at an even bigger discount. You can make just ridiculous cash offers all day long if you have the money available. You can say: "Look, I'll pay you cash and I'll close quickly, but here's my cash price. Take it or leave it." Contrast this with your competitor, another investor. He comes to the same seller, saying: "I'll buy your house, but I want you to do owner financing. And let's spread it out over five years. I'll give you cash some now and some later." Which investor do you think is going to get the deal? I am, because I've got cash in hand!

You can negotiate more flexible terms with private lenders

- Exit strategies will be much quicker and more profitable, because you can make better offers. If you can buy a house subject to an existing finance and only bring $10,000 to the table, you'll have your choice of exit strategies. It's not your money, so you don't have to get out of the deal as quickly. You can hold on to it for a month or for twelve months. It doesn't matter, because it's not your money.

- You can negotiate more flexible terms with private lenders. You'll pay less than you will if you borrow from a bank or other money lender. You can negotiate simple interest instead of compound interest, or you can even make one payment at the end. And you can negotiate the amount of time you have the money.

- You can take on more loans if you borrow from private lenders. If you use bank financing, at some point you'll be told you're maxed out and you can't take out any more loans. And that limits your income. With private lenders, you don't have that limit.

No credit report is required with private loans

- You avoid closing costs by using private lenders. Have you ever seen a HUD statement from a person that got conventional financing? The fees on that HUD statement are astronomical. When I do a subject-to loan with a private lender, my average closing costs are about $1,100 regardless of the size of the loan. All I'm paying is $400 for the attorney, some recording fees, and title insurance. That's it!

- No credit report is required with private loans. Even better, not one of these loans shows up on your credit. And that means you can buy higher-priced homes, and more of them. Meanwhile, your credit becomes squeaky clean, which helps you in other parts of your life. I buy ten or fifteen pretty houses every month. None of them are on my credit. I could buy a hundred a month if I had that many houses coming at me, and if I had the funds available.

Now, what do you say if a potential private lender says: "Well, if you want $10,000 or $15,000, why don't you use your own money? You obviously have it!" I tell lenders that my money goes back into my business for administrative purposes. I say the same thing if they want to know what happens to my profits. I tell them that it all goes back into the business for administrative purposes and for growing the company. We don't use it to buy houses. And then I ask them, nicely, if they'd rather I keep the 10% return. I say: "Why? You don't like the 10%?" They usually drop it at that point and say: "Okay, I get your point."

What happens if you don't use private lenders? Well, then, you're stuck with the amount of money that you have. And sooner or later, I promise you, you'll run out of money. You'll have to pass on a lot of good deals, because you don't have the money. Earlier I mentioned the house with $60,000 worth of equity, where the seller only wants $20,000 to $25,000. If you don't have the money, you're not buying that house. Even though it's a super deal, you can't buy it because you don't have the funds. Ask me how I know!

To make sure you always have money when you need it, never stop talking to people about what you do

I know because I struggled with cash flow before I figured out the whole private lending game. If you don't use private lenders, you'll probably use cash-out revenues or lease-option down payments to fund your renovations or your new purchases. That means you're taking your revenue and funneling it right back out as an expense. So what's left in the middle? Nothing! Is that why you want to go into this business, to create a hobby? I don't think so!

To make sure you always have money when you need it, never stop talking to people. It's just like the real estate funnel that I mentioned before. To get income from houses, you've got to get enough houses into your funnel. The same thing goes with private lenders: you've got to get your private lenders lined up and get them into your funnel, so that when you need the money, it's there.

Who are Private Lenders?

Well, if you're like me, it won't be relatives right off the bat. For some people, though, their first lenders are relatives. Keep in mind, though, that under federal law, some relatives aren't allowed to loan their IRA out to you.

Siblings can, but your parents can't. You also can't loan IRA money to a business partner.

Make sure it's out-of-sight, out-of-mind money to the lender

IRA and 401k accounts aren't the only source of money, by the way. You'll find people that have money sitting around in a regular savings account that's earning less than 2%. They say: "Hey, I've got money sitting here. Can you use it?" Those lenders are great. Just make sure it's out-of-sight, out-of-mind money to the lender, and not money that they may need to get their hands on if they run into trouble.

6 Marketing to Private Lenders

A two-step marketing approach works well when looking for private lenders

How do I find my lenders? Well, I simply use a two-step marketing approach. As I explained to you earlier, I've gotten the majority of my lenders by using a CD. Quite honestly, that's the best way I've found. Why? Because people are fascinated by what I do. They always want to know more. It starts conversations wherever I go.

You see, they've heard the 3 a.m. infomercials that say you can make a million dollars in real estate with no money and no credit. And they're fascinated. "Is it true?" "Does it work?" So, just start a conversation with someone, and tell them what you do. Then, just ease into the marketing with: "Hey, do you know anybody that would be interested in lending on a piece of property? I'd give them a solid return that's secured by real estate. They'd get a security deed, they'd get a promissory note, they'd get title insurance, just like a normal lender would get. Probably one of the safest investments you can make!" Nine times out of ten they'll say: "I don't really know anybody, but I might be interested!" And that's really why you're asking that question.

Now, I'm not going to go up to someone I've never met and say: "Hey, what kind of investments do you have? I own an investment company, and I buy real estate. Would you like to invest with me?" What's the first thing you'd say to me? "No!" But if I happen to be somewhere, I'll say: "What do you do for a living?" There's a pretty good chance the other person will ask me what I do. And I'll say: "Well, I'm a real estate investor and we buy single family homes. We kind of do that whole infomercial thing where you buy with no money down!"

The average person's going to perk up their ears and ask: "Does that really work?" They're going to be interested in what I do.

Don't force the sale

It hasn't failed me yet. If you don't believe me, go out today, pick five people that you can sit with for a few minutes to build rapport, and then have the conversation. Start telling them what you do, and I promise you they'll be directing the conversation, not you. I'm telling you, it's as simple as that. This is the magic pill.

Maybe you don't try to sell people the first few times you're around them. But maybe one day you finally say: "Hey, how is it going?" And you start a dialog. Perhaps you say: "Man, I'm just awesome today. We just closed on a pretty good deal. And boy, my private lender made a fortune off of that thing!" They'll ask you what you mean and then you'll tell them: "Remember what I was telling you the other day? You know, that I borrow funds from individuals? Well, this gentleman loaned us $20,000. And I had the money back to him in less than 3 months. And I gave him a guarantee of 4 months worth of interest. So he made $667 dollars in less than 3 months, and he is ecstatic! That's about a 15% annualized return."

And then let it go. I don't force the sale. Why? Well, do you like going into a car dealership? If you're like most people, you don't. And that's because it is high pressure. They won't let you leave, they won't even give you a moment's peace; if they could follow you into the restroom they would. That's why I don't like to buy cars, because I don't like high pressure sales. So don't do it to someone else. Don't be high pressure.

Do, however, have something with you that you can give to them. You can say: "Hey, you wouldn't happen to know anybody that might be interested in investing with us, would you?" And if your friend asks for more information, say: "Well, it could be any amount of money, really. But we give them at least a 10% return on their investment. It's secured by real estate." In other words, just come up with a little elevator speech — a two-minute speech that's consistent. And then say: "Why don't you take this and listen to it. If you don't have a need for it, just return it to me." And then end the conversation.

Come up with a two minute elevator speech

They'll probably listen to the CD. After they listen, they may say: "Naw, I don't have a desire to do that." And that's fine — they just return it to me. Or they may be interested and have more questions. But they don't throw the CD away. It's just not something that people throw away.

I got the idea for the CD from a real estate agent years ago. I was listing a house and this guy badgered me to list with him. And he handed me a CD. His picture was on the front and it included his picture and his business card. The CD explained what services he offered. I've kept that thing for seven years now! I still have it today, and don't even know where this guy is. I just can't bring myself to throw that darned thing away. Now if you hand someone a business card it may go in the trash. It doesn't give the power or the presence of a CD. They can listen to it in their car. They're captive. They're not at home distracted by their kids. You'll have their attention for the next eight or twelve minutes.

Hopefully I've eased your mind about finding private lenders. Most people think you've got to go talk to somebody, and immediately get a yes or no answer. It does not happen that way! So start planting seeds now, and you'll begin to have people ask more questions, and pretty soon, you'll have a very interested potential private lender.

Start planting seeds now for potential investors

You can do all the marketing you want. Even if you get people who are interested, though, you're still going to have to build up rapport. Think about it: would you lend somebody $40,000 whom you've never before met? Probably not — not unless you have more money than you know what to do with! And that's the reality of the private lending situation.

Other Marketing Methods

There are lots of ways to market yourself. Some are better suited than others to particular purposes. Here are a few methods:

- Business cards. Business cards are important, but they're really just great conversation starters. Use a catchy little phrase like: "Earn 15%." The value of a business card is not in the piece of cardboard that you stick in front of someone. It's the rapport that you build once you start the conversation. That's really what's going to get you the money.

- Letters. I have an investor friend who uses letters. In the first letter, he puts a piece of candy in the envelope, so it feels lumpy. Have you ever gotten something in the mail that had a pen or something lumpy in it? What do you do with a piece of lumpy mail? You open it! And that's half the battle. Now you need something to catch their eye. "Official notice regarding the Power Ball: On July 9th, 2003, the Power Ball lottery drawing was held.

Candy

Official Notice Regarding The Powerball Lottery

On July 9, 2003, The Powerball Lottery Drawing Was Held And You Were Officially Declared NOT A Winner

Dear Friend,

I regret to inform you that you did NOT win the lottery. Instead, William and Claudia Walkenbach of Hermann, Missouri did. We both know you are much more deserving and would've made much better use of the money.

However, as a CONSOLATION PRIZE, here at Viking Investment Group, Inc., we've declared you a Winner!

Yes, you've already won! This is so good you'll *feel* like you won the lottery!

If you can keep an open mind, and if you'd like to take control and safely increase the returns on your investments, then reading this letter may prove to be the most profitable five minutes of your entire week, month, or year. I'm about to reveal...

An Amazing Alternative To Low-Yield CDs And The Risky Stock Market!

(So grab a drink, tell everyone to leave you alone, take the phone off the hook, lock the door, and do whatever else you have to do to give me your full-undivided attention... I promise it'll be well worth your time.)

Would you like to take control of your investments and watch them grow safely at high rates of return? What I'm going to share with you is very common in real estate circles and has been going on right under your nose in every city in America.

Smart people have been utilizing this investment for years. In fact, there've been entire companies built around this investment. This investment produces high returns without sacrificing safety and security. Yes, I know it sounds too good to be true, but it isn't.

Find Out What Your Banker And Broker Don't Want You To Know!

Can you really afford not to take control of your investments? Does it make sense for a banker or broker to make your investment decisions for you? They'd like you to believe it does. Well, there's an alternative for you to consider...

Pencil

Alpharetta Man Reveals Amazing Wealth Building Secret!

Dear Friend,

A few weeks ago I sent you this Special Report. The response has been overwhelming. Smart people all over the country are taking advantage of this incredible opportunity. But for some reason I haven't heard from you.

We all know how unreliable the Postal Service can be so I figured yours must have gotten lost in the mail. Since I don't want you to miss out, I've sent you another copy of this Special Report. It reveals...

An Amazing Alternative To The Risky Stock Market And Low-Yield CDs!

If you can keep an open mind, and if you'd like to take control and safely increase the returns on your investments, then reading this letter may prove to be the most profitable five minutes of your entire week, month, or year.

(So grab a drink, tell everyone to leave you alone, take the phone off the hook, lock the door, and do whatever else you have to do to give me your full-undivided attention... I promise it'll be well worth your time.)

Would you like to take control of your investments and watch them grow safely at high rates of return? What I'm going to share with you is very common in real estate circles and has been going on right under your nose in every city in America.

Smart people have been utilizing this investment for years. In fact, there've been entire companies built around this investment. And those that use it wisely have grown to huge proportions. This investment produces high returns without sacrificing safety and security. Yes, I know it sounds too good to be true, but it isn't.

Find Out What Your Banker And Broker Don't Want You To Know!

Can you really afford not to take control of your investments? Does it make sense for a banker or broker to make your investment decisions for you? They'd like you to believe it does. Well, there's an alternative for you to consider...

Band-aid

How Bad A Beating Are You Willing To Take In The Stock Market?

Dear Friend,

You're pretty stubborn aren't you? How can I tell? Well... a few weeks ago I sent you a Special Report with a "sweet" deal and enclosed a piece of candy. And I didn't hear from you. I figured it must have gotten lost in the mail so I sent you a Special Report with a pencil. And I still haven't heard from you.

Perhaps you've been too busy to respond, perhaps the stock market has left you cut and scraped. So... I've attached a band-aid for you to relieve your personal cuts and scrapes AND enclosed another copy of the Special Report I sent you – which has been PROVEN to cure investor pains! It reveals...

An Amazing Alternative To The Risky Stock Market And Low-Yield CDs!

If you can keep an open mind, and if you'd like to take control and safely increase the returns on your investments, then reading this letter may prove to be the most profitable five minutes of your entire week, month, or year.

(So grab a drink, tell everyone to leave you alone, take the phone off the hook, lock the door, and do whatever else you have to do to give me your full-undivided attention... I promise it'll be well worth your time.)

Would you like to take control of your investments and watch them grow safely at high rates of return? What I'm going to share with you is very common in real estate circles and has been going on right under your nose in every city in America.

Smart people have been utilizing this investment for years. In fact, there've been entire companies built around this investment. And those that use it wisely have grown to huge proportions. This investment produces high returns without sacrificing safety and security. Yes, I know it sounds too good to be true, but it isn't.

Find Out What Your Banker And Broker Don't Want You To Know!

Can you really afford not to take control of your investments? Does it make sense for a banker or broker to make your investment decisions for you? They'd like you to believe it does. Well, there's an alternative for you to consider...

1 Million Dollars

Dear Friend,

As you can see, I've attached a Million Dollar Bill to the top of this letter. Why have I done this? Actually, there are two reasons:

1. I have something very important to tell you and I wanted to make sure I got your attention.

2. Since this letter is about how you can earn some serious returns on your money, I thought using a Million Dollar Bill as an "eye-catcher" was especially appropriate. I've sent you a piece of candy, a pencil, and a band-aid in the past several weeks. Apparently you're one of those "Show Me The Money!" types.

Now, what is it I have to tell you that's so important? Well... I'm about to reveal...

An Amazing Alternative To The Risky Stock Market And Low-Yield CDs!

If you can keep an open mind, and if you'd like to take control and safely increase the returns on your investments, then reading this letter may prove to be the most profitable five minutes of your entire week, month, or year.

(So grab a drink, tell everyone to leave you alone, take the phone off the hook, lock the door, and do whatever else you have to do to give me your full-undivided attention... I promise it'll be well worth your time.)

Would you like to take control of your investments and watch them grow safely at high rates of return? What I'm going to share with you is very common in real estate circles and has been going on right under your nose in every city in America.

Smart people have been utilizing this investment for years. In fact, there've been entire companies built around this investment. And those that use it wisely have grown to huge proportions. This investment produces high returns without sacrificing safety and security. Yes, I know it sounds too good to be true, but it isn't.

Find Out What Your Banker And Broker Don't Want You To Know!

Can you really afford not to take control of your investments? Does it make sense for a banker or broker to make your investment decisions for you? They'd like you to believe it does. Well, there's an alternative for you to consider...

And you were officially declared not a winner!" The candy gets them to open the letter; the tagline gets them to laugh. Chances are, they'll continue to read.

Get their attention with lumpy letters

If the first letter doesn't get a response, my friend sends a second letter. This time, he puts in a pencil. More lumpy mail! "Alpharetta man reveals amazing wealth-building secrets!" It goes on: "A few weeks ago I sent you a special report. The response has been overwhelming. Smart people all over the country are taking advantage of this incredible opportunity, but for some reason I haven't heard from you."

Then a week or so goes by and my friend sends a third letter. This time he staples a Band-Aid to the top of the letter. It says: "You're pretty stubborn, aren't you? How can I tell? Well, a few weeks ago I sent you a special report about a sweet deal, and I enclosed a piece of candy. I didn't hear from you, so I figured it must have gotten lost in the mail. I sent you a special report with a pencil, and I still haven't heard from you!" Finally, after giving some more information, the letter says: "How bad a beating are you willing to take in the stock market?"

Finally, he sends a letter with a one-million-dollar bill stapled to the top, and says: "As you can see, I've attached a one-million-dollar bill to the top of this letter! Why have I done this? First, I have something very important to tell you, and I wanted to make sure I got your attention. Second, since this letter is about how you can earn some serious returns on your money, I thought using a million-dollar bill as an eye-catcher was especially appropriate." My friend never says: "I want your money!" It's funny, it's catchy, and people read it.

Advertise for a joint venture partner in the newspaper

So who gets these letters? You could send it to any group you want. My buddy sent them to his friends and family, and he got three or four private loans out of it! See the next few pages for examples of these letters.

- Newspaper ads. You can run newspaper ads with some catchy language. Be careful what you say in your advertisements, though, because you don't want to guarantee anything. You don't want to be seen as a seller of securities by the Securities Exchange Commission. You can get into a fair amount of hot water if you're considered to be selling securities. One of the phrases that will keep you from being considered a securities broker is "joint venture." "Joint venture partner needed." "Money partner needed." Notice I'm using "Partner" and not *Interest Rate, Return, Investment.* When you advertise for a joint venture partner, you are advertising to form a business arrangement, not a borrower lender arrangement. If you do this, you'll set up a joint venture agreement (discussed later in the book). An example of newspaper ads can be found on the next page.

  A word about ads: Don't use somebody else's. Change it. I don't care how you change it, but change it. You don't want the ads to look the same. If someone sees two ads that look exactly alike, the

Newspaper Ads

- Emphasize benefits
  - 10%, 20%, 30% Return
  - Great Returns
  - Secured by Real Estate
  - No Hassle
  - Joint Venture Partner Needed

reader will automatically assume that it's the same company running two ads to get more exposure. And they'll call one ad and skip the other.

Answer the question "So What?" and you'll have a benefit

- Brochures. If you have Microsoft Word, you can create a nice brochure to give out. You don't have to pay a lot of money; it's already in Microsoft Word's templates. If you buy paper that's made for brochures, you'll get a free template download as well. Then just write some bullet points that tell what you're trying to do. For example, you might tell them what kind of returns they can expect, and what types of investments you do. Perhaps you can put a before and after shot of a property that you've fixed up. Include some testimonials. Tell them who you are and what you do. Tell them the benefits. Remember, on *all* your marketing, make sure you list the benefits. (Hint: Answer the question "so what" and you'll have a benefit. For example, if you say earn 10% secured by real estate, the "so what" might be — so you get a higher return than letting your money sit in a money market fund."

- Luncheons: This is one more way to market yourself. Luncheons are good, if you enjoy standing up in front of people. Most people, however, don't have enough contacts to get very many people into a room, and they don't feel comfortable speaking in public. It's not so hard, though. It's a matter of putting slides together and going through them. It's pretty simple, but you have to plan.

Make sure you use disclaimers in all your marketing materials! Do not misrepresent anything, or stretch the truth! Don't say you buy ten houses per month if you don't. Don't say you've been in business ten years if you haven't. If one of your lenders loses money, and they go to the SEC, the SEC will come to you and say: "You're not telling the truth!" And the SEC will slap a Cease and Desist order on you and you'll be out of business. That's why I like to deal with people I know, and that's why I avoid making claims that I'm not sure I can back up.

A website is a great credibility tool

The disclosure below is to keep you out of trouble with the SEC. It says, among other things, that we're not licensed to sell securities. We're not selling a licensed security. This is a private-money loan. We're looking for joint-venture partners.

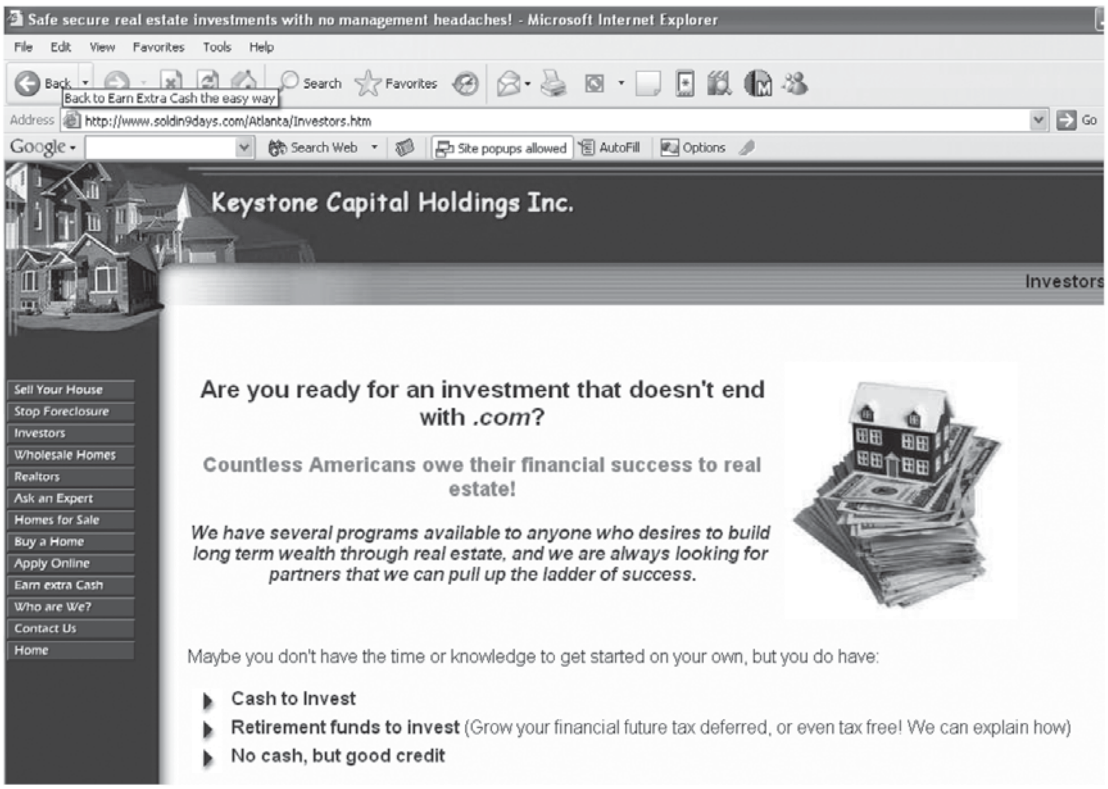
Disclosure and Disclaimer:

Nothing contained in this specific document or the following shall be considered an offer or solicitation to sell any person of the **(insert state)**. *These securities have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state, and have not been approved of disapproved by any state or federal regulating authority. An offer to sell securities can only be made by prospectus after determination of investor qualification, and any registration requirements of available exemptions.*

- <u>Websites</u>. I use a website which says, basically: "Are you ready for an investment that doesn't end with dotcom?" Come up with something catchy to pique their interest and put it out there on the Internet. "Cash to invest? Retirement funds to invest?" etc.

  The truth of the matter is, this is a great credibility tool, but I don't think I've ever gotten a lender this way. I find them through the people I meet.

Web Site


Safe secure real estate investments with no management headaches! - Microsoft Internet Explorer
File Edit View Favorites Tools Help
Back to Earn Extra Cash the easy way
http://www.soldin9days.com/Atlanta/Investors.htm
Keystone Capital Holdings Inc.
Investors
Sell Your House
Stop Foreclosure
Investors
Wholesale Homes
Realtors
Ask an Expert
Homes for Sale
Buy a Home
Apply Online
Earn extra Cash
Who are We?
Contact Us
Home
Are you ready for an investment that doesn't end with .com?
Countless Americans owe their financial success to real estate!
We have several programs available to anyone who desires to build long term wealth through real estate, and we are always looking for partners that we can pull up the ladder of success.
Maybe you don't have the time or knowledge to get started on your own, but you do have:
Cash to Invest
Retirement funds to invest (Grow your financial future tax deferred, or even tax free! We can explain how)
No cash, but good credit

And that's because most people don't want to invest with someone they don't know. So you've got to build a rapport with the people that you know. I promise, you have money at your disposal. You'll have enough money just by opening your mouth. You just have to have the right tools in place and do the right things.

Remember the person that is just itching to go out and buy a property with their equity line. Don't! Don't buy that house. Put your money into your business. Take some of that equity line and create professional-looking materials to jump-start your business and build your credibility.

Don't use your equity line to buy a property — put your money into your business

The Cost of Marketing

My marketing brochure, including the CD, cost me about $1,000 up front. The CD alone cost me over $800 to have it professionally recorded with a professional voice. My cost also includes the printing of the cover and the cost of the cases. I think I got 100 of the CDs for that. Exactly how much you spend depends on how many you get.

I've included a CD in the course that you can reproduce yourself. So you've saved the cost right there! And you can either put it in a CD envelope or in a CD case which is a little more expensive, but more professional, too.

That may sound like a lot of money. But if I give them all out and I get a $20,000 loan, it's more than paid for, right? Now, if you want to hand something out to everybody you know, you might want to use a flyer or a brochure. I usually wait until I have had a couple of conversations with the person, or until I see that they are really interested before I hand them the CD; and I never have to hand them anything else.

Word of mouth is the best marketing method for private lenders

I still haven't mentioned the best marketing method: Word of mouth. Tell people what you do and how you can help them. And then when they've made money, let them tell other people about you.

Your Credibility Kit

If you don't have any lenders yet, building a "credibility kit" will help get you started. You can't just walk in off the street and say: "Here, lend me $20,000," without something that says you know what the heck you're doing! I know I wouldn't lend it to you! Here are some of items you can put in your credibility kit:

- A letter that explains what you plan to do with the funds. You could talk about this on the CD as well.
- Articles or reports that discuss real estate as an investment. Just do a search on the Internet and you will find articles talking about the benefits of investing in real estate. When you find them, put them in your kit.
- Letters verifying your character.
- Proof that you're a member of the Better Business Bureau.
- A photocopy of your business license.
- Any articles that have been published about you. I have an article on the Internet about me, about

saving someone from financial disaster. It will come up if anyone does a search on my name.

- Your resume.
- Testimonials from lenders. These are critical.
- An analysis of a typical deal.
- Photos of houses before and after. See photos on next page.
- Graphs and charts showing how the lender's money will grow. See page 69.
- A typical spreadsheet showing how you decide whether to buy a house. See page 70.
- Anything else that shows you are an established and credible businessperson and that you know what you're doing.

Testimonials from lenders are critical in your credibility kit

So what should your credibility kit look like? It should be neatly and professionally packaged in a nice binder or something similar. Yes, this costs money, but you'll get it back and then some.

<u>What about your appearance?</u> It's part of your credibility kit, too. When you talk to a private lender who has $20,000, $30,000, $40,000, $50,000, or half a million dollars to lend, do you show up in jeans, or do you wear slacks and a golf shirt or dress shirt? I dress casually like this most of the time now. If I know I'm going to have a meeting with someone, I never dress in jeans. I only wear jeans if I know I'm not going to see anybody. If I think for a second that I'm going to meet a private lender or a home owner, I'll dress in slacks and a golf or dress shirt.

Before and After

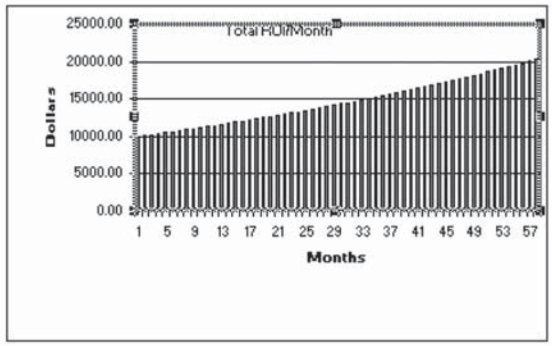
ROI Graphs

	A	B	C	D	E	F	G
1	Property		Back end profit.	Return Percentage	ROI	Initial Investment	Total Profit
2	123 Main Street				0		**0**
3					0		**0**
4							
5							

Plot Area

	Months	Interest Rate	Individual monthly profit	CUMM MONTHLY PROFIT	Total Return on Investment
6					
7	1	15%			10000.00
8	2		125.00	125.00	10125.00
9	3		126.56	251.56	10251.56
10	4		128.14	379.71	10379.71
11	5		129.75	509.45	10509.45
12	6		131.37	640.82	10640.82
13	7		133.01	773.83	10773.83
14	8		134.67	908.50	10908.50
15	9		136.36	1044.86	11044.86
16	10		138.06	1182.92	11182.92
17	11		139.79	1322.71	11322.71
18	12		141.53	1464.24	11464.24
19	13		143.30	1607.55	11607.55
20	14		145.09	1752.64	11752.64
21	15		146.91	1899.55	11899.55
22	16		148.74	2048.29	12048.29
23	17		150.60	2198.90	12198.90
24	18		152.49	2351.38	12351.38
25	19		154.39	2505.77	12505.77
26	20		156.32	2662.10	12662.10
27	21		158.28	2820.37	12820.37
28	22		160.25	2980.63	12980.63
29	23		162.26	3142.88	13142.88
30	24		164.29	3307.17	13307.17
31	25		166.34	3473.51	13473.51
32	26		168.42	3641.93	13641.93
33	27		170.52	3812.45	13812.45
34	28		172.66	3985.11	13985.11
35	29		174.81	4159.92	14159.92
36	30		177.00	4336.92	14336.92
37	31		179.21	4516.13	14516.13
38	32		181.45	4697.59	14697.59
39	33		183.72	4881.31	14881.31
40	34		186.02	5067.32	15067.32
41	35		188.34	5255.66	15255.66
42	36		190.70	5446.36	15446.36
43	37		193.08	5639.44	15639.44
44	38		195.49	5834.93	15834.93
45	39		197.94	6032.87	16032.87
46	40		200.41	6233.28	16233.28
47	41		202.92	6436.19	16436.19
48	42		205.45	6641.65	16641.65
49	43		208.02	6849.67	16849.67
50	44		210.62	7060.29	17060.29
51	45		213.25	7273.54	17273.54
52	46		215.92	7489.46	17489.46
53	47		218.62	7708.08	17708.08
54	48		221.35	7929.43	17929.43
55	49		224.12	8153.55	18153.55
56	50		226.92	8380.47	18380.47
57	51		229.76	8610.22	18610.22

Sheet1 / Sheet2 / Sheet3



Acquisition Spread Sheet

ARV		$ 110,000.00
Acq Exp		
Cash to Seller		$ -
Closing costs	$ 595.00	$ 595.00
Title Ins		
Mort Loan Amt	$ 48,000.00	
Title Ins Amt	$ 110,000.00	
Rate/1000	$ 110.00	
	$ 3.40	
Title Ins		$ 374.00
Back Taxes	$ 700.00	$ 700.00
Misc		$ -
Reinstate 1st	$ 5,000.00	$ 5,000.00
Short Sale 1st		$ -
Short Sale 2nd	$ -	$ -
Ttl Exp		$ 6,669.00
Repair Exp		
Cost of Repair	$ 15,000.00	$ 15,000.00
Ttl Exp		$ 15,000.00
Holding Costs		
Months	6	
Payments	$ 605.00	$ 3,630.00
Taxes	$ 1,300.00	$ 650.00
Ins	$ 300.00	$ 150.00
Utilities	$ 150.00	$ 900.00
Ttl Exp		$ 5,330.00
Sales Costs		
Sales Price	$ 110,000.00	
Closing Costs		$ -
RE Comm	0.0312	$ 3,432.00
Listing Cost	$ 450.00	$ 450.00
# of Ads	6	
Cost of Ads	$ 275.00	$ 1,650.00
Road Signs	$ 1,000.00	$ 1,000.00
Ttl Exp		$ 6,532.00
Sales Price		$ 76,469.00
Mort Payoff		$ 48,000.00
Cash Req.		$ 29,099.00
Cost of Funds		
Int Rate	0.15	$ 2,182.43
Months	6	
Net Profit		$ 26,286.58
Monthly Cash		$ -
Monthly Cash Flow		
Months		
ROI		90%

Cash Req.		$ 29,099.00
Cost of Funds		
Int Rate	0.15	$ 2,182.43
Months	6	
Net Profit		$ 26,286.58
Monthly Cash		$ -
Monthly Cash Flow		
Months		
ROI		90%

It's not the most comfortable thing in the world, but at least I don't wear a tie, and I look professional. I saw one investor who I thought was the homeowner's son. He had a Led Zeppelin tee-shirt on. I was intrigued and the homeowner told me the guy was an investor. Needless to say, he didn't get the house.

What do you drive? Does it matter what kind of car you drive? Well, not too much. But when you're dealing with real estate, you're in a "catch-22." If you drive a Mercedes, private lenders will like that. But homeowners sure won't! My suggestion is to buy a middle-of-the-road car — a nice, presentable, decent car. You might not want to drive it to a $500,000 private lender meeting, but I will tell you, I have, and it's been fine. Remember, it's not so much what you drive; it's what comes out of your mouth, and how confident you are.

It's not so much what you drive; it's what comes out of your mouth, and how confident you are

Let's Recap

How do you make money in real estate? You've got to put a system in place and you've got to work hard at it. And that means focusing on two areas: buying houses and finding private money. And finding private money means talking to every single person that you meet. It drives my wife absolutely nuts, because I don't care who I meet, I always lead them down that path. Always! She says: "Can't you stop talking about that for once?" No, because that's my livelihood!

I tell my lenders, I never put more than an 80% loan-to-value on their property, ever. And I don't. *No matter what.* I don't care how big or small the deal is. I never go over 80% loan-to-value, period, with any of my invest-

Don't put your lender at risk

ments. And if I'm buying all cash I never go over 65 or 70 cents on the dollar. For subject-to deals, 80% is my cap. Why? Because I just won't put my lender at risk.

We're about to get into the nuts and bolts of private lending, starting with structuring the deal. If you get good at real estate, and you need joint venture partners for million dollar deals, this course won't tell you how to do it. This course is for the investor that's buying single family homes for investment.

7 Structuring the Loan

Know what you're going to do with the house before you buy it, and before you put money on it

It's time to learn how to structure the loan. But first, let's recap: We've set our goals, we've got our office in order, we spent some time marketing, our phones are ringing, and we've taken calls. But before we can go any further, we need to determine how much money you need. How do you do this? You do it by carrying out the following steps:

- Gather all the information you've got on the property.
- Determine the value of the home you are buying.
- Identify the repair costs.
- Determine your exit strategy — I cannot stress this enough. Know what you're going to do with it before you buy it, and before you put money on it.
- Set a predetermined acceptable return on investment.
- Do not exceed 65% to 70% loan-to-value ratio ("LTV") for all cash offers, and do not exceed 75% to 80% on all subject-to offers where you're going to put a second mortgage on it. Why? Because the last thing you want to do is put your lender's money at risk. At 80% you still have a fair amount of equity. If it's a $100,000 house, you still have $20,000 in equity; you can make a $20,000 mistake and still come out whole.

Now, what information will you gather for the first step? This is covered in more detail in the subject-to course, but here's a summary: First, you're going to determine whether the homeowner just wants to sell or whether he really needs to sell. You want to deal with need-to-sells, not want-to-sells. Second, you're going to decide if there is a reason for you to become involved. In other words, is there enough existing equity, or can I manufacture equity with a short-sale?

You want to deal with need-to-sells, not want-to-sells

How Much is the House Worth?

To answer this question, you need to determine the home's after-repair value. You need to use the most reliable method possible, because otherwise, you may put your lender at risk. The best way to determine after-repair value is to have direct access to the multiple listing services. The second-best way is to work with a realtor friend, or someone that has access to the service. The third-best way is to subscribe to a service that will gather information from the tax rolls so you know what houses are selling for. Real Quest is one of these services. The fourth method is to use a free website. This information is accurate, but it's dated. It's not as current as the information in the multiple listing. Finally, if you can't get access to any of these, if you don't have a computer, you don't have any friends with access to the multiple listing service, and you don't have any money to pay for the subscription, you can drive the neighborhoods and pull the flyers out of the flyer boxes. But remember, asking price is not selling price! Also understand that when you ask your seller how much their house is worth, they're probably going to give you a price based on the same flyers you're pulling from the boxes. It's not that they're trying to be dishonest, they simply don't know. So use caution with that method. The absolute last resort, and I probably shouldn't even put this in here, is to ask the seller what their home is worth. Because if you can't figure it out, I can bet you they don't know what it is worth either.

At any rate, one way or another you're going to get a list of selling prices in the area, also called "comps." How do you evaluate them?

Generally, good comps for subdivisions are easy to get

When you're evaluating comps, you must look at four things: the number of bedrooms and baths; proximity to your property (next door is the best you can get!); the style of the home; and the age of the home. One of the reasons why I like to invest in suburban houses is because I can pinpoint value on a home pretty closely. Why? Because I deal primarily in subdivisions. In subdivisions you have the same builder (or same few builders), and the houses were built in the same style, at around the same time. So good comps for subdivisions are generally easy to get.

When you deal with urban neighborhoods, it's trickier. There's a lot of mortgage fraud. A comp that you think is good may not be good, because there may be fraud involved. So be careful if you're pulling up comps, and you see one house worth $300,000 in a neighborhood with $60,000 homes. Go look at it. Sometimes the owners have steamrolled the old house and put in a brand new one, and maybe it really is worth $300,000. But I've also seen cases where nothing has been done to the house, and it's supposedly worth $300,000. That one's a mortgage fraud. There is much less mortgage fraud out in the suburbs than there is in the city. So just be aware of that.

If you can't find any comps in the subdivision, go out in increments of tenth of a mile, quarter mile, and half a mile. Now, don't try to force that square peg in the round

Don't be a motivated buyer and try to justify the comps

hole and say: "Well, let me go out a mile and just pick one of these, because I really want to make this work." You'll shoot yourself in the foot! Don't be a motivated buyer and try to justify the comps. To this day, sometimes I find myself wanting to do this. But then I realize that I have to sell this thing in two or three months. And that's not what people are going to be looking at when they get their own comps.

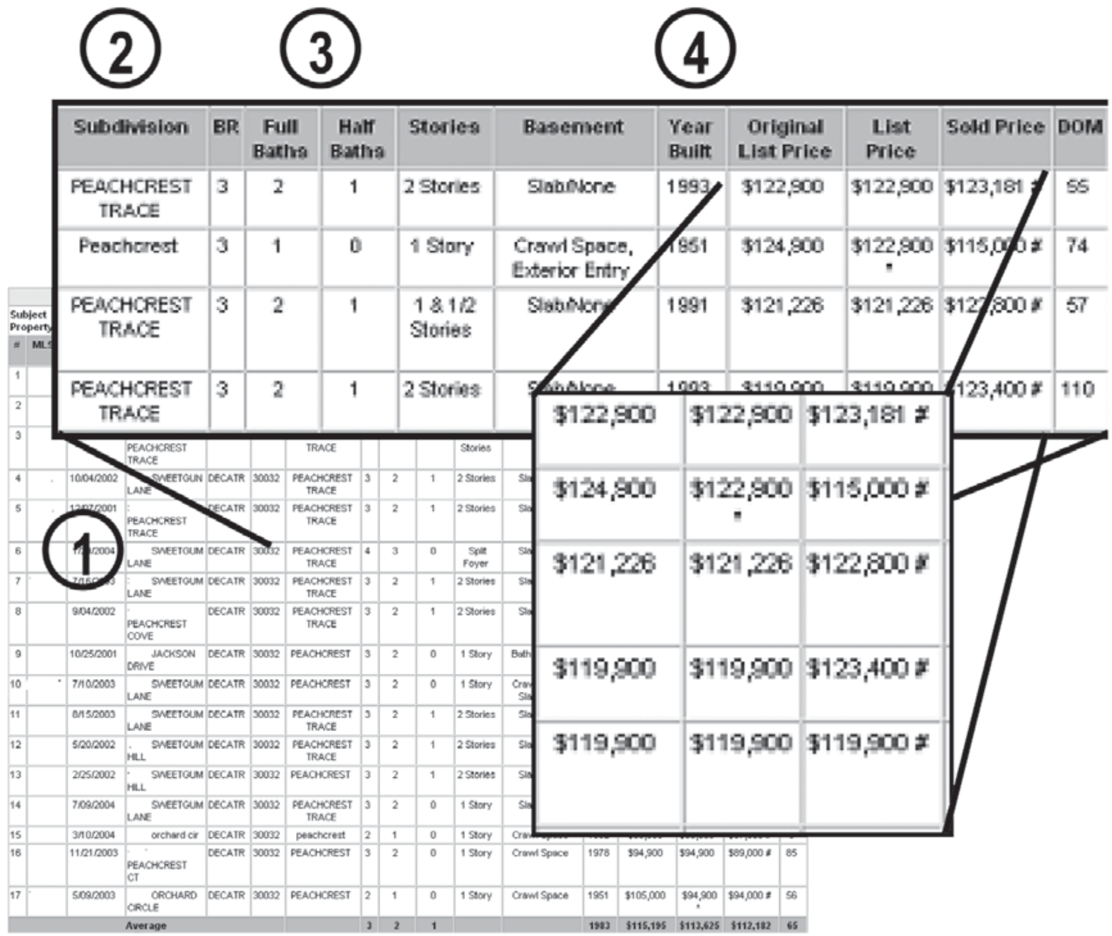
Pick homes that are similar square footage. Pick a differential of, up to say, 20%. So if you're looking at buying a 1,200 square-foot house, an acceptable comp is between 960 and 1,440 square feet. And make sure they are similar in age. You don't want to compare a home built in 2005 with one built in 1985.

Let's look at an example. Take a look at the comps on the next page. This is off of either a tax record, or a multiple listing. Look at the houses in the same subdivision. Which ones are the good comps? Look at all the characteristics: number of bedrooms, number of baths, number of stories, whether there's a basement, etc. Number one and number four are good comps. The original list price for number one is $122,900 and for number four was $119,900. Now, note that number one was on the market for 55 days, and it sold for more than the list price. What happened there? Well, the buyers rolled closing costs into the purchase price. On that house, use the listing price as the value.

Now the other significant thing I look at is the number of days on the market. If I see one price of $130,000, and another at $122,000, but the $130,000 is 180 days out, that tells me that the value of that house is closer to $120,000. Again, you need to know how to do

Example of Comps

1. Searched by Street
2. Searched by Subdivision
3. Similar Bedrooms & Baths
4. Similar Age



this so you can determine value and explain it to your private lender.

You need to determine what repairs are needed and how much they will cost you

You also need to determine what repairs are needed and how much they will cost you. Remember, you've got to borrow enough to cover the repairs, all your holding costs, and everything else. If your repair budget's off, guess what? You're going to run out of money.

On the next page, you'll find a list of repair costs. These are averages. The actual cost may be different depending on where you live and what kind of house you're dealing with. These averages are for the typical three-bedroom, two-bath, 1,200 to 1,500 square foot home in the Atlanta market.

When I'm calculating repairs, I always go up in increments of $2,500. That's just me. I can walk through a house, and in ten minutes come up with a repair figure. I almost always overestimate the repairs needed, so that I don't get myself in trouble. That's important, because when I do a fifteen-minute walk-through, I won't catch everything on the first go around. But I'm not looking to catch every detail, every light switch, and every ceiling fan. That's not what I'm looking to do. I'm looking to get a general cost of what this thing's going to take.

Now, if you don't feel comfortable trying to figure out repairs yourself, that's fine. Find a contractor that can give you good prices. Don't go to someone who's going to give you a retail price, because it's going to be skewed; that's not what an investor should be paying. You, as an investor, should have contractors that will give you much better rates for items such as paint, carpet, flooring, hardwoods, and lighting.

Determining Repairs

General guidelines when estimating repairs on an average 3 bedroom, 2 bath 1200-1500 square foot home. As the house goes up or down in size you will need to make some adjustments

By increasing your repairs in increments of $2,500 to $5,000 you should be fine.

- **$5,000 - Paint & Carpet inside**
- **$7,500 - Paint inside & out plus Carpet**
- **$10,000 - Above items plus Kitchen update**
- **$12,500 – Above plus lighting**
- **$15,000 – Above plus bathroom updates**
  Not new bathrooms, just updates

Individual repair items that you might run into

- **$4,000 – Roof (Single layer, plus tear off)**
- **$6,000-$8,000 (Siding – hardiplank includes materials**
- **$1000-$2000 (12x12 Wooden Deck)**
- **$1000-$1500 (Carpeting- builders grade – $1.00/sq ft)**
- **$2000 – Heating unit**
- **$2000 – A/C Unit**

- **If you are still concerned about the amount of your repairs simply multiply your amount by 1.5 to allow for errors.**

Once I needed a heating and air company and the one that I normally use couldn't do it right away. I called another company and they wanted to charge me $7,500 for heating and air! So I called my heating and air company and said: "I need you to do it, please," and they found a way to do it. And they did it for $4,000. So be careful who you ask for these prices, because you don't want prices that are way off. They'll eat up your profit. Ask me how I know.

The first rule of negotiation is to start low and work toward the middle

Calculating your Maximum Allowable Offer (MAO)

You also need to calculate the MAO. What's that? The MAO formula is the formula for calculating the maximum allowable offer. It's a pretty universally performed calculation. Now, the MAO is an all-cash formula. If you're going to make an all-cash offer, the MAO formula is what determines that offer. Why? Because people won't lend more than a certain loan-to-value ratio.

Here's the formula in a nutshell: Take the after-repaired value (let's say it's $100,000). That's how much we determine the house is worth. Then, multiply it by 0.65, or 0.7. And then, deduct the cost of repairs. So you've got $100,000 times 65 cents on a dollar, which puts you at $65,000. Then, deduct the repair cost — let's say $10,000. That's going to give you your MAO — maximum allowable offer — which in this case is $55,000.

Now, you never pay MAO. You never offer that rate, because the first rule of negotiation is to start low, and then work toward the middle. If you start at your maximum, you have no where to go. You have no room to negotiate. So you always want to start lower.

Now if your objective is to wholesale the house, you need to drop your offer enough to allow you to do a wholesale. How far you drop it depends on how much money you want to make. If you want to make $5,000, you have to drop the offer by $5,000 or more. So on our example, you've got to go below $50,000, because you've got to leave yourself some negotiating room as well. In this case, I would probably offer around $48,000, if I'm wholesaling it. If I'm not going to wholesale it, I can come closer to that $55,000, but I won't start there. Remember, the MAO formula is what protects your lender, so abide by it!

The major difference between ugly houses and pretty houses is that you won't be making cash offers on pretty houses

The Spreadsheet: Prescreening Subject-To Houses

The major difference between ugly and pretty houses is that you won't be making cash offers on pretty houses. You're going to be looking at the loans that the owner has. You're going to look at their interest rate and how far they are behind in their payments. How much you can assume, and how much debt can you basically take over "subject to"?

Let's use a spreadsheet to determine that. First we need to set some goals or some parameters. Ask: "What is the minimum profit that I want to make off every house?" That's determined by your goals. And then ask: "What's my minimum return on investment?" You've already determined that: you don't want to go over 80% LTV.

So now you've got all the information you need to fill out the spreadsheet, an example of which is on the next page.

Property Evaluation Spreadsheet

This is the spreadsheet to use in the section on "The Spreadsheet - Pre-screening Subject To houses"		
ARV		$ 385,000.00
Acq Exp		
Cash to Seller		$ -
Closing costs	$ 595.00	$ 595.00
Title Ins		
Mort Loan Amt	$ 304,000.00	
Title Ins Amt	$ 385,000.00	
Rate/1000	$ 385.00	
	$ 3.40	
Title Ins		$ 1,309.00
Back Taxes		$ -
Misc		$ -
Reinstate 1st	$ 6,700.00	$ 6,700.00
Short Sale 1st		$ -
Short Sale 2nd		$ -
Ttl Exp		$ 8,604.00
Repair Exp		
Cost of Repairs	$ 5,000.00	$ 5,000.00
Ttl Exp		$ 5,000.00
Holding Costs		
Months	6	
Payments	$ 2,237.00	$ 13,422.00
Taxes		$ -
Ins	$ 300.00	$ 150.00
Utilities	$ 250.00	$ 1,500.00
Ttl Exp		$ 15,072.00
Sales Costs		
Sales Price	$ 385,000.00	
Closing Costs	0	$ -
RE Comm	0.03	$ 11,550.00
Listing Cost		$ -
# of Ads	12	
Cost of Ads	$ 250.00	$ 3,000.00
Owner Fin Comm		$ -
Ttl Exp		$ 14,550.00
Sales Price		$ 341,774.00
Mort payoff		$ 304,000.00
Cash Req.		$ 31,676.00
Cost of Funds		
Int Rate	0.15	$ 2,375.70
Months	6	
Net Profit		$ 35,398.30
Monthly Cash		$ -
Monthly Cash Flow	$ -	
Months	12	
ROI		112%
LTV		87%

The spreadsheet will calculate the profit for you. And it will tell you what you can offer the seller and the bank, and how much money you need to borrow from your private lender.

The key to the spreadsheet is to work backwards. I use this spreadsheet on every single deal I do. I don't buy anything unless I run it through this first.

The key to the spreadsheet is to work backwards

Let's assume for a minute that the house is worth $385,000 after repairs. We know this because we've gotten comps and we've done our homework.

The spreadsheet is broken into four sections: acquisition expenses (what it's going to cost you to purchase it); repairs; holding costs, which will depend on how long you keep it (I never assume less than three months, and I usually use four or more to be conservative); and finally, sales costs (the cost of marketing the house in order to sell it; this is the amount that will come out of your pocket in sales commissions, ads, etc.).

Now, I never fill in the cash-to-seller amount at this point. It comes later. I always work backwards, because I don't know what I'm willing to give the seller yet.

On the example, you'll see some figures in red, and some in black. The ones in black don't generally change from deal to deal. The ones in red do change. For example, my attorney charges me $595 to close every loan. And then there are recording fees and miscellaneous fees such as couriers.

Let's say you have an underlying mortgage on the house of $304,000. You'll calculate the title insurance based on the after-repair value, in this case $385,000. Ask your attorney and see if you can get an accurate rate per thousand for title insurance, because it changes. It's not always the same. Your attorney is probably going to be evasive, though; he's not going to want to tell you what his costs are.

The higher you go up the totem pole, the longer you're going to hang on to a house

Now for other items. Are back taxes owed? No. Any liens or judgments? No, but it will take $6,700 to reinstate the loan. Now, even if you think the property doesn't need any repairs, you're going to spend at least $2,500 on it. Put $5,000 just to be conservative!

The current mortgage payment is $2,237 per month. With an expensive house like this, you should assume you'll have to hold on to it for 6 months. The higher you go up the totem pole, the longer you're going to hang on to a house. That means you're going to make mortgage payments of over $13,000! That's all coming out of your pocket, so you'll need to make sure you're covered by borrowing enough from a private lender!

For homeowner's insurance I usually use $300 annually, but you can use whatever number works for your insurance company. Then, divide it out for a monthly amount. Here, we'll have the house for six months, so we'll spend about $150 for those six months. On a house this size, I would probably estimate $250 per month on utilities.

So now we come to sales cost. How are you selling it? Are you willing to pay a commission? If so, factor that in. Figure at least 3%. In other words, you're saying: "If an agent comes to me, I will sell it through him." You may not list it with an agent, but you're probably willing to pay if somebody brings you a buyer.

Another sales cost is advertising. You're probably going to run two ads per month. That's a total of twelve ads if you hold it six months. The average ad is about $250.

Now, what interest are you willing to pay the lender? Let's say it's 15% for six months, because that's what our model is here. Now, look on the spreadsheet where it says cash required: $31,676. That is the amount you need to borrow from a private lender. If you borrow $31,676 you make about $35,000.

The spreadsheet will help you from getting into trouble

But there's a problem: the loan-to-value ratio is 87%. And that's before you even give the seller anything.

I would be concerned about this deal. Even though it's a 112% return on investment, your lender needs to know they're going in at 87% LTV. It might turn out to be worth it because the total net profit is high, but it requires a lot of money and it's more risky because the loan to value ratio is a little bit higher.

The nice thing about this spreadsheet, though, is you can play with these numbers. If there's a second mortgage you can short-sell, you can increase the equity. You can play with the price you're willing to pay and see if that will get you where you want to go.

Let's say I figure out I've got to borrow $270,000 to get this house. I would pass on it, even if I thought I could get $82,000 profit. Why? Because I know that I can take that same $270,000, spread it out over eight properties and make $269,000 profit as opposed to $82,000 — it would just take a little longer. And I don't go above 80% LTV, because if any of my numbers are off, it gets even tighter. Especially if you have to hold it longer than you expected. That's why I like using this spreadsheet, because it will tell me everything I need to know in one fell swoop.

The other benefit of the spreadsheet is that you can take it to the homeowner, and you've got a built-in nego-

One of the principles of negotiation is: have more knowledge than they do

tiator. How so? Because right now that homeowner thinks they've got a boatload of equity. The minute you show them that spreadsheet, they say: "Hmm, guess there is not as much equity in here as I thought!" But if you don't show them something like that, they don't understand. They say: "My house is worth $360,000, and I owe $280,000 — I have $80,000 worth of equity!" That's not how it works, and you need to show them why. Then they'll say: "Well, I want $40,000 for this!" And you'll show them why that doesn't leave you a lot of room.

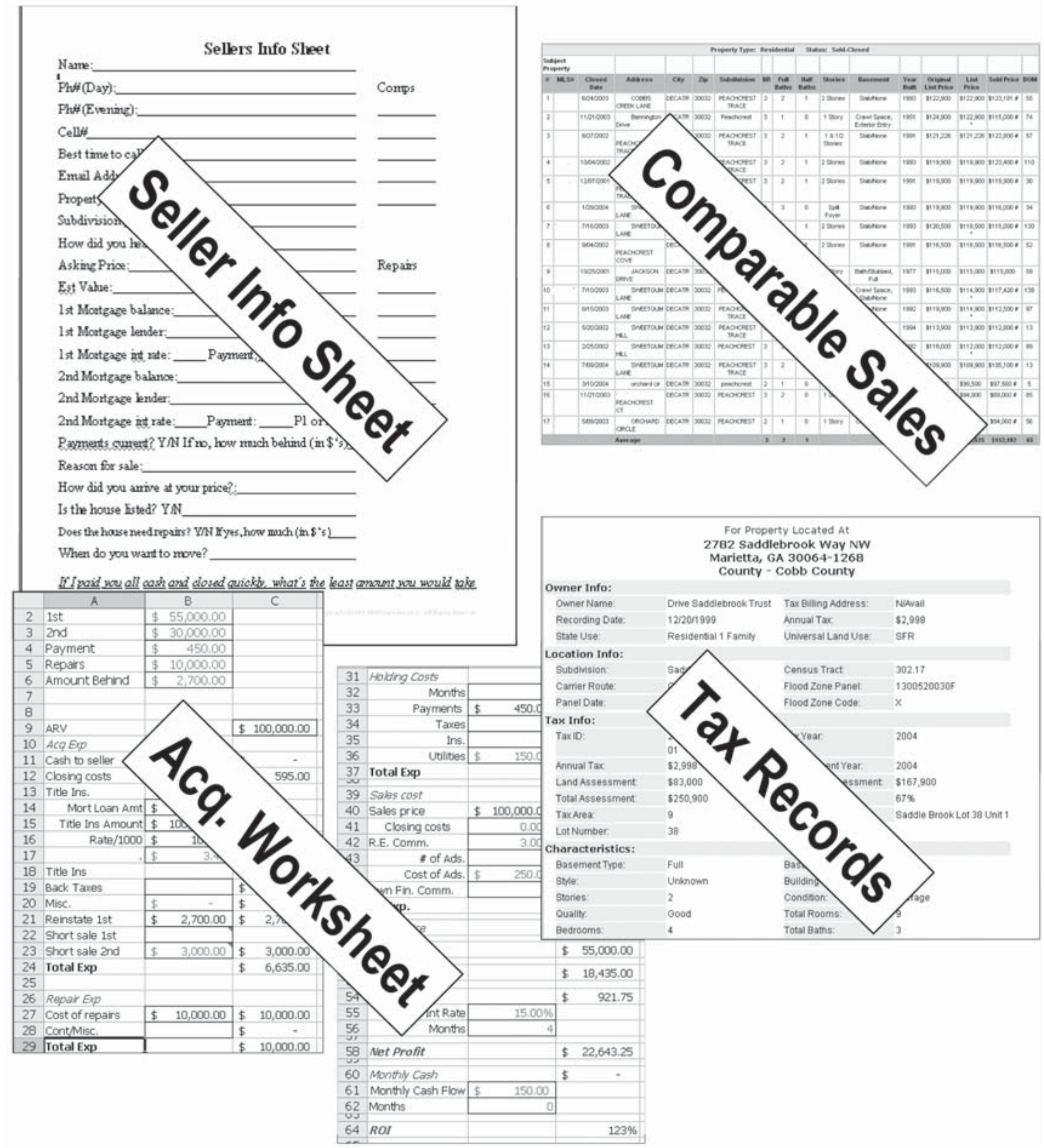
Remember, one of the principles of negotiation is knowledge. You have more knowledge than she does. You can provide the comps, you can provide the information, and you can rebut her information. You can say: "No, this is the reality of it". Well, she doesn't have anything to combat that, in most cases. So it puts you in a better position to negotiate.

Visiting the seller. Prior to visiting the homeowner, you're going to have four pieces of information: First, the seller's information sheet; second, the comparable sales; third, the tax records if you can get them; and finally, the spreadsheet. If you have those four pieces of information, you can make a good, solid decision.

You can also show your private lender this information, which will give you credibility. Don't be afraid to show your private lender all this information. If you're afraid to show your private lender, there is probably a reason, and maybe you shouldn't be doing the deal. My lenders get all this information, because they're entitled to make an educated decision. It's their money, after all.

So we've prescreened our seller, and we know he's motivated. We've run through the spreadsheet, we've

Prior to visiting homeowner



seen how much money we can make, and we've organized the paperwork. We've also checked out the neighborhood. We've run the comps, we've taken the pictures of properties, we've done all the stuff that you learned to do in my subject-to course. We have everything we need at the homeowner's site; we've made an offer which they've accepted, and we've gotten everything signed. We're done with that segment.

In the pre-closing stage, you will touch base with everyone

Pre-closing

Now we head into the pre-closing side of things. You're going to go back to your office and do a whole list of things: order the title, fax the authorization to the bank, verify the payoffs and the reinstatement amount, contact the closing attorney, and contact the private lender. You're going to prepare a land trust if you're taking over the property subject-to; you'll prepare the insurance letter, and you'll touch base with everyone.

To order title, you'll use a simple title request, as shown on the next page. And you'll also fax your authorization to the bank, as shown on the next page also. You do this so the bank will send you the payoff and reinstatement figures, along with the terms of the loan. You've got to have this, because you don't want to put a private loan on something for which you don't have all the figures. If you don't do this, it could turn out that there's a prepayment penalty, or a balloon payment that the seller failed to disclose to you.

The bank will send you a payoff letter that says something like: "Here is the payoff letter. It's \$102,000.50!" It will also have an expiration date, usually the end of the month.

YOUR COMPANY NAME
ADDRESS, CITY, STATE, ZIP
VOICE 555-555-5555 FAX 555-555-5555

To: Closing Coordinator
From: Your Company Name
(Senders name goes here)
Re: Title Search

Can you run title o the following property?

Owner:

____

Property Address:

____

____

____

County: ______________________________________

Thank you in advance for your help.

____

AUTHORIZATION TO RELEASE INFORMATION

RE: Borrower: Name of Borrower
Loan Number: Loan Number
SSN: Social Security Number
Address: Property Address

To Whom It May Concern:
By this letter, I hereby expressly authorize you to release and disclose any and all information requested by Name of Company, including but not limited to current amounts owed and payoff balances, in connection with the above-identified loan.

Very truly yours,

____

Name of Seller

You're also going to ask the bank for the reinstatement amount, for the same reason: you don't want to underestimate when you borrow the funds. For example, what if the seller had a previous bankruptcy, but reaffirmed the mortgage so they could keep the house? Let's say they didn't mention that, and said they were only two months behind. But in fact, they're eighteen months behind, because they weren't making payments while the bankruptcy was pending. They think they're almost current, but they failed to remember that they missed the last sixteen payments. You won't see that until you see the reinstatement figures.

You don't want to underestimate when you borrow the funds

You're going to contact your attorney at this point, too, and send him the information about the seller and about the land trust you're going to use. You will also tell him at this point who your private lender is and what the terms of the note will be.

Types of Financing

Now we need to take some time to talk more about the type of loan you're going to get. You should already know who your lender is, how you're going to get them paid, and what type of financing you're going to do with them. Here are four types of financing I have used:

- Debt financing. The lender loans the money, and in return receives an interest payment, either simple or compounded. Simple interest is very basic. The monthly interest equals the loan amount (let's say $10,000) times the interest rate, divided by twelve. That's what you pay them every single month. The payment never goes up or down. Also, you're only paying interest on the

> loan; you don't pay any of the principal. Or if the lender can do without monthly payments, you can say: "If you wait till the end for any payments, I will compound the interest." That way you can cash-flow the property and use it as you need it.

Don't pool people's funds unless you really know what you're doing

Now, remember I said that I guarantee four months' interest. This is a prepayment penalty. For example, if I sell the property within the first 30 days, I cut them a check as if I kept it four months.

When I pay off the loan and it's an IRA situation, I pay the entire amount back to the IRA custodian rather than keeping the principle to reinvest. That's because for self-directed IRAs, the check has to be written directly to the IRA. It can't be written to the lender himself. The money goes back into the lender's account, and then the lender has to send another Direction of Investment in order to lend on another piece of property.

Can you have more than one lender for the same property? Yes. But you cannot pool their funds together. Each one has to be in a separate lien position.

Say for example, I need $20,000 to do a deal. Jean and Leon are my lenders, but each only has $10,000 to lend. I can take both of their loans, but when I put the money on the property, one has to go into second position, and the other one has to go into third position (after the first that I took "subject to"). They are separate lenders, so they are in separate lien positions.

Why is this? Because the minute you put the funds together, you're acting as a security. So don't pool people's funds unless you really know what you're doing. Otherwise, you'll be guilty of a securities violation and you don't want that! Keep your lenders' funds separate.

You don't want to get into anything that could be construed as being misleading or dishonest

Obviously, the first position is the strongest. That's usually the underlying note if you're buying a property subject-to. Then you're going to have a second mortgage, if we're taking two of these loans together. You're going to have a second and a third. The person that's in the third position is in a more risky position than the person in the second position. But there's no way around it. If you decide to do a deal like this, disclose that to both of them, and let them know up front so that they know what is going on. And if a lender doesn't want to be in third position, then you simply don't use their funds. That's my suggestion.

Remember, you don't want to get into anything that could be construed as being misleading or dishonest. You want to give full disclosure on everything. If it goes badly, at least they understand. And in fact, I would probably have my attorney have them sign something in writing saying that they understand they're in third position.

Now, let's say I have two lenders, and one has $20,000 and the other has $5,000. Well, naturally I'm not going to put the $5,000 loan first, because the lender with $20,000 is putting more at risk. That makes sense to me.

- The second method is <u>equity financing</u>. Your lender loans money and in return he gets a percentage of the back-end profit. You give them a piece of the equity at the backend when you sell. This is usually more expensive than paying interest, but it's an option.

- The third method is <u>debt plus equity</u>. In other words, the lender gets a monthly interest rate as well as a percentage of the back-end. What's the percentage? That's the beauty of private lending

— it's so flexible — the percentage is whatever you agree on. Perhaps you give 10% interest plus 20% of the profits. I've seen people give 50% of the profits away; I've seen people give it all away simply to learn the process. I've had people come to me and say: "Hey, I'll give you 100% of my profits, if I can watch you and you can teach me how to do it!" This is where you become creative, this is where the rubber meets the road, and you decide: "Hey, is it worth losing this deal, or giving some of it away to get the money to do it?"

- Finally, there's debt or equity. Here, you give the lender one or the other, depending on how the deal turns out. For example, you give 20% of the profits or 10% interest at the end, whichever turns out to be greater.

Early on you'll probably give away more than you want to, but that may be the best way to get started using private funds

Early on you'll probably give away more than you want to, but that may be the best way to get started using private funds. I gave away way too much in the beginning, but that was the only way I could get money. Now, though, I give just give them a straight percentage. I don't give any back-end profits away. But when I first started, I gave them an interest rate, or a percentage of the back end, whichever was greater.

Examples of Financing

Let's look at some examples. First, there's debt financing. Let's say you have an after-repair value of $150,000. The purchase price is $100,000. You borrow $15,000. When you sell you get a profit of $35,000. With debt financing, you pay your lender $1,500 simple interest for a year. That's all he gets for the whole deal. You walk away with $35,000. Or, if you compound it, he walks away with $1,570.

I always use debt financing now, because I like to keep the back-end profits for myself.

This spreadsheet is invaluable when you go to calculate payoffs for your lenders

Take a look at the sheet on the next page. It's a simple interest form. This is what I use to do payoffs. If you notice, my payment to the lender every month is exactly the same. Then, when I do the payoff, it's just the principal amount. I've already paid them their interest.

Let's say I took out this loan on 03/01/2005. I always give four months interest, so I always fill in the form so that I know that I'm going to pay him at least a $1,000 in interest. And if I hold it longer than four months, I'm going to pay him more.

Let's say in that fifth month, I held the loan less than a full month. Instead of paying a full month's worth of interest, I pay a prorated amount. At closing, he'll get the principal plus the prorated amount for the partial month.

How about if I compound the interest? Take a look at the form on page 96. In this particular transaction, I paid compounded interest even though I made monthly payments. And as you can see, the monthly payment kept going up. We held the loan for four months and 19 days. I paid him $216.77 the first month, $218.47, $220.29, $222 down the line. And then I only held it 19 days in the fifth month. I gave him the per-day interest times 19 days for $139. My payoff to him was $27,017.47.

As you can see, this spreadsheet is invaluable when you go to calculate payoffs for your lenders!

Simple Interest

	A	B	C	D	E	F	G	H	I	J
1	**Joe Investor**									
2	**123 Main Street**									
3			$15,000	10%	3/1/2005					
4					(Label)	Per Diem	Days	Prorated Amount		PAYOFF
5	1	15000.00	125.00	15000.00	4/1/2005	4.11		0.00		15000.00
6	2	15000.00	125.00	15000.00	5/1/2005	4.11		0.00		15000.00
7	3	15000.00	125.00	15000.00	6/1/2005	4.11		0.00		15000.00
8	4	15000.00	125.00	15000.00	7/1/2005	4.11		0.00		15000.00
9	5	15000.00	125.00	15000.00		4.11		0.00		15000.00
10	6	15000.00	125.00	15000.00		4.11		0.00		15000.00
11	7	15000.00	125.00	15000.00		4.11		0.00		15000.00
12	8	15000.00	125.00	15000.00		4.11		0.00		15000.00
13	9	15000.00	125.00	15000.00		4.11		0.00		15000.00
14	10	15000.00	125.00	15000.00		4.11		0.00		15000.00
15	11	15000.00	125.00	15000.00		4.11		0.00		15000.00
16	12	15000.00	125.00	15000.00		4.11		0.00		15000.00
17	13	15000.00	125.00	15000.00		4.11		0.00		15000.00
18	14	15000.00	125.00	15000.00		4.11		0.00		15000.00
19	15	15000.00	125.00	15000.00		4.11		0.00		15000.00
20	16	15000.00	125.00	15000.00		4.11		0.00		15000.00
21	17	15000.00	125.00	15000.00		4.11		0.00		15000.00
22										
23	Step 1: Input original loan amount into C3									
24	Step 2: Input the interest rate in column D									
25	Step 2: Input months in column E. This column is just a label to help you input into column G									
26	Step 3: Input odd number of days in column G for last month of loan.									
27	Step 4: The Payoff is in Column J & the per diem is in column F for the month of the payoff.									
28										
29	Four Months are the min. that we give.									

Compounding Interest

	A	B	C	D	E	F	G	H	I	J
1	**Joe Investor**									
2	**123 Main Street**									
3			$26,000	10%	1/21/2005					
4					(Label)	Per Diem	Days	Prorated Amount		PAYOFF
5	1	26000.00	216.67	26216.67	2/21/2005	7.12		0.00		26216.67
6	2	26216.67	218.47	26435.14	3/21/2005	7.18		0.00		26435.14
7	3	26435.14	220.29	26655.43	4/21/2005	7.24		0.00		26655.43
8	4	26655.43	222.13	26877.56	5/21/2005	7.30		0.00		26877.56
9	5	26877.56	0.00	26877.56		7.36	19	139.91		27017.47
10	6	26877.56	223.98	27101.54		7.36		0.00		27101.54
11	7	27101.54	225.85	27327.39		7.43		0.00		27327.39
12	8	27327.39	227.73	27555.11		7.49		0.00		27555.11
13	9	27555.11	229.63	27784.74		7.55		0.00		27784.74
14	10	27784.74	231.54	28016.28		7.61		0.00		28016.28
15	11	28016.28	233.47	28249.75		7.68		0.00		28249.75
16	12	28249.75	235.41	28485.16		7.74		0.00		28485.16
17	13	28485.16	237.38	28722.54		7.80		0.00		28722.54
18	14	28722.54	239.35	28961.89		7.87		0.00		28961.89
19	15	28961.89	241.35	29203.24		7.93		0.00		29203.24
20	16	29203.24	243.36	29446.60		8.00		0.00		29446.60
21	17	29446.60	245.39	29691.99		8.07		0.00		29691.99
22										
23	Step 1: Input original loan amount into C3									
24	Step 2: Input the interest rate in column D									
25	Step 2: Input months in column E. This column is just a label to help you input into column G									
26	Step 3: Input odd number of days in column G for last month of loan.									
27	Step 4: The Payoff is in Column J & the per diem is in column F for the month of the payoff.									
28										

Now let's look at an example of equity financing on the next page. With equity financing, the lender loans the money, and then gets a percentage of a profits. No monthly payments are made. All they get is profit. In our example, the profit was $35,000. When you sell, you split it $17,500 to $17,500. Ouch! But if you had no other way to get money, it would make sense. Is 50% of $35,000 better than 100% of nothing? You bet! So, don't cringe too much, because if you don't have the money, that's a great way to get it.

With equity financing, the lender loans the money and gets a percentage of the profits

This type of borrowing is only temporary if you do things properly. You'll do equity financing until you get the hang of it, and until you get more private funds. And then you're going to tell your lender: "You know what? I don't like that deal anymore. From now on I'm just going to pay interest. It's still a great deal for you if you'd like to lend the money!" Because at this point, you'll have more money than you know what to do with. Or you'll have other funds that you can utilize.

Let's take a look at the example of debt plus equity on page 99. Same scenario, same numbers, only in this deal, you agree to give the lender 20% of the profits plus 10% simple interest paid monthly. So you get $28,000, and he gets $7,000 plus $125 a month ($1500 annually divided by 12 months).

Finally, let's consider the example of debt or equity financing on page 100. You agree to give the lender 20% of the profit, or 10% compounded interest, paid in one lump sum. So basically, they get 20% of the profits, or 10% compounded interest (compounded because you're not giving them any payments while you hold the property). At 80/20%, you get $28,000 profit, you give them

Equity Financing

1. **Equity Financing**
   - Your lender loans money and in return receives a percentage of the profits.
   - No monthly payments are made

Example

ARV	150,000.00	
Purchase Price	100,000.00	
Funds Borrowed	15,000.00	
Profit when sold	35,000.00	
Profit Split 50/50	17,500	You
	17,500	Lender

Debt Plus Equity Financing

1. ## Debt plus Equity
   1. **Your lender loans money and in return they get a monthly interest payment as well as a percentage of the profits**

Example

ARV	**150,000.00**
Purchase Price	**100,000.00**
Funds Borrowed	**15,000.00**
Profit when sold	**35,000.00**

agreed to give lender 20% of profit plus 10% simple interest paid monthly

Profit Split 80/20	**28,000**	**You**
	7,000	**Lender**
	Plus 125.00/month	

Debt or Equity Financing

1. ## Debt or Equity

   1. **Your lender loans money and in return they receive either a lump sum interest payment or a percent of the profits which ever is greater.**

Example

ARV	**150,000.00**
Purchase Price	**100,000.00**
Funds Borrowed	**15,000.00**
Profit when sold	**35,000.00**

agreed to give lender 20% of profit or 10% compounding interest paid in one lump sum.

Profit Split 80/20	**28,000**	**You**
	7,000	**Lender**

or

Kept for 12 mo. \$16570 - \$15000 = \$1570

The greater of the two would be \$7000.00

$7,000; or if you keep this thing for 12 months, they end up making $1,570 in interest. They get the greater of the two: either the $7,000 because that's the 20% of the backend, or this $1,570 which is 10% of the interest. So obviously, you're going to pay them $7,000. But still, if you don't have the money, this is a good deal because you get $28,000 profit. Does this work for you? Please tell me, yes!

You have to decide what type of financing works for you

Here's another example of a deal we did with debt financing — see the next four pages. We bought a house in Doraville Georgia for $40,000 (an "ugly house"). We put an $83,500 private loan on the house. Of that, we got $42,500 cash at closing for renovation and holding costs. The seller got $40,000 cash. So we paid them $39,000 for that crackerjack box. This was an all-cash deal. It was actually much less than MAO.

The after-repair value was $119,000 and the purchase price was $40,000. The repair budget was $35,000. The amount borrowed, $83,500, included acquisition cost, closing cost, repair cost, holding cost and everything else. We borrowed the money at six points over the prime rate, with monthly payments; it came out to be about 10%.

In the end, we sold the house for $117,000. We repaid the loan of $83,500 plus his interest, minus 3% commission and closing fees. We walked away with $24,000.

Here's another example, with a house that needed very little work (a "pretty house."). See pages 106-107. The after-repair value was, we estimated, $299,000, with $7,000 in repairs. Our total cash requirement for all of our acquisition, repair, holding and selling costs was $23,000, which we borrowed. We took it over "subject to" the existing financing, for $251,660. The terms for

Debt Financing Example (Before)

Debt Financing Example (After)

Debt Financing Breakdown

- After Repair Value $119,000
- Purchase Price $ 40,000
- Repair Budget $ 35,000
- Amount Borrowed $ 83,500
  - Includes Acq costs, closing costs, repair costs, holding costs, marketing costs
  - Terms 6 points over prime. With monthly payments
- Total Acq Cost $ 83,500
- Back at closing $ 42,272

Sold in 6 Months

Residential $119,900
#:997609 Active **Broker:** CLIK01 **Area:** 61 **Map:** 741B3
6270 JANE ROAD FMLSneighborhoods **Media:** 1
City: DORAVILLE **State:** Georgia **County:** GWINNETT **Zip:** 30340
Subdivision: LIBERTY HEIGHTS **Yr Built:** 1955 **Age Desc:** Resale

Lvls	Bdrms	Baths	Hlf Bth
Upper	0	0	0
Main	3	1	0
Lower	0	0	0
Total	3	1	0

Lake: NONE **Waterfront:** 0
Stories: 1 Story **Elem:** NORCROSS
Style: Ranch **Middle:** SUMMEROUR
High: NORCROSS

Directions: 285 TO BUFORD HWY-GO NORTH APPROX 2.5 MILES*R ON SUSAN*L ON BRUCE*R ON JANE RD*

Public Remarks

NICEST HOME IN NEIGHBORHOOD*NEWLY RENOVATED & READY TO SELL*THIS NEXT-TO-NEW HOME HAS EVERYTHING! NEW FEATURES INCLUDE-ROOF, HARDIPLANK SIDING,H
HEATER,CENTRAL HVAC,WINDOWS,WHITE KIT,BATH,LIGHTING,DOORS,PAINT&CARPET!

Private/Confidential Remarks

NICEST HOME IN NEIGHBORHOOD!3%TO BUYERS BROKER*COURTESY CALL OWNER*SUPRA LOCKBOX*

$117,000

Features

Bedroom: Bdrm On Main Lev, Master On Main
Kitchen: Breakfast Area, Cabinets White, Counter Top - Laminated
Const: Concrete Siding **House Faces:** Unknown
Parking: Driveway, Parking Pad
Rooms: Great Room
Basement: Crawl Space
Lot Size: Under 1/3 Acre **Lot Desc:** Level
Mast
Dinin **g:** None
Tennis on Prop: No **Pool:** Pool-No Swimming Pool
Road: Paved, Public Maintain **# FP:** 0
Home Warranty: Negotiable
Lot Dimensions: .25

Other Descriptive Information

Nbrhd - Street Lights	Ext - Front Porch	Enrgy - Other
Appl - Dishwasher	No Hcap Features	Water - Public Water
Appl - Elec Water Heater	Fplc - None	Sewer - Pub Swr Connectd

Sold in 6 mo	**$117,000**
Repayment of loan	**$ 88,092**
$83,500 +$ 4,592	
3% Commission	**$ 3,510**
Closing Fees	**$ 1,170**
PROFIT	**$ 24,228**

Pretty House Example - Financing Breakdown

• After Repair Value	$299,900
• Purchase Price	$251,660
• Repair Budget	$ 7,000
• Amount Borrowed	$ 23,000

- Includes Acq costs, closing costs, repair costs, holding costs, marketing costs
- Terms 10% simple interest with monthly payments

• Total Acq Cost	$274,660
• Back at closing	$ 21,461

Pretty House Example

Sold in 3 mo	$294,500
Repayment of loan $23,000 +$776	$ 23,776
3% Commission	$ 8,835
Closing Fees	$ 1,330
PROFIT	$ 33,705

the private lender were 10% simple interest with monthly payments. The total acquisition cost was $274,660 and we got a total back at closing of $21,000. The seller got zero.

There are times when the seller won't get anything out of the deal other than getting out of their house

Now here's where it gets interesting. The house really didn't need much, so we hardly put anything in it. We actually made a profit during the whole period we had it. We ended up taking our profit early since we didn't use all of the borrowed funds. We only put $7,000 in repairs on this and we didn't keep it very long. When all was said and done, we got over $33,000 profit, some up front and the remainder at the end.

Once you've determined who your lender is, how much you're willing to pay them, and how you're going to structure it; then it's time to complete the paperwork. We'll address that next.

8 Time for Paperwork!

Having your documentation in order makes for a smooth closing

You've made it to closing and that means it's time for the paperwork! What information do you give the lender at this point? There are five documents that lenders get securing their investment:

- The joint venture agreement. This is what keeps you from getting into trouble with the SEC.
- The deed to secure debt. This is what puts a lien against the property and it puts your lender in a very secure position.
- The promissory note, which spells out the terms of your repayment, such as the interest rate and the four month prepayment penalty.
- Title insurance. I always pay for owner's coverage and lender's coverage.
- The hazard insurance policy. I make my lender a last payee on the hazard insurance policy, just like any other lender would be.

Let me back up just a moment, in case you're not familiar with liens. A lien prohibits you from selling a house without paying off the loan associated with the lien. So if my lien secures a $100,000 loan on the property and my house is worth $120,000, then when I sell the house that $100,000 gets paid before I collect a dime. Once the loan is paid off, the title is clear. This usually happens at closing, assuming there's enough money in the proceeds to cover the loan.

So if you're taking a house subject-to, how does the hazard insurance work? Just the same way as if you took out a second loan on your house. Your home-owner policy would stay in place, but your second mortgage-holder would require you to list them as an additional loss payee. If the house burns to the ground, the first insurance check goes to the first mortgage-holder. Then, the second mortgage-holder is paid. Your insurance policy will list the first mortgage-holder as payee and then the owner of the second mortgage as an additional loss payee.

There is no sense paying for two insurance policies

It's a little more complicated with a subject-to deal, and I talk about this in my subject-to course, but basically the insurance has to reflect that the buyer is a land trust. We amend the policy to say (for example, if I'm the trustee): "Don DeRosa as trustee for' and then the name of the trust, and then it will say 'as their interest may appear (ATIMA)'." And that's how we amend the policy. We just go to the existing insurance company and tell them how the policy needs to read. Then they send the new policy to the lender.

Now, I know some people who put two policies on the home. Why? Because they don't want to mess with that first policy; they don't want to send any flags up to the lender that the ownership has changed. And that means they pay double policies. Well, I used to do that. But now, I just amend the policies, because there is no sense paying for two policies.

Joint Venture Agreement. Let's talk about the joint venture agreement. What is it? It's a written agreement between you and the lender, usually identifying who is responsible for what. It basically says: "Hey, we've reached a business agreement. Here's what you're going to do. Here's what I'm going to do." It defines the objectives, the level of participation, the management roles, the ownership rights, and so on. It's pretty all-inclusive. There's an example in your course materials. It spells out who makes the capital contributions and who makes other kinds of contributions. And who gets paid what, when, and where, and how! You may use this if you have advertised for a joint venture partner and want to structure your relationship this way.

A security deed stays in place until the loan is paid off

Security deed. The security deed is an instrument that puts a lien against the property. It stays in place until the loan is paid off. Usually that happens when you sell the house to a new buyer and they get new financing on the property. At the closing, any liens that are attached to that property have to be paid off before you get a penny. That's why you have to get the lender's and homeowner's approvals for a short-sale, because the lender is taking less than the security instrument says he's owed to release the lien.

Each state has a different name for their security instrument. In Georgia, where I live, it's called a security deed. Other states call it a mortgage or trust deed. I've given you a copy of a deed to secure debt on the next page.

Promissory note. A promissory note is, very simply, an I.O.U. It's a written promise to repay a specific sum of money, either on demand, in installments over a period of time, or before a fixed date. You'll also hear this called a "note." The note is a contract between a borrower and a lender that includes the terms and conditions under which the borrower promises to repay.

We talked about a security deed securing the promissory note. What's the difference between a secured note and an unsecured note? A secured note is guaranteed using some form of collateral, usually the home itself.

Security Deed

Return recorded document to:
Stevens & Associates
400 Perimeter Center Terrace, Suite 270
Atlanta, Georgia 30346

DEED TO SECURE DEBT

STATE OF GEORGIA
COUNTY OF DEKALB

THIS INDENTURE, Made the ____ day of ____, in the year ____ between ____, as party or parties of the first part, hereinafter called Grantor, and ____, as party of the second part, hereinafter called Grantee;

WITNESSETH, That Grantor, for the consideration hereinafter set forth, in hand paid at and before the sealing and delivery of these presents, the receipt whereof is hereby acknowledged, has granted, bargained, sold, aliened, conveyed and confirmed, and by these presents does grant, bargain, sell, alien, convey and confirm unto the said Grantee,

SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF

THIS CONVEYANCE is made under the provisions of the existing Code of the State of Georgia to secure a debt (and interest thereon and other indebtedness as described herein) evidenced by ____ note dated ____ made by Grantor to order of Grantee, for the principal sum of ____ dollars and ____ cents ($____) with the final installment being due and payable on ____.

The indebtedness hereby secured includes any renewal or extension of any part or all of said indebtedness; and if any portion of said indebtedness or any provision of this instrument shall be held invalid for any reason, it is the intent of the parties that such portion shall be severable, and such invalidity shall not affect the remainder of said debt or instrument. Any one of several persons named as grantee herein or their assigns may receive payment of the secured indebtedness and execute a valid cancellation or reconveyance hereof. No release of any part of the property herein described or extension of all or any part of the indebtedness hereby secured, shall affect the personal liability of any person upon the indebtedness hereby secured, nor the priority of this instrument.

Deed to Secure Debt Page 1 of 5

Initials:____________

The note is guaranteed through the security deed. That means if you don't pay that lien holder, they can foreclose on the house and sell it to get their money back. The house is used as collateral.

An unsecured note, on the other hand, has no guarantee at all. It's simply a note that says: "I promise to pay. If I don't pay, you basically have no recourse, except to go to court and try to get me to pay!" There is no collateral attached to it.

I try to use an unsecured note when I borrow from the seller

When might you use an unsecured note? Well, not very often. The lender will feel more comfortable with a secured note. So when should you use an unsecured note? When I borrow money from the seller — in other words, when the seller wants to carry back a note. For example, I tell the seller: "Okay, I can pay you $5,000 now and then $20,000 when I sell the house with new financing." Basically, what I'm saying is that the seller will get a promissory note from me saying that I promise to pay $20,000 sometime in the future.

Now, it's best to do this with an unsecured note if you can. But if the seller insists on a secured note (and I never offer this), I always, always, require a subordination clause in that note. That clause puts them in last position after my lenders. It says: "Okay, I'll give you a secured note, but it's subordinate to any loans that I may have on this house." No matter how many notes I've got on a property, the seller is behind them all. But I try not to give any seller a secure position at all.

On the next page, you'll find an example of a secured promissory note. It's very simple, it's very basic. And it's not slanted in favor of one side or the other.

Secured Promissory Note

PROMISSORY NOTE

____ Atlanta, Georgia

____

FOR VALUE RECEIVED, ____, the undersigned (hereinafter referred to as "Maker") jointly and severally, does promise to pay to the order of ____ (hereinafter the "Holder"), the principal sum of ____ ($____) Dollars (hereinafter the "Principal"), with interest thereon from date hereof at the rate of ____ percent (____%) per annum on said principal sum, and being repayable in monthly installments of $____ each, commencing on ____ and continuing upon the same day of each month until ____ when the entire indebtedness shall be due and payable in full. Each installment, when received, shall be first applied to the payment of interest accrued on the unpaid principal through the date of the receipt of such installment, and the residue thereof shall be credited on the principal. Both principal and interest shall be payable in lawful money of the United States of America, at the office of holder in Atlanta, Georgia, or at such other place as the holder of this Note may designate, in writing.

1. Prepayment. Maker shall have the right to make payments of Principal at any time before they are due provided that the Maker is not in default of this Note and that the Maker designates in writing that such a payment is being made. Maker shall have the right to make full or partial prepayments of Principal at no cost or charge to Maker, and such payments shall first be applied to any unpaid interest before Principal. A partial prepayment of Principal shall not result in a reduction of the regular payments hereunder or in the due dates therefore, unless the Holder agrees otherwise in writing.

2. Default.
   (a) Late Charge. If the Holder has not received the full amount of a payment hereunder by the end of ten (10) calendar days after such payment is due and payable, the Maker shall pay, in addition to the payment owed, a late charge of five percent (5%) of the then-due payment. This charge may be assessed only once per late payment.
   (b) Default. Should any installment not be paid when due, or should the Maker hereof fail to comply with any of the terms or requirements of a Security Deed of even date herewith, conveying title to real property located at 5 Lamar Avenue, Atlanta, Georgia 30310 as security for this indebtedness, the entire unpaid principal sum evidenced by this note, with all accrued interest, shall, at the option of the Holder and in conformity with the notice provisions hereunder, become due and may be collected forthwith, time being of the essence hereof. It is further agreed that failure of the Holder to exercise this right to accelerate the maturity of the debt, or indulgence granted from time to time, shall in no event be considered as a waiver of such right of acceleration to prevent the Holder from exercising such right.
   (c) Cross-Default. The within-described Purchase Money Note is expressly made junior and inferior to the lien and encumbrance of that certain Security Deed from ____ to ____, dated ____, and recorded in the records of ____ County, Georgia, securing an indebtedness in the original amount of $____ (the "Security Deed" and the "Note"). Maker does hereunder recognize that a default under any of the terms and conditions of the First Position Security Deed or First Position Note shall constitute a default under the terms and conditions of the within Deed to Secure Debt by reason of which Holder herein my declare the entire indebtedness secured hereby due and payable at once.
   (d) Notice of Default. If Maker is in default, Holder may demand in writing that the full principal plus accrued interest must be paid by a specific date, with such date being at least thirty (30) calendar days following the date of such demand.
   (e) Waiver. If Holder does not issue a demand for full payment, it is acknowledged that Holder shall have the right to do so upon a subsequent default by Maker.
   (f) Costs and Expenses. Maker shall be responsible for Holder's costs and expenses, including reasonable attorney's fees, incurred by Holder in any action to enforce the terms of this Note.

Title insurance. Title insurance is insurance that protects against loss arising from disputes about who owns the property, or any title defects that pop up. The cost of the title insurance differs depending on whether the coverage is for the owner of the house or for the lender. I provide title insurance for the lender as well as for the owner, which is probably the land trust.

Title insurance is important in case any title defects pop up

Fire insurance. This is basically landlord's insurance. Now, the type of insurance you get depends on how long the property will be vacant. So be careful — don't get the wrong kind of insurance policy. I suggest that you contact your insurance agent and let them figure it out, because that's who you'll scream at if something happens! On my spreadsheet, I always assume that insurance will be $300 per year. It's just an estimate. But if I really wanted to get detailed, I would call the insurance company and say: "How much is it going to cost me for four months?" You may want to do this until you're more sure of your figures. My spreadsheet is within a few hundred dollars and that's close enough for me on a $20,000 or $30,000 deal. But you may want to ask for exact figures for a while until you get a feel for general costs.

9 Closing – Before, During & After

Make it as easy on the lender as possible by sending them all of the detail on the property

What will you send to the lender when you tell him you've got an investment for him? You'll send him all the particulars of the property. You'll also send the financials: what you're buying it for, the terms of the existing mortgage and how much it will take to reinstate the loan, pictures of the property, the spreadsheet, and the comps.

Once the lender has accepted it, what next? That's when you'll complete the Direction of Investment form if you're dealing with IRA funds. For this, you've got to deal with a company that will act as the IRA custodian (more below about this). The custodian is going to require the security deed and a promissory note. So you'll have to send a Direction of Investment, a promissory note, and a security deed to the custodian of that IRA, so that they can keep it on file there.

Who gets copies of what? For the promissory note, the original note — that is, the note with the borrower's original signature (preferably signed in blue ink) — goes to the lender. A photocopy of the note goes to the attorney. As for the security deed, the original blue-ink signature goes to the courthouse. A photocopy of the security deed goes to the lender. So the lender gets the original signature on the promissory note and a photocopy of the security deed.

Who normally fills out the paperwork? That depends. You can fill it out yourself, or your lender can fill it out, or if you've got a good attorney who is willing, she might fill it out for you. Typically I like to do everything for the lender, so that they have nothing to do. I fill it all out, and then I fax it to them. Frankly once you've done one, it's simple to do.

Remember that you have extra steps if you're dealing with IRA money

IRA and the Direction of Investment

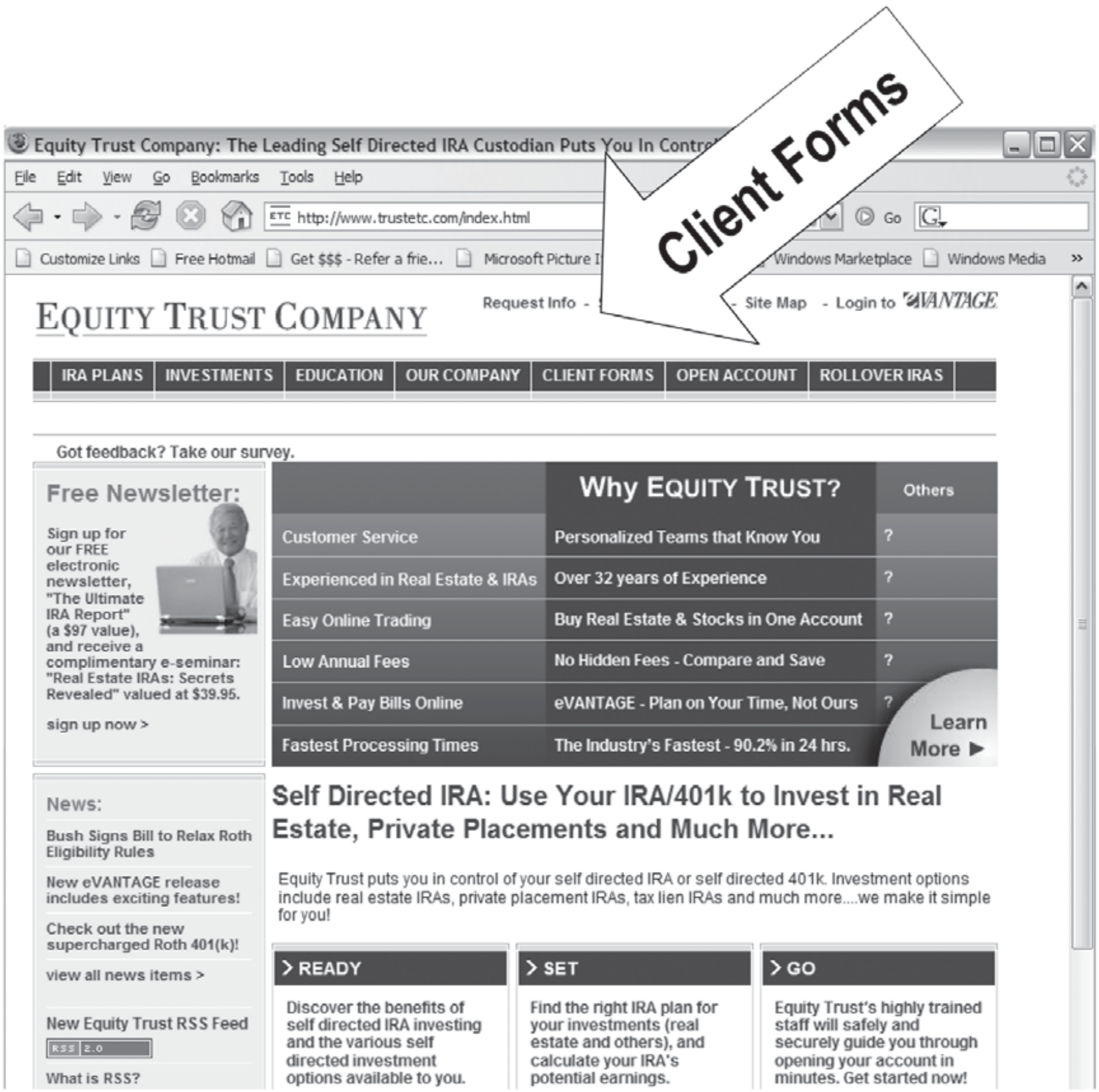
Remember that you have extra steps if you're dealing with IRA money. Now it's time for me to show you how easy those steps are. First, you need a company that will act as custodian of a true self-directed IRA. Equity Trust is such a company, and their website is www.trustetc.com. On their website you'll find directions for their forms.

Of course the first thing your lender will do is rollover their old 401k funds to Equity Trust or other the custodian. Now, there are other custodians out there, and since I've never used them I don't know how good they are or how easy they are to work with. But I can tell you that Equity Trust is very good, and that's the company we'll reference in this course. They have a Q&A section on their web site and all the forms for the rollover to a self-directed IRA. This may take a couple of days to a couple of weeks to complete, so be sure to have your lender do that first.

Once your lender has an account set up, they're ready to lend funds out of their self-directed IRA. For example, here are the steps for doing a Direction of Investment form through Equity Trust:

- At the company's website, click where it says "Client Forms".
- Click on Direction of Investments and Payment Coupons.

www.trustetc.com



- Select Mortgage/Note Direction of Investment.
- Click Download. That will take you to the five documents you'll need. You'll use your own promissory note and security deed, of course, created by your closing attorney.

It's best to have the money wired directly to the attorney

Note that this procedure is for the lender who has already transferred their funds to Equity Trust.

It generally takes about a week, maybe a week and a half, to get the investment completed once you complete the forms.

The website is easy to use. It walks you through a series of questions. There is not much to it — just follow the directions. They even have audio instructions, if you prefer.

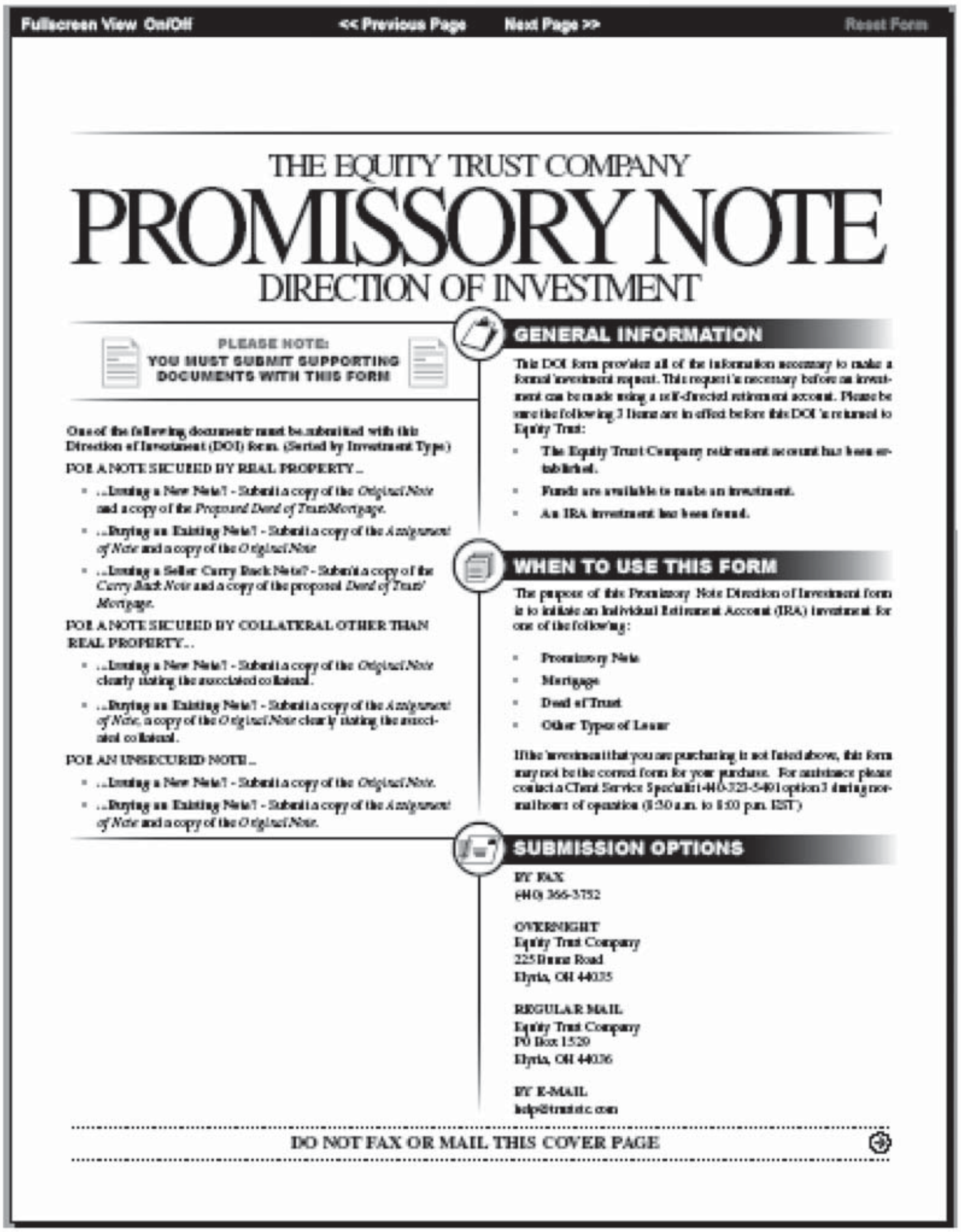
You'll need to submit three documents to Equity trust: the Direction of Investment, which you'll download off their site; the promissory note; and the security deed. You'll get the signatures first, and then you'll fax it all to Equity Trust.

We're Almost Finished!

After Equity Trust receives the paperwork, they will process it according to your lender's instructions. And Equity Trust will either mail or wire the funds directly to your attorney, depending on how you've filled out the Direction of Investment. I advise you to have the money wired to the attorney.

Now, usually it takes 24-48 hours for getting the funds wired. Contact your attorney and let him know that the funds are coming. They'll have to give you wiring instructions anyway.

Direction of Investment



Fullscreen View On/Off << Previous Page Next Page >> Reset Form

THE EQUITY TRUST COMPANY

PROMISSORY NOTE

DIRECTION OF INVESTMENT

PLEASE NOTE:
YOU MUST SUBMIT SUPPORTING DOCUMENTS WITH THIS FORM

One of the following documents must be submitted with this Direction of Investment (DOI) form. (Sorted by Investment Type)

FOR A NOTE SECURED BY REAL PROPERTY...

- ...Issuing a New Note? - Submit a copy of the *Original Note* and a copy of the *Proposed Deed of Trust/Mortgage*.
- ...Buying an Existing Note? - Submit a copy of the *Assignment of Note* and a copy of the *Original Note*
- ...Issuing a Seller Carry Back Note? - Submit a copy of the *Carry Back Note* and a copy of the proposed *Deed of Trust/ Mortgage*.

FOR A NOTE SECURED BY COLLATERAL OTHER THAN REAL PROPERTY...

- ...Issuing a New Note? - Submit a copy of the *Original Note* clearly stating the associated collateral.
- ...Buying an Existing Note? - Submit a copy of the *Assignment of Note*, a copy of the *Original Note* clearly stating the associated collateral.

FOR AN UNSECURED NOTE...

- ...Issuing a New Note? - Submit a copy of the *Original Note*.
- ...Buying an Existing Note? - Submit a copy of the *Assignment of Note* and a copy of the *Original Note*.

GENERAL INFORMATION

This DOI form provides all of the information necessary to make a formal investment request. This request is necessary before an investment can be made using a self-directed retirement account. Please be sure the following 3 items are in effect before this DOI is returned to Equity Trust:

- The Equity Trust Company retirement account has been established.
- Funds are available to make an investment.
- An IRA investment has been found.

WHEN TO USE THIS FORM

The purpose of this Promissory Note Direction of Investment form is to initiate an Individual Retirement Account (IRA) investment for one of the following:

- Promissory Note
- Mortgage
- Deed of Trust
- Other Types of Loans

If the investment that you are purchasing is not listed above, this form may not be the correct form for your purchase. For assistance please contact a Client Service Specialist 440-323-5491 option 3 during normal hours of operation (8:30 a.m. to 8:00 p.m. EST)

SUBMISSION OPTIONS

BY FAX
(440) 366-3752

OVERNIGHT
Equity Trust Company
225 Burns Road
Elyria, OH 44035

REGULAR MAIL
Equity Trust Company
PO Box 1529
Elyria, OH 44036

BY E-MAIL
help@trustetc.com

DO NOT FAX OR MAIL THIS COVER PAGE

Make sure you do the proper follow up

Once the money arrives, you can schedule your seller to come to the closing and close the deal.

Equity Trust isn't the only company out there that handles these types of investments. A couple of other websites for IRA custodians are www.intrestadmin.com and Pensco Trust Company, located at www.pensco.com. However, I haven't dealt with them, so I don't know how their service is. And I'm sure there are more out there. If you find others that you would recommend, email me at info@donderosa.com and let me know!

You're almost ready to close, so it's time to do one last check to make sure everything is all set: Verify with the attorney that they have everything they need. Make sure you do the proper follow up. Fax the reinstatement figures and the payoff statement to your attorney. Contact your seller and give them directions to the closing. Tell them what time to be there, and tell them to make sure they bring their driver's license or picture ID if your state requires it. If they need to bring money, make sure they know it needs to be in the form of a certified check.

Then prepare for the insurance. I follow three steps when placing either a new or existing insurance policy on a property. First, find an agent who is cooperative — that's first and foremost, because some of them don't have a clue what a land trust is, or how to work with one. Right away, they think it's a business policy, and they want to write it as a commercial policy. If they want to do that, find another agent.

Inform the agent that you need the policy to read as follows. When you put it into a trust, you're going to list it in the trustee's name — let's say in my case, Don

DeRosa, Trustee for the DeRosa Family Trust, ATIMA. All insurance agents know what ATIMA means: As Their Interest May Appear.

Now sometimes, the lender will require the seller's name to be on the policy as well. We had a case where this happened. If we had coached him well enough, we could have simply said: "Look, it's in the trust, and that's really the only place it needs to be!" but we didn't. So we just added the seller's name.

Have the insurance company also list the lender as the loss payee

Have the insurance company also list the lender as the loss payee. Remember, list all the payees: first, second, third, however many lenders there are on the property.

Closing the Deal

Now for the paperwork to be filled out at closing. If you're letting the seller stay in the home after closing, you must have them sign an occupancy agreement saying that they agree to vacate after X number of days, and that you're holding back X number of dollars until they're out. If they're supposed to get $8,000, give them half and say: "When you move out on Sunday, I'll go inspect the house. Once I'm done, you can go by the attorney's office and he'll release the rest of the funds." Otherwise they will sit in that house forever!

You will also have your seller sign the CYA letter, Cover Your Assets. That's the letter that says: "You understand that I'm not paying off your loan. You understand that the loan is going to stay in your name; you understand it's going to be on your credit report, and I have no obligation to pay that loan whatsoever!" (Note: I DO pay the loans, because I feel I have a moral responsibility to do it. This document just says that I am not legally obligated to pay it. But if I don't pay it, I lose the house. So of course I pay it.) People ask me: "Why would anybody sign that form?" They sign because they're motivated and I am their solution.

They sign the CYA because they are motivated and I am their solution

Next is the escrow letter, signed at closing, which tells everyone that when it's all said and done, when we sell and pay off the first mortgage, any overages that are in escrow will be applied to the payoff of the loan. Why do you need this? Because if you take a property "subject-to," and there's an overage in escrow, the check will be written to the seller, as they are still on the loan. But, since you've been making the mortgage and escrow payments, that escrow overage should go to you!

If you do get a check (because mortgage companies have been known to not follow instructions to apply the overage to the loan!), then you'll need a power of attorney, too, or you're not going to be able to cash that check (which will be made out to the seller). Your attorney should prepare that. And your attorney will have the seller fill out an affidavit of land trust and the warranty deed.

Have the seller request an address change on the back of their mortgage coupon book or their mortgage statement. Or get the seller's ID and password to the bank's website, if they have one. If they don't, then create one using the power of attorney that you've had the seller sign.

After Closing

Immediately after closing, reinstate the mortgage. If the house isn't in foreclosure, you can let the attorney do that. But if it's in foreclosure, take the check, get certified funds, and run to the foreclosing attorney in person, and ask for a letter saying: "Yes, we've been paid and we're stopping the foreclosure!" If the foreclosing attorneys are several hours away, then wire the funds and get the "we've been paid" letter faxed to you.

Make your lender feel comfortable by giving them copies of all the documents you promised

Paperwork to be filled out after closing

You're going to create a folder that is compatible with the computer accounting software recommended by your accountant. In my opinion, QuickBooks is by far the best program in the business for what we do. In fact, there is a QuickBooks program that's made specifically for investors, and it's excellent.

Here are other things you're going to do:

- Call the utility company and get the utilities turned on.

- Call your contractor and get him scheduled. Do not do this before the utilities are on because your contractor will go to the house and there won't be any power or water. His guys will sit there all day, and then they'll call that evening and say: "Hey, we didn't have any power over here today!"

- Make your lender feel comfortable. Give him the documents that you promised. We buy a nice binder; we give them a picture of the house, we give them the promissory note, the deed, title and insurance policy. The title insurance doesn't arrive till later, so you'll give that to them when you receive it. Give your lender a copy of the joint venture agreement, insurance policy, and also give them a copy of the growth chart that shows how much money they're making each month. I don't send monthly statements, so this lets them know

> what they're making. It gives them reassurance. I use a white three-ring binder, and I slip the picture of the house in the front. I tab it and I put in all the documents. I create a binder like this for every single loan I do.

Use a checklist to see what you've accomplished

Now, I've been asked whether I always do a joint venture. For new lenders, yes. But once I establish a relationship with my lender, I do a very broad, very generic agreement.

Let's use a checklist to see what we've accomplished. You've:

- Set goals
- Set up an office and a workable system
- Marketed
- Taken the calls
- Prescreened sellers
- Gone through the spreadsheet and decided it's a deal worth doing
- Gotten the paperwork organized
- Visited the seller
- Made an offer and negotiated a price
- Gotten the house under contract
- Ordered title
- Contacted the lender
- Completed the trust

- Closed on the property

Selling the Property

Now we just renovate the property, and we're ready to sell it! Once we get a sales contract on it, then I bring out a closing checklist again. Once you have a sales agreement, here's what you'll need to do (refer to your forms for the complete checklist):

After closing, cancel the utilities, the insurance, and the listing

- Order the termite letter. If you go to closing and you don't have a termite letter, someone is going to say: "I'm sorry; I can't close without a termite letter." So save yourself the aggravation, and a day's hardship, and get it.

- Get the home warranty, if you've negotiated that.

- Find out how much money is owed to the Homeowner's Association. That's a big one, because a lot of times you forget all about it and they don't get paid.

- Send your private lender a payoff letter. I always calculate the amount for them, and then I send them the spreadsheet that I used, so that they can verify my math. The payoffs require social security numbers, banks and phone numbers.

- Request a payoff from the "subject to" mortgage company.

- After closing, cancel the utilities, the insurance, and the listing, if it was listed.

On the next page, you'll see a copy of the payoff letter. It's a fill-in-the-blank form. Note that the payoff expires on a certain date.

Payoff Letter

PAYOFF LETTER

Payoff for the property located at **Address of Property** is $**Dollar amount of payoff** good until **Month Day, Year** with a per diem of $**Per Diem Amt** expiring on **Month Day, Year**. All payoffs should be sent directly to **Address of Lender, City State Zip,** and made payable to **Name of Lender to be paid**. For any further questions please contact me at **Phone number of lender.**

____

Name of Lender

Also, the interest is always paid in arrearage. If the closing goes beyond a certain date, then the amounts will change, and the payoff letter will no longer be valid. I put the phone number of my lender, and his name, and then I fax the payoff letter to him and he signs it. Then I send it to the closing attorney.

Then we close, I collect a big check for my profits and my lender collects her interest. It's a great win-win. And we walk away, ready for another deal!

Make it a win-win, and walk away ready for another deal

10
Conclusion

You have now taken the steps necessary to secure financial freedom through the art of real-estate investing

Congratulations! You have now taken the steps necessary to secure financial freedom through the art of real-estate investing. In this course, you have been taken step-by-step through the entire process of using private lenders to build wealth with real estate. With these tools, the only thing limiting your success now is you.

I wish you much success. For your benefit, I have additional courses available that cover several other areas of real estate investing. Should you be interested, please contact me at www.askdonderosa.com.

And thank you again for purchasing Private Lending 101.