RICH DAD'S
EDUCATION

Guide to Real Estate Investing

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[1] As of April 15, 2008 we are aware of 20 states which have enacted legislation: CA, CO, District of Columbia, GA, ID, IL, IN, MA, MD, ME, MO, MN, NE, NH, NV, NY, OR, RI, VA and WA.

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Introduction
Investing In Your Future

Through real estate investing, many individuals just like you have been able to increase their net worth substantially, obtain the things they always wanted to have, reached their financial goals faster than they thought possible, and preserved their wealth for their retirement and/or their families. And many have done so without much money to start with, or without any money to start with at all.

The fact is, real estate investing is a powerful tool for building and preserving wealth no matter where you live and no matter who you are. And unlike some investment opportunities, real estate investing has “staying power.”

Demand for real estate in most areas is increasing, making investing in real estate more lucrative than ever, and there seems to be a never-ending supply of buyers looking for everything from their first home to their retirement home.

Before we go into greater detail in this manual about profiting with real estate, locating and negotiating deals, evaluating properties, and making the most out of some of real estate’s best opportunities, let’s take a brief look at the real estate investment market in general to see why it provides so many avenues for building wealth.

THE MAJOR BENEFITS OF REAL ESTATE

The benefits of investing in real estate are many, from creating situations where your profit potential is up to you, to building a lifestyle some people only dream of. With real estate, you can:

- Own your own business – Work part-time or full-time, be your own boss, and time things according to your schedule and goals.

- Take advantage of appreciation – Real estate typically appreciates around 4% to 5% annually, and some communities are experiencing appreciation rates as high as 10% to 20% or more. This appreciation rate generally takes place as part of natural market growth,

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essentially, without you doing anything. To illustrate, consider homeowners who purchased their homes 20 years ago and now find themselves with $150,000 in equity in their homes, something they never thought about at the time they purchased the home. Beyond that, you can create situations where you “force” appreciation, such as through renovations or cosmetic improvements to a home (we call this rehabbing properties). This is where the work you put into a property makes it instantly more valuable than the price you paid for it.

- Generate positive cash flow you can use – Some investors will purchase property in order to rent it out and create positive monthly cash flow. Property can usually be rented for more than the total expenses (principal and interest, taxes and insurance), so you can make money from the rental, while someone else is building equity in your property.

- Create a hedge against inflation – Even in times of inflation, opportunities abound with real estate. That s because inflation tends to force higher real estate prices and because the underlying asset (your property) can be counted on to be there through inflation (while some other investments may not survive economic downturns).

- Make money with low risk and low startup costs – The market for potential customers is huge and you can start your business in real estate investing with little or even no capital.

- Profit from equity buildup – You build equity at the same time as the property is naturally increasing in value due to market conditions and demand. And you can tap that equity in a property to finance additional investments.

- Enjoy multiple channels for profit – There are many ways to invest in real estate and there is something for everyone, from the casual or first-time investor to the more experienced or full-time investor. Once you understand the variety of opportunities available to you, you can find the ones that help you reach your individual goals faster.

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- Benefit from real estate's repeatability – Once you learn the basics, learning advanced skills is even easier than you might realize. You can use the knowledge you build about real estate investing to repeat the process over and over again, on multiple types of properties, increasing your profits considerably without working harder to do so.

- Benefit from tax breaks – When you invest in real estate, consult with a tax professional about the opportunities that may be available to you through depreciation, in writing off certain business expenses, and through tax breaks (for example, deducting the interest portion of mortgage payments).

- Find investment properties and opportunities easily – With real estate investing, opportunities are all around you. You can make a simple effort, like driving through neighborhoods looking for For Sale By Owner signs, or you can do everything from establishing relationships with Realtors, to placing your own ads to generate leads. What's nice to know is that regardless of the time you have available, there are many easy ways to find the opportunities that will help you succeed.

- Market your business easily – Marketing real estate is not complicated. Everything from a For Sale sign in the front yard of a home you have renovated to an ad or direct mail campaign can bring in customers. Some investors have netted thousands of dollars in profit on deals simply because someone called them from a car magnet ad on the side of their vehicle or from a flyer they posted on a community bulletin board at an apartment complex.

- Build a power team to help you increase and expedite your profits – To succeed with real estate investing, you will want to establish solid relationships throughout your community and in the business... relationships with people who can help you build your business, partner with you in investments, or be available to buy your properties. A winning team of contacts would include people like a good real estate lawyer, real estate agents or brokers, an accountant or tax expert, a mortgage broker, a professional home inspector, mentors or coaches who can guide you through transactions and

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help motivate you, and qualified contractors, builders, and other professionals who can assist you in rehabbing your properties.

- Help others – One great aspect of real estate investing is you can help others in need. Consider someone who has a distressed property because they live in another state and they're trying to manage it long distance. You could help alleviate that burden. Or consider someone who is struggling with debt and now the bank is going to foreclose on their home. You could help them save their credit. The possibilities for helping others are endless.

A MARKET FULL OF OPPORTUNITIES

There are not only many benefits associated with real estate, but also many opportunities for success regardless of your financial goals, location, or financial situation.

Short-term and long-term strategies

With real estate, there are both short-term and long-term investment strategies available to you, giving you the flexibility to make investment choices that fit your schedule and needs.

As an example, you may wish to hold properties only for the short-term, so you might purchase a property below fair market value, fix it up with minor repairs and cosmetic improvements (such as painting and landscaping), and then turn around and sell it quickly for profit.

You can even purchase a distressed property at well below fair market value, and sell it immediately to another investor who will do all the work improving the property. This short-term strategy is known as "quick-turning" or wholesaling properties. Individuals have made fast profits of thousands of dollars on just one deal in wholesaling a property and you can too! Additionally, investors have used wholesaling strategies to make quick cash to pay down their debts, generate extra income in addition to a full-time job, start their own business slowly and with limited risk, and create capital for future investments.

A long-term strategy might be to buy a home below fair market value and then live in it yourself for several years before selling it, or rent it out for any number of years, allowing for someone else to build the equity in your property for you and pay off your mortgage.

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Opportunities in all areas
You can make money with real estate regardless of the area you live in or are looking to purchase in.

For example, in low-income areas, you can find several great opportunities for rehabbing or wholesaling properties. These opportunities allow you to provide affordable, clean housing for low-income families, while generating positive cash flow through highly profitable weekly or monthly rentals.

In moderate-income areas, you can profit from excellent resale values and work with a large market of first-time homebuyers who may need special financing options to purchase their home. Moderate-income areas can also provide good rental income opportunities.

Middle-income areas provide great prospects for offering lease options to potential homebuyers, and buying and holding properties short-term for profits at the time of sale.

And upper-income properties, while not for the beginning investor, can give experienced investors the opportunity to invest when tax shelters are the priority.

Multiple financing options
Real estate investing can be done virtually anywhere by anyone. It provides a way for any individual to get involved and reach their financial goals, regardless of their current financial situation. That's because there are many creative financing and buying approaches available. You just have to know where and how to look for them.

For example, you can find opportunities through:

- Government programs – There are many ways to purchase homes well below fair market value through government-sponsored programs, and there are ways to use government programs to find opportunities you could not find anywhere else.

- Seller financing – You can take advantage of seller financing, lease options, etc., to allow you to purchase properties with little or no money down.

- Sources for seed money (capital) to finance your investment – Even people with poor credit have still

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been able to achieve success in real estate investing; you just have to know how to look for the creative financing opportunities. Some examples include seller financing, wraparound mortgages, equity financing, partnering with other investors, etc.

MANY PROPERTY TYPES AND INVESTMENT STRATEGIES

Real estate investing is also attractive because there are many property types to invest in, as well as strategies for what to do with those properties. And each comes with its own rewards.

The following are some of the main types of investment opportunities, with their primary benefits listed.

Technique/circumstance	Benefit
Wholesale buying	Quick cash
Lease option	Cash flow, appreciation
Foreclosure	Quick cash (short-term), cash flow (long-term)
Rehabbing	Quick cash, cash flow

Investors consider different options based on the outcome they want to achieve and/or their level of experience with different strategies.

For example, an investor may want to consider quick cash investment strategies for a variety of reasons, among them being high consumer debt (generating quick cash to pay down that debt) or lack of seed capital to work with (using wholesale opportunities to quickly build more money for future investments).

Of course, with multiple income streams and opportunities comes the need to obtain the proper knowledge to specialize in different areas. Because the above strategies are some of the more popular and profitable ones in real estate investing, we have included chapters focused specifically on those strategies in this manual. As you grow your business and find the real estate investment areas and strategies that interest you most, you can discuss with us more opportunities for advanced training in those areas so you can maximize your profit potential.

Before we delve deeper into these subjects, let's take a moment to discuss some of the key property and investment types in overview form to familiarize you with some of your

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options and prepare you for what you are about to learn in this material.

Distressed properties/distressed or motivated sellers
Regardless of your strategy or targeted property type, you will find that some properties provide more ideal investment opportunities than others. Some of the most profitable will be distressed properties, particularly distressed properties that have distressed sellers.

Some of the advantages of targeting distressed properties include the following:

- There is less competition for them since the average individual wants properties in good condition.
- Most market areas offer numerous distressed properties to choose from.
- You can usually purchase distressed properties under flexible, easy terms and for prices substantially below market value, making for a nice profit margin on a resale or good cash flow on a rental.
- You have the ability to instantly increase your property's value through minor improvements and rehab work (forced appreciation).

Some things to think about with distressed properties include:

- Most real estate markets have a sizable number of investors looking for these types of properties, so your marketing efforts need to be active, well planned, and effective to find good deals. It would be wise to investigate different marketing strategies that have worked well for other real estate investors, and to find others in the business who are willing to teach you where to look for opportunities and provide tips on how to bring opportunities to you.
- To avoid costly mistakes, you'll need to know how to effectively evaluate the property and its neighborhood.
- Thorough inspections and repair estimates should be performed prior to a purchase.

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Advantages of distressed sellers include:

- There is seller distress in every price range.
- You can usually purchase properties under flexible and easy terms. The seller needs help and, in many cases, just needs a way out, but does not know what to do. You can provide the solution.
- Seller distress is often caused by property distress, so the chances of being able to increase property value through cosmetic improvements or rehabbing when you can match a distressed seller with a distressed property are excellent.

Things to think about with distressed sellers include:

- Seller distress must be handled delicately. These sellers are going through rough personal, professional, or financial times and they can be experiencing all kinds of emotions.
- You must know what put the seller in the situation they are currently in and figure out the best way to help them get out of it. In order to understand their problem and solve it, you will need to develop good listening and negotiating skills.
- Some distressed sellers present compelling reasons why they want to stay in their properties and the tendency is to want to accommodate this. If their challenge is for financial reasons, this can be risky. It is important to keep your emotions out of it.

Wholesale buying
Distressed properties make for great wholesaling candidates. And wholesaling is an excellent opportunity because it requires little expertise and typifies the quick cash type of deal that many beginning investors are looking for.

Wholesale deals may be one of the first types of deals you will make in real estate investing because it's easy to identify distressed properties and there is such great potential for quick cash.

To truly be successful with wholesaling, some of the things you will need to learn include how to: properly segment your

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market; develop a database of potential properties, investors, and buyers; understand the multiple ways to target and market for wholesale deals; locate absentee owners; build a network with other investors; and develop key strategies that will help you close deals.

In addition, you should master several basic aspects of the wholesaling business, including:

- Prescreening prospects – Since distressed properties should be your primary target, you should learn how to both identify and evaluate distressed properties. You should also understand that a distressed property does not necessarily mean a deal is good, but that it is a good start. So you need to master the techniques to know when a deal is too good to be true, when it's time to move forward, and when the deal needs to be left on the table. It will also help to know how to identify a motivated seller, because the combination of a motivated seller and a distressed property will make this opportunity far more advantageous.

- Determining market value – You need to understand the importance of determining fair market value after repairs to be a successful wholesaler. The Realtors on your power team will be key assets for getting this information. Also, using comparable sales of homes in the same market area will help you determine fair market value.

- Estimating repairs – This won't be a successful venture if you do not estimate repairs correctly. Learn how to analyze deals to ensure you make an offer that will result in the most profit. There are also strategies you can learn that will save you money on rehab projects and maximize your profits.

- Making offers and counteroffers – You need to become familiar with good negotiating and communication skills, learn how to make offers and counteroffers effectively without compromising your goals, and learn how to work with contracts. Knowing how to properly evaluate properties will be critical to determining not only what to offer, but if you should make an offer at all.

- Lining up buyers – Wholesaling is actually only partially complete if you can find and negotiate deals, but you

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have nobody lined up to readily assign contracts to. Building a sizable investor database to tap regardless of the type of deal you are working on will help you move things forward quickly and preserve your profit margins.

- Closing effectively – You need to learn the strategies necessary to close without cash, including how to do contract assignments and simultaneous closings.

Lease options

Lease options represent one of the most attractive real estate investment opportunities for both new and experienced investors particularly because they can generate multiple streams of income within a single deal. The following offers a few general points about using lease options to invest in real estate:

If you buy property with a lease option, you can:

- Gain control of a property without taking ownership of the property – You have no obligation to buy, but you have established the *right* to buy.

- Work with distressed sellers, not with distressed properties – Seller circumstances create the deal. What you need to do is find the problem owners.

- Live in or control nice homes in nice areas – In these cases, the seller needs to get out and investors want to get in (an excellent match!). Desirable neighborhoods create demand.

- Help someone else in many cases – The determining factor in lease options is often debt relief. You are usually working with people who may not necessarily want to sell their property, but who must sell it because of financial problems. You can help someone else reach a solution quickly. Meanwhile, you can do it with little or no money out-of-pocket.

If you sell property with a lease option, you can:

- Benefit from a large market of motivated buyers – Lease options can be very attractive to people who are just starting out or who are starting over. And lease options may be the only option available to some people based on their credit circumstances.

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- Find multiple profit centers through lease options – You can create positive monthly cash flow for yourself, collect a non-refundable option consideration, and profit from the difference between what you paid for the property and what price you set for your tenant/buyer.

Foreclosures

The foreclosure market can also provide a great avenue for profit for the beginning to experienced investor. Foreclosures, while unfortunate, are an everyday occurrence, and this can be your opportunity to not only make a wise investment, but also to help someone in need.

Remember that foreclosures can happen for any number of reasons, and this is an area where you can really create a win-win situation and do something that benefits both you and the person who might be in trouble.

Investors must be able to effectively negotiate with both lenders and homeowners to optimize profits on these deals.

IT'S A LEARNING PROCESS

With so many strategies to employ and ways to make money in real estate, knowledge will be key to your success.

By investigating the opportunities available in real estate investing, you have taken your first important step towards obtaining financial independence. Now, it's time to move on to the next level with the guidance and knowledge you can receive through our program and this manual. Every part of this program has been designed to help you achieve increasing levels of knowledge and success as a real estate investor.

You'll soon see that with the material presented here, you can easily learn how to spot distressed properties, motivated sellers, and opportunities that will afford you the most profit. You can learn how to line up investors before you buy properties to limit your risk and how to line up potential buyers before you move forward on deals. You can become adept at finding motivated sellers simply by knowing what to look for in their ads and more successful with your sales simply by knowing what to write in yours. You can learn how to rehab properties to maximize profits with minimal investment, including what to look for and what to avoid, as well as how to make money by wholesaling properties without ever having to fix them up. And you can master the negotiating strategies

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necessary to get the best deal or know when to walk away from the table.

The more you learn and the more prepared you are to take on new opportunities, the better you'll succeed in generating amazing profits and changing your life forever. We are dedicated to helping you get there.

So let's get started!

Chapter 1

Getting To Know Your Market

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The most important thing you will do in real estate investing is buy right (in other words, make the best deal possible when buying a property). This is where you will really make your money in real estate. In fact, you may have heard people say it before: you make your money when you buy; you just realize it when you sell your property and make a profit, or when you start getting positive cash flow from an income-producing property. And it's true. So, it's imperative you buy right, meaning you never pay too much for a property.

To do this, you need to get to know and understand the market you're buying in. After all, the only way you can calculate the after-repair value of a property is by knowing the fair market value of houses in the area you choose to concentrate in. It is a crucial part of the evaluation process.

TRUE MARKET VALUE

Some people think the true market value is what they see advertised in the classified section of the newspaper or in flyers they have pulled out of a box on a Realtor's sign. But that is a "wish list" – what the seller hopes to get. The true market value is not what people are asking for. It is what someone is willing to pay and someone else is willing to accept. And more specifically, it is the sales prices of houses that have sold within the last six months (not what they were listed for, but what they actually sold for).

No matter what type of real estate investing you do (buy, fix, and sell; wholesale; foreclosure; lease option; income property; etc.), you will need to understand your market. Understanding your market will help you know what to offer, how to recognize a good deal when you see one, and how to act quickly. And as you develop your knowledge of the market, you will be spending less time looking at properties that aren't worthwhile investments.

DEFINING THE AREA YOU WILL INVEST IN

Start by looking in a low- to moderate-income neighborhood, where you will find a large inventory of properties.

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If you want to buy, fix, and sell, look for decent neighborhoods where it is clear neighbors care about their property and the community (these are often termed "We Care" neighborhoods).

If you want to wholesale properties (quick-turn properties to other investors – a popular and profitable strategy you will learn about in greater detail later), you will be looking more toward extremely distressed properties or neighborhoods.

Of course, in order to define your target area in relation to your goals, you need to know where each of these areas is in your city. If you are not sure where these areas are, you will need to segment your city with the help of your real estate agent. If you do not already have a Realtor or need to know what to look for in a good real estate agent, please refer to Chapter Two.

SEGMENTING YOUR AREA

Ask the Realtor what the average price of a 3 bedroom, 2 bath, single family home is in your city. You also want the Realtor to pull up a one-line MLS (multiple listing service) list of single family homes. Sometimes they call this a "short form." Have the agent start at $0 and go to 120% of the average home price.

With this information, you can now identify which areas are low-income, working class, middle-income, and higher-income neighborhoods. Next, take the average price of a home in your city and multiply it by 70% and by 110%.

For example:

$100,000	= average price
70%	= $70,000
110%	= $110,000

Example

Below 70% of Average	70% of Average	Average Home Price	110% of Average	110%+ of Average
Low-Income Neighborhood	Working Class Neighborhood		Working Class Neighborhood	Middle-Income Neighborhood
Under $70,000	$70,000	$100,000	$110,000	$110,000+

Once you have this information, you will need to get a map of your city, which you can usually obtain directly from your city, purchase from a store, or find on the Internet. You will need to

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make at least two copies of this map. Have one copy enlarged to a size where you can easily see the streets and get this copy laminated. If you live in a large city, begin by concentrating on about a one-mile square area or on a 20 to 40-block square; you can gradually expand your area.

The second map should be on an 8-½ x 11-inch sheet of paper that you can put in a notebook and carry with you in the car (you may need to use several sheets, depending on the size of your city). Write on the map where the low-income, working class, and the middle-income areas are from the information you received from the Realtor. Identify extremely distressed neighborhoods more appropriate for wholesaling opportunities. If you don't know where these areas are, talk to someone who is knowledgeable about your area. You can contact property management companies, appraisers, postal carriers, cable workers, or your local police.

These maps will also help you understand what homes are selling for in different segments of your city.

Decide which area you want to focus on
As discussed before, pick an area you want to focus on. Your target area will depend on what kind of investing you want to do. For example, if you plan to buy a house, fix it up, and then resell it, you will be looking in the working to middle-income areas. If you want to do quick-turns without ever fixing up the property, you'll look at areas that are more distressed. If you are not sure which area to target, then start with the working to middle-income neighborhoods. You can always expand to other areas.

Once you have completed this assignment, you will be able to go into another region, anywhere in the country, and get to know the market there quickly.

DETERMINING PROPERTY VALUES USING COMPS

Now that you have picked your target area, you are ready to get to know the market. You will now ask the Realtor to pull up the comps (nickname for comparables) within a certain neighborhood. What you will get is a list of properties that have sold within the last six months in the particular area where you are focusing your investing. The reason you need the Realtor to do this is because the comps help you understand the market. Earlier, we mentioned some people think the true market is what they see in the houses for sale section of the newspaper. But the true market is what someone is willing to pay and someone else is willing to accept in a competitive and open market.

Real estate appraisers use the sales comparison approach to identify properties that have recently sold that are similar in square footage, number of bedrooms, location, property type, available amenities, condition, etc. to the house they are appraising. Appraisers will usually look at three houses and determine the value of the house they are appraising based upon the recent sales prices for those similar houses.

Appraisers also look at other methods to determine the value of a property, such as a cost replacement method. With this method, they are comparing this house to what it would cost per square foot to build a new one. This method is not as accurate because supply and demand, as well as economics for an area determine what people are willing to pay. You will find the appraised value leans heavily on the comparables.

If you are buying rental properties, the appraiser will use an income approach. The value of the property is based upon the income it produces. This method is used in determining the value of multi-units.

Have the real estate agent pull up a list of houses that have sold within the last six months in the area you are focusing on. Ask the agent to pull up about 20 houses. If 20 houses haven't sold, that's okay. You can't make more houses sell than have sold. On the other hand, if the agent pulls up 40 houses, that's too many. Ask your agent to condense the list down either by square footage, number of bedrooms, geography, or style until you have 20 houses.

Keep in mind that information about houses that have sold within the last three months is more valuable than the comps that are six months old, since the market can change quickly.

What the comparables will tell you
Looking at the list of properties that have sold within the last six months, you will see information about each house, such as:

- Listed price – This is the price the house was listed for (the asking price).

- Sold price – This is the price the house actually sold for.

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Now you will know if the sellers got the price they were asking for or less.

- Days on the market, or DOM – The number of days listed next to this tells you how many days the home stayed on the market before it was sold. Sometimes you will just see a number indicating the number of days it took to sell the property; other times, you may see both a listed and a sold date. Either way, this provides valuable information because it helps you understand the time it typically takes to sell a house in your area.

- Square footage – This tells you the size of the house. It also helps you determine the cost per square foot that homes are selling for (some comps will actually list the price per square foot).

- How many bedrooms and baths.

- Lot size – It may tell you the dimensions of the lot or indicate what percent of an acre the lot is (for example, .20 = one fifth of an acre).

- Year built or age of house – This will either tell you the year the house was built or how old the house is.

This is the minimum information you should have on each of the comps. However, you will probably see more because you are going to ask the Realtor to include the remarks (or comments) and a picture. The reason the remarks are so valuable is you will be trying to figure out why these houses sold for the price they sold for. You will be driving by each of them, but because they have been sold, you will not be able to see inside. Since you cannot judge a house by its cover any more than you can judge a book by its cover, the remarks will give you a clue as to the condition of the house.

Things you may see in the remark section of the MLS include:

- Great Fixer-Upper

- Handyman Special

- Needs TLC

- Sold As-Is

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Reading this, you will know the house probably needed some work even if it looks great on the outside.

Other things you may notice in the remark section are:

- Motivated Seller
- Must Sell
- Foreclosure
- Bank Owned
- Illness Forces Sale
- Divorce
- Transferred

When you see words like that, it could be an indicator the seller was motivated.

Drive by the houses that have sold
When you get your comparables list, you need to drive by each of the houses on it. Stop the car and look out the window. Write down what you see. This is not a test to find something wrong with the property. The house may look great! You are just trying to figure out why the house sold for that price.

Start with the roof
How does the roof look? You don't have to be a roofing expert to know it needs work if you see some missing shingles or shingles that are curling up.

Look at the exterior of the house
How does it look? Does it need work? Again, this is not a test to find what's wrong with the house. You have permission to write down, "House looks great." But if you do notice something is wrong, then write it down. Be sure to pay attention to the picture on the MLS sheet. If the picture does not look as nice as the house does now, then the person who bought the house probably fixed it up.

Look at the yard
Now, check out the yard. How does it look? Does it look groomed and taken care of? Again, pay attention to the picture.

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Look at the rest of the houses on the street
Start with size. Are they about the same size or are they larger or smaller? Do you know why it would be better to buy the smallest house on the street? The reason is that the larger houses are bringing up the value of that smaller house. It is not worth as much as those larger houses, but it is worth more on that street. Now, what do you think happens if you bought the largest house on the street? Just the opposite is true. The smaller houses are bringing down the value of that large house. It may sell for more than the smaller houses, but not for what it would have sold for if it had been surrounded by other large houses.

What this lesson is trying to teach you is not only what to look for in houses that have sold, but also what to look for in a house you are considering buying. We're not saying you can't buy the largest house on the street. Indeed, you might find a phenomenal deal you can't pass up. But what we are saying is you can't compare that house to another large house (even if it is only one block away) if the other house is surrounded by other large houses. Yours will not be worth the same.

Look at the condition of the other surrounding homes
Are they in the same condition, or are they better or worse? It would be better to buy the house in worse condition because once you fix it up, the other houses will support the value. If you buy the best looking house, no matter what you do, the other ones will be bringing down the value.

Look at the other nearby yards
Are they nice, neat, and trim? Or are there junk cars on the yard and trash all over the place? All of this affects why that one house sold for what it sold for.

Look at the street
Is it on a busy street, or a quiet street? Where do you think people want to live? Most people like to live on a quiet street. We like to live close enough to shopping, dining, entertainment, the gym, and work, and to a freeway or highway that will get us there quickly, but we don't want to live so close to any of this that we see it or hear it. Close, but not too close. You have probably heard the phrase "location, location, location" many times. Pay careful attention to what is going on in the area.

Roll down the windows and listen
Maybe there's a business or factory nearby that you didn't know existed or that so much noise was coming from it. And

while the window is rolled down, take a long, deep breath of air. Be observant of sights, smells, and sounds because all of the things you are seeing, hearing, or smelling have an effect on why this one house sold for what it sold for.

Look to see if there are any railroad tracks
Railroad tracks do not add value. Most people do not want to hear the train in the middle of the night.

Figure the cost per square foot
Now you can take the price each of these houses sold for and divide it by the square footage to see what the houses cost per square foot. If there's a huge difference, you need to figure out why. Could it be any of the following?

- Condition of the house – Would a house in great shape be worth more than the one that needs work?
- Age of the house – Maybe a newer house is worth more than an older house. However, sometimes the older homes were custom quality built and the newer ones were just slapped together.
- Bedrooms – Do you think someone would pay more per square foot for a three bedroom house versus a two bedroom?
- Baths – Do you think an extra bath would increase the value of the house? If you were looking at two very similar houses and trying to decide which one to purchase and one of the houses had 2 baths and the other had only 1 bath, which house would you choose? Would you pay a little bit more to get the second bath?
- Neighborhood – A house in a nice neighborhood will be worth more than a house in a rundown neighborhood.
- Schools – Parents want their children to have a good education. Schools with a good reputation create value in their surrounding neighborhoods.
- Location – We can't say it enough: "location, location, location!"

The purpose of this exercise is to help you determine what a house in good condition would be worth fixed up. There are

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many things, as we have talked about here, which can have an effect on the value of a property. Now that you know the after-repair value, you will be able to determine the most you would be willing to pay. With time, you will be able to go to any area, across town or even to another state, get four or five comps of houses that are in good condition, and be able to determine the after-repair value quickly.

BECOMING FAMILIAR WITH YOUR NEIGHBORHOOD

Important to your success will be your familiarity with the neighborhoods you are investing in.

Drive along the neighborhood streets. Pay particular attention to vacant homes or distressed properties. Write down the addresses of these homes.

If you have time, you may want to consider knocking on some of the neighbors' doors to see if they know the owner's name and where the owner may have moved.

Look for FSBO (For Sale By Owner) signs. Sometimes the seller does not have enough money to advertise in the local newspaper and these signs may be the only way to find these properties. That may result in you having less competition for your offer. Write down the phone numbers and addresses of FSBO homes.

Also, write down the addresses of any houses you see for rent because a house for rent is a potential house for sale. Consider the landlord who may no longer be interested in renting, or an owner who is trying to manage the rental from another state and would rather sell it.

Pay attention to any Realtor signs in the area as well, and pull out any flyers available. Keep track of the names of the real estate companies that have signs in your target area and note the ones that have the most signs. You will be talking to the brokers of the top three companies.

Look for any other investors rehabbing in the area. Are there any signs Habitat for Humanity is coming into the area?

If you see a yard sale, stop the car and go talk to the people having the sale. What do people usually do before they put their house on the market? They de-junk! Ask them if they are thinking of selling their home. If they say no, ask them if they

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know of anyone in the neighborhood who might want to sell. Ask them about the neighborhood. You will gather a lot of information talking to these people. Remember, real estate is a people business. Hand them a business card or flyer.

Be sure you always have a notepad and something to write with or a tape recorder in your vehicle so you are prepared when an opportunity presents itself.

FINDING A WAY AROUND ROADBLOCKS

We know this is a lot of information to digest and that as you are learning, you may hit a roadblock or two. Perhaps you have had difficulty finding a Realtor who would cooperate with you. Maybe your family and friends have discouraged you, thinking they are "just helping you." Or you may have had to deal with interruptions and all your good intentions to get out and do this business seem to have failed. But don't let discouragement get in your way of being successful.

Everyone has or will hit a roadblock at one point or another. And sometimes you may have to take a detour. The important thing is to get back on the right path. Be persistent and you will find a way around the roadblocks.

The following are some suggestions to help:

- Plan to be successful. Envision what you want and write down your goals. This will be your blueprint for success.

- Get a day planner and schedule time specifically for doing your real estate business. Find ten hours per week if possible. That may mean making changes in your life such as turning off the television, but even small sacrifices can bring huge dividends as you make the time to get out and look at properties and make offers. Arrange time to work your business at least five days per week. It doesn't have to be two hours per day – just do *something*! Maybe one day you spend half an hour looking in the classified section of the newspaper for FSBOs. Maybe the next day you spend three hours looking at properties. If you will do something at least five days per week, it will help keep you focused.

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- Research your market and understand what is going on in your target area. What are houses selling for? How long does it typically take to sell a house? Where are investors buying? Talk with city and county officials. Talk with the planning and zoning departments. Get to know the code enforcement officer. Map out the area and drive through the neighborhoods. Talk with people. Get comfortable with what is happening in your area and you'll be more comfortable working in it.

CONTACTING FOR SALE BY OWNERS

Circle all the FSBO ads in the newspaper. You are looking for motivated sellers, distressed properties, and sellers willing to participate in owner financing. Start by looking for keywords:

Handyman special	*Fixer-upper*	*Needs TLC*
As-is	*Must sell*	*Motivated seller*
Bank Owned	*Foreclosure*	*Offer*
Distressed	*Illness*	*Transferred*
Needs work	*Divorce*	*Owner financing*
Land contract	*Lease option*	*Investor special*

Highlight these words and call the ads they are in. Instruct your Realtor to include these same words in the remark section of the MLS to find the types of properties you would like to buy.

When calling a FSBO, instead of jumping into the conversation with a lot of questions, simply ask two questions.

First, ask, *"Are you the owner of the house that's for sale?"* It's important to verify you're talking to the owner of the house. It will amaze you how many times, after asking several questions, the person answering says, *"Oh, I don't know; you might want to call back when the owner is here."* You will save yourself a lot of wasted time by making sure you are talking to the owner from the very start.

Next, say to them, *"Tell me a little bit about your house."* When you get them talking, they usually tell you more than if you just asked a lot of questions. Sometimes they will tell you things that help you understand their motivation. You may hear how their son Johnny moved clear across the country and they miss seeing their grandchildren. If you call them back after a period of time and ask how Johnny and the grandchildren are doing,

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you will likely have instant rapport. Remember, this is a people business. As you help sellers feel comfortable talking to you, they may become more flexible in their terms.

Some things to expect them to tell you are the same things you would see on the MLS sheet, such as square footage, number of bedrooms and baths, lot size, year built, special features or amenities, and price. Other things you would ask:

- Does it need work?
- Have they had any offers? If they have, why didn't they accept any?
- Why are they selling?
- When do they need to have the home closed by?
- How long has it been on the market?
- Are there any mortgages on the property?
- Would they consider doing any owner financing?

No need to fear
For some students, it is frightening to call and talk to strangers. They worry they won't say things right. If you are one of those students, try to picture the house they are trying to sell with arms reaching out, pleading to you, "Please buy me!" Most sellers want to sell their house, otherwise why would they be advertising it for sale?

Try to imagine the worst-case scenario. You stick your foot in your mouth and everything comes out all wrong. Your heart pounds rapidly, your mouth feels like cotton, and you hang up and don't buy the house. Just remember, if you never made the call, you wouldn't be buying the house anyway; so, what have you got to lose? Nothing! You may even find the seller doesn't care how nervous you sound and you still get a great deal.

Another thing that can help you overcome the fear of calling FSBOs is to simply make a lot of phone calls. With experience, the fear will fade away and you may actually find that talking to people about prospective properties by phone is not only rewarding, but also enjoyable.

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At the end of this chapter, we have provided an FSBO Contact Questionnaire to help you get started. It will provide a guideline for asking the right questions and make the process easier.

REVIEW

Important to your success will be researching your market and getting to know the area you will invest in.

- Segment your area
- Determine market values using comps
- Decide which area or areas you want to focus on
    - Buy, fix, and sell – focus on working to middle-income areas
    - Wholesale – focus on low-income neighborhoods with a greater number of distressed properties
- Drive by the houses that have sold and write down what you see
    - Determine why there is a difference in price per square foot between seemingly similar properties
    - Become familiar with the neighborhood
- Drive up and down the neighborhoods
    - Pay attention to any vacant houses or distressed properties
    - Look for FSBO properties
    - Write down any houses for rent
    - Look for Realtor signs (pull the flyers)
    - Look for any other investors rehabbing in the area
- Circle all the FSBO ads in the newspaper with keywords
- Call the FSBOs
    - Use the FSBO Contact Questionnaire provided

FSBO CONTACT QUESTIONNAIRE

Hello, my name is____________. I'm calling in regards to the ad in the __________.

To whom am I speaking? ___________________

Are you the owner of the house that's for sale? How are you today?

The ad says

____

____

____

Could you tell me a little about the property? (Let them talk; you listen)

____

____

____

If they haven't already told you when you asked them to tell you about the property, ask: Just out of curiosity, why are you selling?

____

____

____

When do you need to move?

____

____

____

Have you had any offers? _____

If yes, why didn't you accept any?

____

____

____

Where is the property actually located? (Get the address)

____

____

____

What kind of property is it?

____

____

____

How old is the house? __________
How many bedrooms? __________
Baths? __________
What is the square footage? __________

Does it have any special features or amenities?

How much are you asking? __________
How firm is your price? __________

How did you come up with the price?

How much cash do you really need the day we close?

Is there anything that needs repair right now?

Do you know what other properties in the neighborhood are selling for?

Is there a mortgage on the property? __________
If yes, how much? __________
What is the interest rate? __________
How much are your payments? __________
Does that include taxes and insurance? __________
Is the mortgage assumable? __________
Will you hold any of the financing? __________

Do you have any other properties you would consider selling?

I would like to drive by and see the property – could you give me directions?

____

____

____

For rentals, also ask:

How much are the rents? __________

If not currently rented, ask: What did the property rent for?

____

____

____

Is it fully occupied? __________
How long have the tenants been there? __________
What kind of leases are on the property? __________
Is it separately metered? (if multi-family) __________
What are the expenses?

- Taxes __________
- Insurance __________
- Water/Sewer __________
- Other utilities __________
- Association fees __________

Are there any expenses we haven't discussed?

____

____

____

Chapter 2

Selecting a Power Team

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Chapter 2
Selecting a Power Team

In order to be successful, you will need to work with others... people who know this business or can help you build yours, people who can help direct you to buyers for your properties or provide financial assistance, etc.

As an investor, you'll learn how to leverage your money, but you will also need to learn how to leverage your time. Careful selection of qualified people who can assist you in growing your business can help you manage your time and energy more effectively. And leveraging your team members' knowledge can also help you avoid making mistakes.

To help get you started, this chapter will introduce you to the key contacts you will most likely have on your power team.

The important thing to remember is you don't need to try to do all the work yourself. Seek professional help and support and recognize you will need to learn to delegate certain responsibilities at some point.

You will find that putting your team together is an ongoing process. Your team will grow as you expand your knowledge of real estate and take advantage of additional income streams and opportunities.

FINDING THE RIGHT REALTOR

Why would you need a Realtor? A good working relationship with a Realtor is one of the most important assets an investor can have. For one, when a property you are interested in purchasing is listed with a Realtor, you may want to have your own agent working with you to represent your best interests in the deal. Secondly, Realtors can help you evaluate deals by pulling up sold properties comparable to the one you are thinking of buying, giving you a good idea of themarket value for that neighborhood. And third, Realtors have access to the Multiple Listing Service (MLS), a valuable source for finding potential deals.

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The MLS is a cooperative exchange of listing information. When a seller lists his or her home with a Realtor, the listing is put on the MLS, making the home available for any agent who belongs to the MLS to bring a buyer and share in the commission with the listing agent.

The properties on the MLS will usually include pictures and a good deal of information about the property, including the address of the property, the number of bedrooms and baths, the square footage, and available amenities. The MLS may also include any special terms the seller may consider.

As we discussed in the previous chapter, the remark section of the listing will contain clues about the condition of the property and the motivation of the seller. Your Realtor can put keywords into the remark section to pull up properties of interest to you.

Choosing a Realtor

When choosing a Realtor, you want a "scrap Realtor" – an agent who is creative, hard working, and aggressive, and who knows how and where to find deals.

Most Realtors have not worked with investors. They have never done a creative transaction. This can be a challenge for you and it can take some time to find the right Realtor, but the time you spend will be well worth it.

Additionally, most Realtors are not receptive to "unusual" offers. They may not believe in "nothing down" offers or creative approaches. If you plan to make a creative offer and you are working with a Realtor who doesn't think "outside the box," insist on being the one to present the offer because you want the owner to hear the benefits of your offer. Believing in those benefits will be key to making a convincing presentation.

Let the Realtor know you are looking for distressed properties that need repair. Do not let the Realtor pre-qualify you. Let them know you use private funding and can close quickly.

Find a Realtor who works in your target area by driving through the neighborhood. Look for Realtor signs and pick the three companies with the most signs. As you do this, you may notice an agent dominating the area. Real estate agents usually "farm" an area, meaning they focus on a particular area and work it to get listings. They do this by actively contacting the owners through phone calls, mailing promotional material, and knocking on doors.

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Once you have determined the top three real estate offices, call them. Introduce yourself and tell them:

- We are real estate investors and we're buying houses in this area.
- We are looking for properties that are 20-30% below market and/or distressed properties in need of repair.
- We also look mainly for properties in need of cosmetic repairs.
- We are also looking for an agent who specializes in income properties such as apartment buildings, duplexes, and four-plexes. Is there someone in your office who fits that description?

Realtor interview script
The following is a sample script of what you might say when interviewing potential Realtors.

"Hello, my name is _______________. I'm in a position to do some investing in real estate. I am looking to buy properties in your area and I want to develop a relationship with someone who understands my needs.

I'm looking for any property that makes sense. I will consider everything: single family, 2, 3, and multi-units with a good cash flow. I'm interested in properties that are cosmetically distressed. Fixer-uppers are great. You know, paint, carpet, and a little cleanup, that sort of thing. I am not looking for any major repairs like plumbing or structural.

I can pay cash in some instances. Generally I use private funding to purchase these houses and can close quickly (they think commission!). *However, I am always interested in seller financing.*

I am looking for an agent who will research the MLS for me to find properties that meet my criteria and fax me a copy of those listings. I will do a drive-by and present offers on properties that I'm interested in.

This will be a good opportunity for both of us to make some money. Are you able to help me out?"

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The following questions will help you get additional information to determine if this is the Realtor you want to work with.

- How long have you been in the real estate business? (You want at least one year of experience.)
- Do you specialize in any type of real estate? (Their specialty should preferably be your area of interest.)
- Do you specialize in any area of town?
- Do you have any satisfied customers I can talk to?
- Do you make real estate your living? (Answer should be yes!)
- Are you willing to put the time in to help me find the right properties?
- Do properties frequently appear on the market? If so, do they sell quickly?
- Do you have any banking connections? (Mortgage brokers, lenders, etc.)
- Can you recommend a good closing agent in town?
- How much is your commission? Is your rate negotiable?
- Do you have the flexibility to work with your broker?
- Is this a good time to buy? Why?
- What is your opinion of the direction the real estate market is headed?
- Do you own any real estate in town? (You want this answer to be yes.)
- Have you ever owned investment property?
- Are there any areas you feel particularly good about? If so, why?
- Where would you invest if you were going to buy property yourself?

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- What kind of properties would you buy?
- Does your firm manage properties? If yes, what do you charge?
- What is the vacancy rate in the area?
- How many properties do you have listed? (This is just to give you an idea.)
- How many properties did you sell last year? (You want to see how busy they are.)
- Do you work with investors?
- Are you available on the weekends?
- Do you have any properties for sale that would be a good investment for me?
- Are there areas that seem to be going up in value faster than others?

FINDING THE RIGHT MORTGAGE BROKER

A good mortgage broker can be the real estate investor's best friend. You want a broker who can put the deal together and get it closed.

Sometimes you have to go through several brokers until you find the one you want to work with, but remember that it never hurts to have more than one contact.

You are looking for a broker who has been in the business a while. You want one who is experienced in working with investors and sub prime lenders. And you want one who is thoroughly familiar with FHA financing, local down payment assistance programs, grants, and hard moneylending.

A mortgage broker can be a good source for finding investment deals and is usually more creative than a banker when it comes to funding your opportunities.

When you talk with mortgage brokers, do not let them run a credit check until you find a mortgage broker you like. Every time they run a credit check, it can lower your score, so don't

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give them your Social Security Number until you know you have found someone who might really work well for you.

The best way to find a good mortgage broker is often through a Realtor. Interview at least three mortgage brokers.

Mortgage broker interview
Ask the following questions to help determine if this is the right mortgage broker for your team.

- Is the major part of your business refinancing? (Anyone can do refinance. This is not what you are looking for.)
- How long have you been a mortgage broker? (You want at least three years experience. It takes experience to know a lot of different lenders and products, and the mortgage industry is constantly changing.)
- Do you work with investors?
- Do you lend on appraised value or purchase price? (Will they lend on the after-repair value?)
- Can you put together 100% financing packages?
- Do you have access to hard money?
- Do you specialize in the non-conforming arena?
- Do you return phone calls in a timely manner? (Within one business day.)
- Do you do FHA loans?
- Are you a correspondent lender? (A correspondent lender can lend money for 90 days until lenders complete their funding. They help ensure you won't lose a deal because of last minute problems with the lender. Correspondent lenders get the job done by lending the money themselves.)
- Do you have the ability to fund your own loans? (If they are not familiar with the term "correspondent lender.")
- Would you help me put the deals together? (The mortgage broker can put the deal together for you.)

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OTHER KEY CONTACTS

Community banker
Look for a community bank. Your contact at the bank should be someone at the vice president level or another executive with lending authority. Take time to interview several bankers until you find someone you would like to work with.

There are several benefits to using a community bank. First, they have local knowledge of the area and know the growth pattern of the community first-hand. Second, they have local decision making ability (decisions are not being made in some other state where the person doesn't know your real estate market's potential or the trends of your market). Third, they offer flexibility and are able to be more creative than the larger banks. And fourth, they want to build relationships. Community banks are known for providing great service and will usually tell you why you were turned down if a loan is rejected. They want you to stay with them a long time.

Realize that building a solid relationship with the right banker takes time, but is worth it.

Contractor/handyman
A contractor or handyman can perform the necessary repairs on your properties (investors generally prefer working with a handyman). It is critical that the person or persons you use are licensed and insured to protect you and them. You need to find someone you can trust, and someone who can give you bids and manage the subcontractors.

You can find contacts for the services you need through your local home improvement store's bulletin board or get a referral from other investors or individuals you know who have had experience working with contractors or handymen.

Tax professional
An accountant or CPA can help you take advantage of any available deductions from the ownership of real estate and can help you stay on top of your taxes as a self-employed individual. You need to find one who understands what you are doing and what you are planning to do. And they should be knowledgeable about real estate and tax law, as well as the impact of income taxes and capital gains on what you plan to do. They should also understand corporations and what will help you achieve your financial goals.

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Appraiser
Appraisers are hired to determine the market value of homes when necessary and can help with "Rent to Own" and "Sweat Equity" programs. You want to find an appraiser who will do "subject to" repairs, and who is FHA approved. Appraisers know what needs to be done to qualify for FHA and they know how to bring a property to code. You can learn a great deal from your appraiser.

Lawyer
Your lawyer must be in full-time real estate, mortgage, and corporate law. You want someone who is able to review documents and contracts, and is familiar with rent review and tenant's protection legislation. You also want an attorney who is aggressive in asset protection. You don't want to amass a fortune and then lose it because of a lawsuit. An attorney can also be a great resource for finding deals.

Title company
If you invest in a state where title companies are used, you'll find that a title company can provide you with many beneficial services. For example, they can provide property reports on properties you are thinking of buying. And they can give you information about owners of homes in an area you are "farming." Title companies can also handle closings and provide title insurance to protect you. Sometimes, they are able to pull up pre-foreclosure lists for you. Another advantage of working with a title company is they usually know plenty of investors. Ask them to alert you when deals don't go through.

Home inspection company
Develop a relationship with a home inspection professional. Be sure to accompany the inspector as he or she inspects the house and ask a lot of questions. Use a property manager or a Realtor to help you find a good one.

Surveyor
These professionals will survey the land. A land survey is sometimes necessary to close on the backend.

Termite inspector
Termite inspectors are sometimes necessary for closing and they can alert you to expensive hidden problems. Use a large established company. If the property is treated or was treated within the last year, make sure there is a contract and that it is renewable.

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Insurance agent
An insurance agent can be a great resource in helping you decide the best coverage for your various properties and may be able to direct you to potential deals. Look for an insurance agent who specializes in working with investors.

Property manager
If you are buying income properties and don't want to manage them, property managers will be vital to your business. You can learn a lot from property managers, such as the vacancy rate for the area and what the going rent is. Sometimes they will alert you when an investor they are managing properties for is thinking of selling. They may also be able to give you a referral for a good handyman.

Government grant and loan specialist
A government grant and loan specialist can assist you in finding grants and loans that will help you in your real estate investing. You can find them by contacting government agencies or by calling several banks in your area. You may also want to talk to other investors to see what they know and to get referrals.

Mentor
Model yourself after people who impress you. You will learn much from someone "who has been there" before you. Follow the approach of people who have proven themselves in this business. A mentor could also be a potential investor for you.

Networking contacts
Network with everyone you know and meet. Hand out business cards whenever possible because leads can come from some of the most unlikely places (for example, stick them inside the envelopes when you pay your bills or leave them with your tip for a waitress).

Attend industry-related events such as foreclosure auctions to meet and get to know other investors and communicate regularly with the members of your power team.

And definitely do not miss out on attending meetings of your local real estate investment club if you have one (if you don't, then consider creating one!). Most real estate investment clubs have a guest speaker and meet once a month. If you have trouble finding a creative lender or another member of your power team, you may get a great referral from a club member. And you can usually find hard moneylenders at the meetings.

Notes

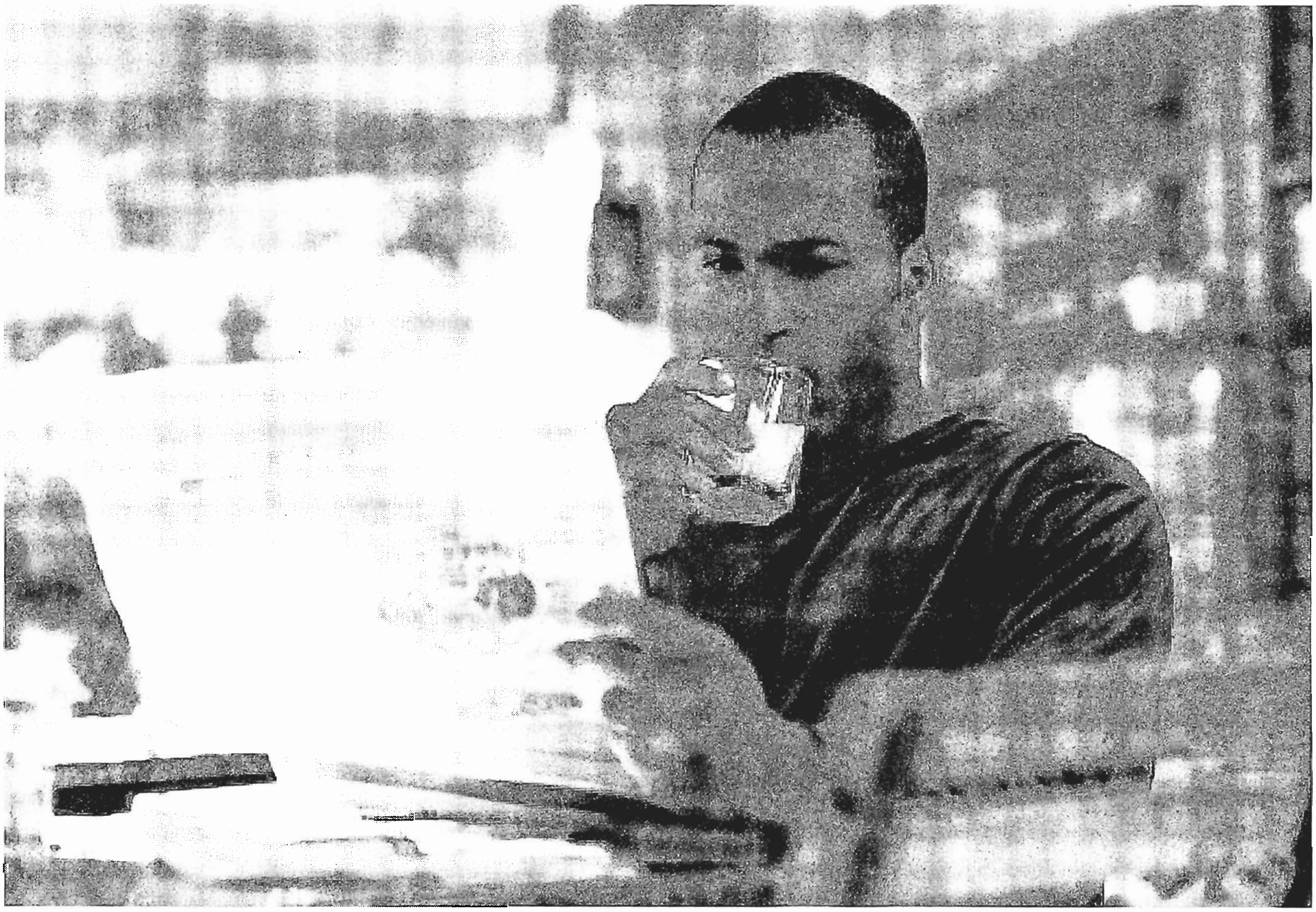
Check with other investors, title companies, Realtors, mortgage brokers, or anyone who is in the real estate business about an investment club in your area. They may charge a monthly or yearly fee for membership. Ask if you can go free on a complimentary visit the first time you attend.

ASSIGNMENT

The following is a suggested assignment.

1. Begin building your power team.

2. Start by building relationships with a Realtor, a mortgage broker, and a banker. They are critical to your success in real estate investing.



Chapter

3

Finding Motivated Sellers

Notes

Chapter 3
Finding Motivated Sellers

By now you should know how to figure out the true value of a property by using the comps you can get from a Realtor. You should have started building your power team and are now eager to find a deal. You are ready to make money!

We talked about how you make your money when you buy and the importance of buying right. Buying right would mean getting a great deal to maximize your profit on the backend.

Ultimately, you are going to find what creates a great deal is finding a motivated or flexible seller. In fact, locating motivated sellers and helping them with their problems is the secret to great deals.

WHAT IS A MOTIVATED SELLER?

Motivated sellers are real estate owners who have to sell for one reason or another. There are many factors that affect their motivation to sell and these factors fall into three main categories: personal hardship, the property itself, or economic problems.

What kind of personal hardships may cause a homeowner to become a motivated seller? For one, an owner's failing health may cause him to need to sell the house. Or perhaps the owner has a job out of state and the house is vacant; as time passes, that owner will likely become more flexible on price or terms. Maybe the seller has suffered a job loss and the house is going into foreclosure. Or maybe divorce is forcing a sale. Perhaps the owner died and the house needs to be sold to settle the estate and pay the heirs. Or a partnership has fallen through, causing the need to sell.

The property's condition may create a need to sell as well. Perhaps the owner doesn't have enough money to fix it up. Sometimes a property may have financing that has a balloon payment due and the owner can't refinance it because the property isn't in sufficient condition to qualify for a loan. Or you may find a tired landlord with a house that was trashed by the tenants.

Notes

Economic problems can create a need to sell as well. But remember, some economic problems you may encounter can be caused by a change in the economy overall, not just in the economics of the homeowner. For example, a business that employs most of the town, but then goes out of business, will have an impact on real estate in the area. Be careful! You may find phenomenal deals, but are they really great deals if you can't sell the properties or rent them out?

HOW DO WE FIND THEM?

Regardless of the factors that create the need to sell, the point is there are many motivated sellers out there and many ways to find them. In doing so, you can locate a great deal.

This chapter offers some techniques you will find helpful in locating flexible sellers in your area.

Work with Realtors

We talked about the importance of having a good Realtor as a member of your power team and that it may take some time to find the right one. In fact, you may have to try several of them out first before you find the right agent or agents for you, but that's okay. Once you find just a couple of agents who have the ability to locate deals and who will work hard for you, your phone and fax will begin ringing.

Working with real estate agents is usually the best way to locate good deals and motivated sellers when you first start out with real estate investing. Look for the ones who know how to be creative and who specialize in working with investors.

Working with more than one agent
Most investors have more than one agent they work with because it can be very beneficial to have different agents on your power team. A listing agent, for example, can hold off putting the property on the MLS for a couple of days so an investor has less competition for his or her offer. When you work with an agent who has pocket listings, they may give you first shot at making an offer on a property before they put it on the MLS.

Another type of Realtor you may find good to work with is a foreclosure specialist. There are banks that work specifically with certain agents in listing their foreclosures. Even though not every foreclosure is a deal, some are worth checking out.

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Another Realtor you may want to work with would be a "hoop jumper" – an agent who is aggressive and works hard for you as a buyer. They will put keywords into the MLS and pull up comps for you.

No matter how many Realtors you work with, you need to keep one thing in mind: be loyal. If you receive information from one Realtor and then buy through another Realtor, you cannot expect that first Realtor to keep looking for properties for you. Real estate agents have to eat, too. Always buy from the one who gives you the information first. Be loyal to that agent and always create a win/win situation for both of you.

Additionally, some investors try to go around the Realtor to avoid paying their fees. But this doesn't make good business or moral sense. You need to treat the agent who generates good leads right by rewarding them and not trying to take away their commission.

Since you will be working with more than one agent, you need to understand that it may be a concern to an agent that he or she will bring you a property, only to have you go directly to the owner or work with another agent. To alleviate this concern, you could offer to sign a Buyer's Broker Agreement. In the agreement, you state you will work with only this agent on the particular property he brought to you for a specific period of time. This protects the agent and keeps him working hard to locate deals for you.

Using keywords

As we've mentioned previously, the Realtor can put keywords into the remark section of the MLS to find some interesting properties that meet your requirements. For example, the agent can put in the word "motivated" and the computer will give a listing of every property that has the word "motivated" in it.

Keywords you will want the Realtor to search for include:

- Handyman Special
- Investor Special
- Needs Work
- Offer

- Must Sell
- Needs TLC
- As-Is Condition
- Fixer-Upper
- Motivated
- Divorce
- Illness
- Transferred
- Foreclosure
- Condemned
- Bank Owned
- Desperate
- Estate Sale
- Moving
- Seller Will Finance
- Will Sacrifice

Expired or "aged" listings
Once you have a good relationship with a Realtor, you can ask him or her to pull up the expired listings or the listings that have been on the market for a while. Sometimes the MLS system will allow your agent to find properties that are free and clear.

Create a flyer to attract aggressive agents
If you want to attract agents who may already have motivated sellers or who know of interesting properties, you may want to run an ad or send a flyer to all the real estate offices in your area of interest.

A sample of what your flyer might look like can be found on the next page.

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HOW TO INCREASE YOUR SALES!

Attention: Broker and Real Estate Office Managers!

If you want to MAKE MORE MONEY, then make a copy of this EXCITING OPPORTUNITY for each of your agents or please post on your board.

WE NEED T0 BUY HOUSES AND MULTI-FAMILY UNITS NOW!
WE'LL PAY UP TO 60% OF VALUE WITH CASH, OR MORE WITH TERMS!
ANY AREA OR CONDITION
$500 BONUS!

Call us with your properties to sell or sell our properties to your customers and get a $500 BONUS on top of your commissions!

WE HAVE THE EXPERIENCE TO BE SUCCESSFUL.
WE'RE FLEXIBLE, CREATIVE,
AND GOOD AT SOLVNG PROBLEMS...
We have a WIN/WIN Philosophy!
Call me today!
Joe Smith, 555-1212

FSBO Signs

By now, you are probably already taking a different route to work every day. You should be paying attention to any FSBO signs you see, especially because some of these properties may not even be listed in the newspaper and the only way to know about them is from the signs. Poorly advertised FSBO homes are an excellent source of leads (think less competition for your offer!). Write down the phone number and call the owner. Better yet, get out of the car and knock on the door.

Tracking Vacant or Boarded Houses

Whenever you are in the car, you should be looking for vacant houses, distressed properties, FSBOs, and houses for rent. Drive up and down your target area regularly and seek out these types of properties. Owners of vacant or distressed properties can be motivated sellers.

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You should be driving for dollars! Always keep your eye out for profitable deals!

Write down or tape record the addresses of any vacant or distressed homes you find. You can look up the owner's name at the courthouse. If you have time, stop the car, get out, and knock on neighbors' doors. They may know where the owner has moved to or they may have the owner's phone number. Most neighbors realize this vacant house is bringing down the value of their home and will be anxious to help you locate the owner. If they seem to know how to reach the owner, but are hesitant to give you this information, just give them your business card and ask them to let the owner know you may be interested in purchasing the property.

Leave several flyers at the vacant house. The owner or a family member often checks on the house.

How to find the owners of vacant houses

- Look up the owner's name in tax rolls, appraisal districts, or computerized services. Or check online at netronline.com. Click on public records, then your county and state. Look for the assessor or auditor's office. Many times this information is on the Internet.

- Check with the neighbors on both sides of the house and see if they know how to reach the owners or where they have moved.

- Send two letters, one to the address of the vacant house asking it to be forwarded, and the other one to the address with the words "Address Service Requested – Do Not Forward" on the envelope.

- Check with the utility company to see if a new account is open in the previous owner's name.

- Check the phone book or call Information to see if a new phone number has been issued to the owner or if they have a new address.

- If you have a different mailing address for the owner, but it isn't listed in the phone book, check a reverse directory, which can be found in the reference section of your public library. The directory starts with addresses first, allowing you to search for the owner's name with

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the only information you have: their address. Or go to reverseaddress.com. Sometimes the owner may be living with relatives with a different last name and reverse directories can help you find them.

- Look on the Internet at sites such as:
  - Anywho.com
  - Infospace.com
  - Wp1.superpages.com (no www.)

- Employ a private investigator (look in the phone book under Private Investigator) to have them do a skip trace to find the owner. Try to negotiate with them that they must find the information you are looking for or there is no fee.

Auctions

Look in the Yellow Pages and in newspaper advertisements for auctioneers. Call every auctioneer you find and ask them if they auction real estate. If they say yes, ask to be put on their mailing list. If you see an auction for real estate property being advertised or if you receive a notice in the mail from an auctioneer, call and get the address of the property. Drive by the house. If you like the house, make an offer for them to submit before the auction takes place (if the property is bank owned, the bank will wait for the auction to make the sale).

Absolute auctions
There are ABSOLUTE auctions. An absolute auction means they will take whatever is bid. Banks typically have 14 months to sell an REO (Real Estate Owned); if it is not sold by then, they have to quickly unload the property. You usually have to enroll to be able to bid. Get signed up and get a bidder's card.

Foreclosure auctions
Go to a foreclosure auction. If you plan to buy at this auction, be sure to do your due diligence first. You will also probably need cash. There will be lots of competition. This is also a good place to find investors to network with. Go there to meet other investors you can buy from or quick-turn properties to.

HUD, VA, FDIC, IRS, and others
In some areas of the country, HUD (Department of Housing and Urban Development) and VA (Department of Veteran's Affairs) foreclosure properties are phenomenal deals. In other

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areas, people pay too much and they are not a deal. To find foreclosure properties offered by HUD, VA, and others, such as the FDIC, the IRS, and Customs, visit the HUD website at www.hud.gov/homes/homesforsale.cfm. HUD and VA foreclosure bids have to be submitted through a HUD-certified agent/broker.

Important Note: Never bid on an owner occupied list unless you plan to live in the property. If you are not going to live in the property, you need to wait until it appears on the list that is open to all bidders.

Garage Sales

When you see a garage or a yard sale, get out of your car and talk to the owners. Remember what most people do before they put their house up for sale? They de-junk! Someone having a garage sale may be getting ready to sell his or her home. But even if they are not planning on selling, they may know of someone else who is. You will usually find them to be friendly and talkative. Talk to them about the neighborhood. Do they know what houses sell for? Do they know of anyone thinking of selling? Give them your business card.

Courthouse Records

The courthouse is an excellent source for researching and finding motivated sellers. Get to know where the records are kept in your county courthouse. Sometimes you may be going into different areas of the courthouse depending on what you are researching. Look for:

Foreclosures
Foreclosure will inevitably create motivation. As mentioned before, foreclosure doesn't always mean a good deal, but some foreclosure properties are great deals! When working a foreclosure, there are four timeframes that provide profitable opportunities. They will be discussed in greater detail in the chapter on foreclosures.

Private note holders
Many private note holders are investors. They may own several properties or they may be hard moneylenders. Obviously, not all private note holders are investors. But if you see a private note holder with several notes, then you've probably found an investor. A private note holder can become a very motivated seller if they have to foreclose on a property they hold.

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Divorce cases
Divorce is a primary cause of foreclosure. Even if a couple does not lose their house to foreclosure, divorce can cause great financial hardship and motivate the couple to sell. You must have full disclosure with both sellers jointly signing any agreement.

Out-of-state owners
If you can find an out-of-state owner, you may find a more flexible seller. It can be a hassle to manage a property from a distance. Or sometimes the owner had to move quickly and now the house is sitting vacant. Sometimes a title company will have the ability to pull this information up for you from the county records.

Houses with tax liens
When an owner is having trouble paying their taxes, it is usually a sign they are having financial difficulty. Often, there is a lot of equity in the home and you could help solve their problem and make it a win/win situation.

Lis Pendens
Lis Pendens is Latin for "suit pending," referring to a court action. In some states, it is the beginning stage of foreclosure.

Probate sales and estate sales
With probate and estate sales, property can be purchased from the estate of an individual who has passed away. Sometimes good deals can be found in circumstances where there is no will and the state is liquidating the estate's assets. However, if there is a will, there can also be great deals if the heirs and beneficiaries are just looking to liquidate assets so they can disperse an inheritance. This can be a huge opportunity for an investor, especially when heirs live out of town. The heirs may not want the property or they may not be able to afford it. Many times, the family tells the executor of the estate to just get rid of the property and the heirs are often willing to take a large discount on it. And sometimes the executor has to sell the property to pay off debts and taxes. Contact the executor of the will. You can find contact information in the county recorder's office or in public notices in the legal section of your newspaper.

Bankruptcies
You can find information about bankruptcies in legal papers or at the bankruptcy court. The name of the trustee who has been appointed to handle the case will appear in the papers and the notice should tell if real estate is involved. The trustee will give

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you the information if you call. Creditors will usually take huge discounts. Even if the bankruptcy has been recently filed and is not closed, the court can release the property.

Eviction filings

Go to your county courthouse and ask the clerk where to find the department to file an eviction complaint. A landlord can become a motivated seller after going through an eviction and may welcome an offer from an investor who is providing a way out of ever having to go through one again.

Local Newspapers

You should be checking the classified section of your local newspaper on a daily or almost daily basis. Nationwide, the classified ads are filled with real estate properties for sale. A small percentage of these ads are placed by owners who are slightly motivated to sell. An even smaller percentage (only 1 to 2%) of the ads are placed by sellers who are desperate and intensely motivated. These are the sellers you want to talk to.

In the beginning, you may think there are no motivated sellers in your area, but be persistent and keep calling. Most investors check a few ads and then give up. Don't let that be you! Make the effort and reap the benefits.

You should also "grade" the ads, looking for motivated sellers by using the keywords mentioned throughout this manual. Start by circling or highlighting any word that might indicate a motivated seller, a distressed property, or special financing terms, such as "must sell," "will look at all offers," "investor special," "needs TLC," "rent to own," "owner finance," "no qualifying," or "take over payments." The ads with your target keywords can be your "A" list, your top picks to call first. Call all the FSBO ads that depict the keywords showing that either the property or the owner is distressed or that there may be creative financing available.

You'll soon find that your search for good leads is much more effective when you know exactly what you are looking for.

Place a "goldmine" ad

In addition to being a source of finding houses for sale, newspapers can be a way of generating deals when savvy investors place their own ads in the paper. Getting the seller to call you is extremely important. This can save you time and give you a good deal.

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An example of a goldmine ad follows:

Private investor looking to buy income properties. Will look at all, any condition. Can pay cash. 555-1212.

As a buyer, you want to get the seller to call you! You can place these ads in the Real Estate Wanted section or in the Houses For Sale section of your local newspaper and real estate magazines. Additionally, if your town has a "Thrifty Nickel," "Penny Saver," "Shopper's Guide," or similar paper, these could be great places for your ad in the same sections listed above. When people are desperate to sell, they will often look in the small newspapers. (We have also provided other sample ads for you throughout this manual.)

Use legal newspapers

Legal newspapers are another way to find motivated sellers, as people who are struggling with bankruptcy, foreclosure, divorce, etc. will be in the legal notices. See if your local library has a copy or ask how you can find the legal newspaper by talking to title companies, attorneys, and banks.

When you find the legal notices, you may want to contact these potentially motivated sellers with a simple letter. Your letter might read like the following:

I understand you have recently gone through some difficult circumstances in your life and may be interested in selling your home. If you are interested, please call me at 555-1212.

People who are having difficulties will often look in the legal publication to see if their notice is in the paper, so consider running an ad in a legal publication. You may find attorneys will also start calling, asking for a business card to pass on to their clients.

I Buy Houses Any Area, Any Condition CASH Completely Confidential Call 555-1212

Notes

"Bird Dogs"

Bird dogs are referrals who act as your eyes and ears looking for great deals on your behalf. You might also hear this referred to as "ant farming." For the hard work they provide, you pay them a finder's fee.

Who can be your potential bird dogs? Think of the people who are out in the neighborhoods every day, such as the mail carrier and the cable installer. These people are regularly going into your prime target areas. You may also consider talking to garbage collectors, meter readers, lawn service workers, pizza deliverers, newspaper deliverers, code enforcement officers, firefighters, and more.

Create flyers and reward cards
To help you find potential bird dogs, create simple flyers and reward cards to attract them to the opportunity and explain the benefits of your bird dog program.

To get the flyers noticed, you may want to use fluorescent colored paper. For the reward cards, it may be best to use double-sided business cards to make them easy to pass out. If your double-sided business cards can have a fluorescent colored front and a white back, it will help them stand out from the average business card.

Here's an example of how your reward card might read:

1st side of reward card (fluorescent color front side with black lettering): $ CASH REWARD $ $250 Bring me any vacant or boarded houses.
2nd side of reward card (on back of card with white background and black lettering): I will pay $250 every time I buy one. Don't bring me any with Realtor signs. Call 555-1212.

Everywhere you go, hand your reward card out. When you go out to dinner, put one with the tip. When you see the mail carrier, stop and give him or her a card.

Additionally, hand out a flyer listing the fees you would pay your bird dog.

Notes

A sample flyer might include the following information:

BIRD DOG FEES
SAMPLE FLYER

- Make $5 every time you bring us the address of a vacant or boarded up house whether we buy it or not.
- Make $10 every time you bring us a Polaroid picture with the address of a vacant or boarded up house whether we buy it or not.
- Make $250 every time you bring us the address of a vacant or boarded up house and we buy it (paid at closing only). Exceptions: Please be advised that we do not accept properties in the following areas: _______ or those with a Realtor sign on them or those addresses already submitted by other bird dogs. All bird dogs are paid upon a first-come, first-served basis.

What, you want more? OKAY!
Invest in yourself and participate in a share of the profits!
Here's how it works: Find a great deal, contact the owner, negotiate the price, and then assign us the contract for a flat $1,500-$3,000 depending on the deal.

Not quite sure how to do all that? No problem.
Come to our next bird dog training program and **earn while you learn**.
Call 555-1212 today!

Niche Marketing

Signs
A fluorescent yellow sign with black writing attracts attention. Make it a simple one-line ad that can easily be read from a distance and include your phone number. Post your signs wherever you are allowed in your city. For example, post signs on or at:

- Bus stop benches
- Community billboards (use small signs)
- Stadium seating

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- Movie theaters
- Take out menus
- Grocery store carts
- Utility posts or telephone poles (best when they are posted up high)
- Major intersections (use surveyor stakes to put them in the ground)

You can go to an office supply store and buy a package of fluorescent paper (8-1/2 x 11 sheets – 100 sheet package) for your signs. Place them in plastic sheet protectors and staple them on telephone poles. Or use plastic corrugated sheets (lightweight, but sturdy sheets of plastic) for your signs and attach them with roofing nails. Make sure you are not violating any city codes.

Example signs might be:

CASH FOR HOUSE 555-1212	I BUY HOUSES CASH 555-1212

In the beginning, you will need to have an answering machine. The message they get when they call might be something like:

"Hi! I'm Jimmy. If you're interested in buying or selling a house…"

Later, you may want to use an answering service; people like to talk to a live person.

Flyers
Design an 8-1/2 x 11-inch flyer and distribute it door to door in the neighborhoods where you want to buy. The flyer should read like an ad: "We buy houses, fast cash, 2 day closing, any condition, any price, 555-1212."

You can hire students or people from your local labor board to distribute the flyers. Two people can put out 500 flyers in three hours. Put your flyers on every door in the neighborhood. Car windows and mailboxes are off limits.

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Door hangers
People generally respond well to door hangers. Most printers will design and cut them out for you. Hire someone to deliver them or incorporate passing them out into an exercise routine and do it yourself.

Bulletin boards
Put flyers anywhere you see bulletin boards, such as grocery stores, laundromats, restaurants, the community center, the unemployment office, a city center, and mail centers. Every time you enter a business place, look to see if they offer a community bulletin board where you can post your information.

Car washes
Ask the manager if they can hand out your flyers. Offer to pay them per car.

Handouts
You can provide handouts wherever you are, wherever it is allowed. You may be able to distribute handouts at some school or local events, for example.

Magnetic car signs
Put magnetic car signs on your car. Not only has this brought in a lot of calls for our students, but it can also give you credibility to be in the neighborhood.

WE BUY HOUSES CASH OR TERMS PHONE #

Check with your car insurance company to see if you need to change your coverage (some car insurance companies will consider it a vehicle used for business if you display a magnetic car sign and you will need to have that in the policy).

Drive for dollars
As you are driving around looking for vacant houses, have your signs in the back of your car along with a staple gun and tape. Every time you see a vacant house, not only should you be writing down the address, but you should also get out of the car and put a sign on the vacant house (the wording can be the same as the magnetic car sign). Make sure the signs are large enough to be read from the street. We are not only trying to get the vacant homeowner to call; we also want motivated sellers who happen to see our sign to call us.

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Cooperative advertising
Have you ever received mail that contains advertisements for several companies in one envelope, like Valpak®? Everyone shares in the production costs, reducing your own cost. Make sure the message is simple. The mailing company may have people on staff who can help you design your ad.

Align yourself with a couple of banks or credit unions. Talk to the branch manager and tell them you are involved in mailings and ask them to join you. Tell them that every week, you will go to the Chamber of Commerce and pull out leads and send their information along with yours. Suggest that their part of the deal be to pay for the postage.

Direct mail
Make sure that when you mail to people in your target area, you do repeat mailings. It usually takes four mailings for most people to respond. If you want to target a specific area, you can get a list of owners and addresses from your title company. Some people will use a reverse address book.

Yellow page listings
Successful investors advertise in the same section as Realtors. Make sure you advertise that if they call you, they will not be paying a commission. You want to stand out from the Realtors.

Listing publications
Consider placing a small display ad approximately 1" x 2" in your Sunday newspaper's free TV listings guide. The cost is usually quite reasonable.

Radio and television
Most cable programming offers a TV listings channel showing what will be on for that day. The top of the screen is usually devoted to continuous advertising or advertising mixed with a few TV news-related programs. In some markets, the cost of advertising on this channel can be relatively inexpensive, especially during non-peak times. This is often the best time to advertise, when people who can't sleep turn on the TV.

Additionally, you may want to consider radio advertising, which is another great way to market your business, usually with less competition for your services.

Restrooms
In some public restrooms, low-cost advertising is offered on the back of the stall doors.

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Business cards
Your business cards should say something simple and to the point like:

I BUY HOUSES, CASH, ANY CONDITION

or

I BUY AND SELL HOUSES

or

WE BUY HOUSES CASH WE SOLVE REAL ESTATE PROBLEMS

You want your business cards to clearly state what you do. Avoid phrases like "real estate investor" which means nothing to a motivated seller. They are only interested in what you can do for them: I BUY HOUSES, CASH! Your name should be the smallest information on the card. Hand them out everywhere, such as restaurants, barbershops or salons, stores, and offices. You should be ordering new cards every three months or you are not getting the best use out of them.

Networking Resources

Banks, mortgage companies, credit and finance
The people at these businesses deal regularly with investors and, quite often, are investors themselves. They sometimes have REOs (real estate owned – bank owned properties), foreclosures, and other leads.

Private lenders
Private lenders can be more than a great financial resource; they can also be a resource for potential deals. As more and more buyers turn to them instead of banks and traditional mortgage companies for loans, many of these private lenders start to build an inventory of foreclosed properties when those loans default. Sometimes they just want to cash out.

Title companies
Title companies close for other investors. By networking with them, you can often find out what other investors are doing.

Notes

Ask the title company to let you know when deals don't go through and to alert you to those opportunities.

Relocation directors
When an employee of a large corporation is relocated, the company will often market or buy the employee's previous home as part of their relocation package. These corporations become extremely motivated to unload these homes. To find them, start by mailing letters to the relocation directors of major employers in your area. You will need to get the address for the corporate headquarters, which may be out of state. Let them know what you are looking for. If they don't have anything at this time, ask them to keep your letter on file so they can contact you if something in your area becomes available.

Property managers
Property managers often manage properties for out-of-state investors who may be tired of owning property in another state or for investors who don't take care of their properties for any number of reasons. Many property managers also actively invest in property themselves. Network with these individuals; they always come across deals and are a great resource if you end up needing property management yourself. Remember, as managers of properties for other investors, they are in a good position to let you know of investors who are looking to sell and to tell you what's right or wrong with their properties.

Section 8
You can get a free database of owners who do Section 8. Go to the Section 8 housing office and get a list of properties for rent with Section 8. Try to get a list of 1- to 4-bedroom rentals. Bail Bondsman will also be on the list if doing rentals.

City code enforcement
Get a list of houses with code violations from them. They tag the houses, so they know before everyone else which ones are vacant or have a code violation. In some regions, the city council has a website and you can pull up the minutes from their council meetings. The code enforcement person has to fill out a daily form.

Appraisers
You can learn a lot from appraisers, such as what needs to be done to qualify for FHA. An appraiser also knows when deals won't work because the house doesn't meet code. They know a lot of investors and sometimes hear of deals.

Notes

Attorneys
Contact bankruptcy attorneys. The attorney doesn't care what the property sells for; they get the same amount of money regardless. And most of them only have two or three investors they know to contact with opportunities. In bankruptcy cases, the owner usually wants or needs the property sold quickly. Usually they will settle for pennies on the dollar.

Contact attorneys who handle probate (check the Yellow Pages). Get on their contact list to be the first person they call to sell property. They want CASH – the advantage you want to give them is that you can buy with cash.

Additionally, attorneys know of people who are having financial or legal problems and need to sell their real estate. Contact attorneys who specialize in real estate, foreclosure, estate planning, and divorce. Network with them and ask them to refer your services!

Accountants
Accountants work with people having financial or tax problems. They will most likely not give out names, but they may be willing to give your name to their clients.

Insurance agents
Insurance agents have clients facing issues such as fire and water damage, vacant homes, and mold. These situations can create motivation on the part of the owner of such a house, and sometimes the insurance company and lender. If they know you buy these kinds of properties, they may be more than happy to pass this information on to their clients.

Bail bondsmen
When bail bondsmen bail people out of jail, some of those people will have money and some of them will have property. Send postcards to the bondsmen in your area. If they own a lot of properties, they put signs out to get more people calling. They are used to buying and selling and they get properties really cheap. They usually buy for collateral and sell when they have too much inventory. Some will do Section 8 rentals.

Health and senior services
Health and senior services workers often take care of people who have no family to leave their properties to. In many cases, the nursing homes have the right to sell the assets. This is one time when you definitely cannot put "and/or assigns." The judge

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wants to know who bought the property. Contact the manager or the executors. Send a postcard:

Attn: Nursing Home Director We buy homes CASH

Charitable organizations – a hidden market!
When a person donates real estate to a church or charitable organization, the appraised value is tax deductible. There is a four-year hold for the full tax deduction. If a church or charitable organization sells at a discounted price before the four-year period, the person who donates will not get the full deduction, so churches and charitable organizations are left holding a lot of property, but they need the cash. They can't sell at a discount until after the four-year period or no one would donate.

You might send a letter that reads:

> To whom it may concern:
>
> Hello, My name is ____________. I am a local real estate investor in your area. I am writing you to inquire about charitable donated properties you may have in the church's portfolio. If your church has any single family homes or investment properties that have been donated, I may be interested in making an offer on any or all of them.
>
> Thank you for your consideration in this matter.
>
> Sincerely,
>
> ___________

People who serve legal documents
They must be legally certified and bonded. The key people to use are the ones who deliver evictions and foreclosure documents because they know about these legal proceedings before they become public knowledge. Some may want something in return; others may feel they cannot divulge this information. Work on creating relationships with those who are okay with giving you information. Some may even post your flyers on the properties or mail your flyers with pertinent information they send out.

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Condemned and fire damaged properties
Contact the health department, fire marshal, and the city code enforcement department to locate these types of properties.

Investors and investment clubs
Investors are a great source for both buyers and sellers. For example, wholesalers (see the chapter on wholesaling) are always looking to quick-turn property and can lead you to some great deals.

Too many investors don't want to work with other investors. This is ridiculous. Somehow they have a false notion they will be supporting their competition if they share ideas or make deals with each other, but that just makes them miss out on some amazing win/win opportunities. In fact, the most successful wholesale investors work almost exclusively with other investors. They recognize that they don't have to spend all their time working with potential homeowners who are often unsophisticated when it comes to real estate; they can instead work with investors who understand the business, who can move quickly on deals, and who know how to spot good deals when they see them.

The bottom line is networking with other investors can be both educational and profitable.

To begin building relationships with other investors, look for their ads in local newspapers and contact real estate investment clubs in your local area. Ask investors, bankers, and Realtors if they know where a local investment club meets. Attending club meetings is a great way to sharpen your real estate skills, network with like-minded individuals, and find great deals.

Clubs usually meet once a month and have a guest speaker who may provide valuable information about your area. But don't judge the club by the speaker; look at the investors attending. Who are the members? How can they help you? Are they friendly?

Most clubs charge a monthly or yearly fee to members, so ask if you can go free on a complimentary first visit. At investor clubs you will be able to find referrals to build your power team. You may find deals, a hard moneylender, or creative financing. Locating a good one is worth the effort.

Now go out and find a motivated seller and get a great deal!

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REVIEW

The secret to great deals is finding a motivated seller. We do not want to waste time working with sellers who are not flexible with their price or terms.

We find these sellers in many ways:

- Use a Realtor
  - Work with more than one agent
  - Have the Realtor search the MLS using the keywords you have learned
  - Create a flyer to attract aggressive agents

- FSBO Signs
  - Take different routes while driving in the car
  - Write down the phone number and call or knock on the door

- Tracking Vacant or Boarded Houses
  - Drive up and down your target area
  - Write down addresses of any vacant or distressed properties
  - Locate the owner
    - Talk to neighbors
    - Check county records
    - Send out letters
    - Check with the utility company
    - Check the phone book or call Information
    - Check a reverse directory if you have a mailing address and want a phone number
    - Look on the Internet
    - Do a skip trace

- Auctions
  - Call auctioneers and ask to be put on their mailing list
  - Can make an offer before the auction
  - Check out absolute auctions

- Foreclosure Auctions
  - Attend an auction
  - Research the property with due diligence if you plan on buying
  - Good place to meet and network with other investors

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- HUD, VA, FDIC, IRS
    - Visit the HUD website: www.hud.gov/homes/homesforsale.cfm
    - Bids must be submitted by an approved Realtor
    - Good deals in some areas of the country
    - Do not bid on owner occupied list unless you intend to live in the house

- Garage Sales
    - People get rid of their junk before they sell
    - Get out and talk with the owners
    - Ask about the neighborhood and others who may be thinking of selling

- Courthouse
    - Foreclosures
    - Private note holders
    - Owners of vacant houses
    - Divorce
    - Out-of-state owners
    - Houses with tax liens
    - Lis Pendens
    - Probate sales
    - Estate sales
    - Bankruptcies
    - Eviction filings

- Local Newspaper
    - Check out the classifieds
    - Place a goldmine ad
    - Legal newspaper

- Bird Dogs
    - Let others be your "eyes and ears"
    - Pass out flyers
        - Mail carrier
        - Cable installer
        - Garbage collector
        - Meter reader
        - Lawn services
        - Pizza delivery
        - Paper carrier
        - Code enforcement
        - Firefighter
    - Offer finder's fee

Notes

- Niche Marketing
  - Signs
  - Flyers
  - Door hangers
  - Bulletin boards
  - Car washes
  - Handouts
  - Magnetic car signs
  - Drive for dollars
  - Cooperative advertising
  - Direct mail
  - Yellow Pages
  - TV listing publications
  - Radio and television ads
  - Restrooms
  - Business cards

- Networking
  - Banks, mortgage companies, credit, and finance
  - Private lenders
  - Title companies
  - Relocation directors
  - Property managers
  - Section 8
  - City code enforcement
  - Appraisers
  - Attorneys
  - Accountants
  - Insurance agents
  - Bail bondsmen
  - Health and senior services
  - Charitable organizations
  - People who serve legal documents
  - Condemned and fire damaged properties
  - Investors and investment clubs

Chapter
4

Making Quick Cash: Wholesales

Notes

Chapter 4
Making Quick Cash: Wholesales

Wholesaling is immediate money in your pocket. When you wholesale a property, you are buying and selling, not buying, fixing, and selling. You don't need to get a loan to buy the property. You never fix it up. You don't have to put a lot of time and work into the house. You simply put the property under contract and sell it to a buyer without ever having purchased it. Once you have a property under contract, you should be able to have a "payday" a week to ten days later! This is called quick-turning a property.

When you wholesale, you are using a buy low, sell low strategy. The type of real estate you will be looking at will be considerably below market value. These properties can be single family or multi-family homes, but most of the properties you wholesale will be single family. This is because there is a larger inventory of single family homes to pick from and your buyer, the investor, will most likely be more interested in the single family homes.

You will find your best deals in properties that are vacant, abandoned, or boarded up – properties no one is really looking to buy. Banks won't finance condemned properties. Insurance companies won't insure them. Most real estate agents won't list them. You should be targeting these types of houses.

Properties like this usually have motivated sellers. For some reason the owners are unable to take care of them or just don't want them. The houses don't have to be boarded up, just rundown and unable to be financed. You are targeting problem properties. You want properties that are physically distressed.

Sounds pretty bad – nothing you really want to fix up, so why are we talking about these types of houses? Don't we stress "cosmetic work only?"

Some of the properties may only need cosmetic repair, but many will need major renovations. They may be in marginal neighborhoods. What you need to remember is:

THERE IS NO FIX-UP.
WE BUY AND SELL AS-IS!

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Remember, the key to any real estate deal is buying right. With wholesaling, you buy them ugly and sell them ugly to investors, maximizing your profits with minimal effort. Now that's definitely buying right!

WHERE TO FIND WHOLESALE DEALS

In the last chapter, we discussed how to locate motivated sellers and, in doing so, find the "deal." Use the ideas given there to help you locate this kind of property. In the meantime, here is a quick review of the techniques we have found most useful in finding wholesale deals:

- Read and advertise in your local newspapers
  - Check out the classifieds
  - Place a goldmine ad
  - Use the legal newspaper
- Use bird dogs (pass out flyers and offer a finder's fee)
  - Mail carrier
  - Cable worker
  - Garbage collector
  - Meter reader
  - Lawn service worker
  - Pizza deliverer
  - Paper carrier
  - Code enforcement officer
  - Firefighter
- Market your services whenever, wherever possible
  - Signs
  - Flyers
  - Door hangers
  - Bulletin boards
  - Car washes
  - Handouts
  - Magnetic car signs
  - Direct mail
  - Business cards
- Drive for dollars (see the next section)

DRIVING FOR DOLLARS

Pick the areas of town that are known for having distressed properties (identify two to five neighborhoods that would have

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these types of properties). You will be looking at low to moderate class neighborhoods and "we care" neighborhoods. These are the areas where you will find investors rehabbing and where you might see Habitat for Humanity building affordable homes. Look for areas that have a lot of renters. Homeowners living there have usually lived there for several years and many have their homes paid for.

Once you have identified the areas with these characteristics, you will be "driving for dollars" (literally driving around, looking for profitable deals). As you drive in your car, look up and down each street trying to locate vacant or abandoned houses. You can easily spot these kinds of properties. Look for:

- Tall grass, leaves all over, snow not plowed
- Lots of newspapers in the yard, at the bottom of the driveway, or on the porch
- No curtains or window coverings
- Broken windows, boarded up windows and doors
- City or county stickers
- Abandoned automobiles, junk in the yard
- Missing utility meters (electric, gas, water)
- Flyers stuck in the door
- Property in bad shape – needs work (might be "ugly")
- Mail piled up in the mailbox

While you are driving for dollars, write down the addresses of the distressed properties you find. And be sure to talk to neighbors, mail carriers, cable workers, and utility workers. Create a "reward flyer" offering to pay a finder's fee and hand it out. Here's an example of how your reward flyer might read:

$CASH REWARD$ **REWARD $250** For finding vacant and boarded up houses Any Area, Any Condition Phone #

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Let others be your bird dogs – your eyes and ears. Offer them a reward for helping you achieve success.

Tell everyone in your world what you are doing! Talk to the grocery store clerk, your hairdresser or barber, people at your church, those you work with, and the waitress where you dine. Let all your friends know what you are doing. Get the word out!

Additionally, put magnetic car signs on your vehicle. Many of our students have had tremendous success making money simply off calls from people who saw their magnetic car signs.

While driving for dollars, you should also have signs in the back of your car along with a staple gun and some tape. Make the words bold and large enough so they can be read from the street. Too many words will make it harder to read. Keep the wording simple, such as:

WE BUY HOUSES CASH Phone #

Use colorful, fluorescent paper to attract attention. We want everyone to see these signs.

If a house is boarded up, staple the sign on one of the boards. If it isn't boarded up, but it is abandoned, tape the sign on a window. If the house has a "no trespassing" sign, then don't put the sign up. Try to place the signs where they can be easily seen and read, even from the street. You want people with unwanted houses calling you! You can also have surveyor stakes that you can attach the sign to and place in the ground at intersections and very visible areas.

When you drive for dollars, you are not only trying to find distressed properties, but you are also letting everyone know you buy houses.

$CASH$ **FOR HOUSES** Any Area, Any Condition CALL NOW! Phone #

When you find a vacant home, ask the neighbors if they know how you can reach the owner (see How to Find the Owners of Vacant Houses in the previous chapter). Or you can go to the

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courthouse where the property taxes are paid to see if you can find their name. They may have a different mailing address.

ASSIGNMENT OF CONTRACT AND DOUBLE CLOSING

There are two ways you can wholesale a property. You will either do an assignment of contract or a double closing (also referred to as a simultaneous closing).

Assignment of Contract

With an assignment of contract, you will have two contracts. One will be a purchase and sale contract between you and the seller of the property. In this contract, you will put your name plus the additional words "and/or assigns" beside it (i.e, John Smith and/or assigns). This gives you the right to assign the contract. The idea here is you have used your expertise to negotiate a fantastic deal with the seller and now you are assigning your right to make that deal on the terms you have negotiated to someone else, your buyer.

The second contract will be between you and your buyer and is called an assignment of contract. An assignment of contract will have the address of the property, as well as information about the seller, about you as the original buyer, and about the buyer you are assigning the contract to. It will also have the amount your buyer is paying you to assign him or her the contract (the fee you are charging for having found and made this great deal that you are passing along).

The typical fee for an assignment of contract is around $3,000 to $5,000. However, students have made $10,000 or more (when your profit is this high, you will want to do a double closing instead, which we will discuss in a moment).

When you assign the contract, you will make sure you collect a non-refundable deposit. If you can collect the full assignment fee at that time, by all means take it. Otherwise, try to get half of the fee or at least $1,000 to $2,000. That way, if for some reason your buyer backs out, you still have made some money.

In essence, what you have done is sold your purchase contract to your buyer. You never own the property, you should not have to pay closing costs, and your name will not appear on the deed. You get the property under contract, assign the contract, and make money. It's a terrific and very popular way to make money in real estate.

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Double Closing (or Simultaneous Closing)

Because your buyer will know how much money you are making with an assignment of contract, you will want to make sure you don't care if he or she has this information.

Most investors and sellers will not mind you making some money. You should be paid for your expertise and foresight. But if they think you are making too much money, they may try to go behind your back or not work with you again. So generally speaking, when you are going to be making a lot of money on the deal (say, more than $7,000), you will do what's called a double closing (or simultaneous close).

With a double closing, you will have two purchase and sale contracts. You will have one between you and the seller of the property. The other purchase and sale contract will be between you and your buyer. This is how it works: You actually buy the property and sell it in a simultaneous closing to your buyer. The title company or closing attorney handles the transaction for you, making everything happen simultaneously and smoothly, but without ever having you, your buyer, or the seller together at the same table.

Your buyer will usually be asked to come in first to close with you as the seller. They will bring the money that is needed to purchase the property (you will later use this money to pay the seller). The money given to the title company or lawyer sits in a trust until the original seller of the property comes to sign their paperwork associated with you as the buyer. You will come in last and sign both sides of the transaction (as a seller and as a buyer). The seller will only see the transaction between you and him or her. Likewise, your buyer will only see the contract between the two of you. There will be closing costs that you may have to pay.

CONTINGENCIES

Because the properties you are looking at to wholesale are not the sort of properties you really want to buy, you will want to use contingencies ("subject to") to protect yourself if you don't find a buyer (consult a lawyer for assistance).

In both the assignment of contract and the double closing, you will use the same contingencies and conditions in your addendum. Always make sure you put your name plus "and/or assigns" as the buyer on the purchase contract.

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In the addendum, put these contingencies and conditions:

- Sale is contingent upon inspection and approval of bids by Buyer and Buyer's partner to be completed in writing within _________ business days.
- Upon acceptance of the offer, buyer to receive key to the property and have the right to show to any and all prospective occupants.

Use this second contingency if it is a FSBO. If the property is listed with a Realtor, put:

- Buyer to receive access to the property upon acceptance of offer.

If the FSBO house is not vacant, then put in a clause of:

- Buyer shall have access to the property for the purpose of showing the property to prospective occupants and to obtain bids on repairs.

An optional contingency you may add (be aware that too many "subject to" clauses can kill a deal):

- It is agreed that Buyer has 30 business days from the date of this offer to perform due diligence. This may include determining any needed repairs, researching the title, and confirming market value. In the event the Buyer determines that the property does not meet with his/her approval, the contract will become null and void, and the Buyer's deposit returned immediately.

When doing an assignment of contract, give yourself as long of a closing date as you can (preferably at least 45 to 60 days). If you don't have a buyer within two to three weeks, back out of the deal. We don't want to hurt people and get the reputation of tying up properties and never purchasing them.

TITLE COMPANIES OR CLOSING ATTORNEYS

A critical element in being able to do an assignment of contract or a double closing is having a good closing officer who knows how to do them. Start calling title companies (or attorneys if your state uses attorneys for real estate closings). You will need to get past the front desk and speak to the actual person

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who handles the closings. Ask them if they have worked with investors. Can they do assignment of contracts or double closings? Have they ever done them before?

Do not be discouraged if they don't seem to know what you are talking about. One student had to call ten title companies before she found one that could do the double closings and assignment of contract. The other nine either told her that it couldn't be done in her state or that she needed to speak to their attorneys.

If you feel like giving up, don't; just keep calling until you find one who understands what you want to do. Sometimes it helps to get a referral from an investor who has done this before.

Make sure the closing agent understands you do not plan to bring any money to the closing table when you are talking about double closings. You are simply bringing two purchase contracts: one between the seller and you, the other between you and your buyer. Ask them what they would charge you to handle this type of transaction.

Also ask if they charge you to do an assignment of contract. Routinely, it will be the seller and your buyer who pay the closing costs. You are just the middleman and once you have assigned the contract, you are out of the deal except for the fact that they will cut you a check for the agreed upon fee that is listed in the assignment of contract.

Ask the closing agent if they have had any problems doing an assignment of contract or a double closing. They may tell you that when your buyer's lender looks at the assignment of contract, they may say, "Who is this Joe Buyer? We want the contract between Sally Seller and Jim (your new) Buyer. Get Joe out of the way." Well that will work if Sally Seller is willing to redo the contract. Otherwise you have a problem!

With a double closing, the lender will only see the contract between you and your buyer. But what do you think may happen when the bank sees the title commitment and your name does not appear on the title as owner of the property? Sometimes this is a red flag to the bank. If they have had any problems such as this, then ask if they were still able to get the deal closed.

Don't be too alarmed about potential problems with the bank. You want to quick-turn these properties to an investor.

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There are many reasons why we want to work with an investor:

- An investor does not have to "fall in love with the property." They will crunch the numbers and if it's a great deal, they want it.

- Investors have access to hard money or cash. Hard money and cash don't care if it's an assignment of contract or a double closing. You should build a database of hard moneylenders for you to use if later on you want to buy, fix, and sell, and for your buyers (if a buyer needs hard money to close the deal, you can refer him or her to the hard moneylender).

- You will also like dealing with investors because cash or hard money means a quick closing. Wouldn't you rather have a paycheck a week after finding your buyer instead of waiting 30 days?

BUILDING A DATABASE OF BUYERS

You may be worrying, "How will I find the buyer?" Finding the buyer is the easy part when you have the right price accepted. When you wholesale, it is not location, location, location. Rather, it is the deal, the deal, the deal! If you can buy it cheap enough, you will have an investor who will want the property. In fact, investors will keep coming back to you for more.

When you wholesale a property, you should create a database of buyers. Don't panic if you find an exceptional deal and you don't have any investors in your database. You should have no problem finding a buyer who will want to purchase the property. If there is money for the investor to make, he or she will want it. However, you should start networking with other investors and building your database as soon as you possibly can.

There are many ways and places for you to find investors for your database, including:

- Investment clubs

- Auctions

- Properties with "For Rent" signs (write down phone numbers and call)

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- Talk to people rehabbing a home and ask who the owner is (probably an investor)
- People who call off your signs
- Realtors, title companies, attorneys, appraisers, contractors, bankers
- Calling the "I buy" ads
- Advertising

The following offers a little more insight into how to tap these sources for your database.

Real estate investment clubs
When you attend your local investment club, you need to network with the investors there. These are potential buyers for your deals. You will find endless possibilities when you rub shoulders with other investors.

Tell everyone what you are planning on doing and see who is interested. Ask them what types of properties they are interested in and in what areas. Ask them if you can call them when you find a property you think fits their requirements.

Auctions
Attend a real estate auction. You will see other investors there. Talk to them. Get their business cards and give them yours. Again, your goal is to find out what kind of investing they do to see how you can work with them. Let them know what you do and tell them you come across phenomenal deals but you simply cannot buy everything you find. Tell them you will gladly contact them when you find a property they may be interested in purchasing.

Properties with "For Rent" signs
Properties that are offered for rent are owned by investors. Perhaps they are looking to purchase additional properties. It never hurts to call and ask.

Talk to rehabbers
If you see someone rehabbing a property, ask them if they are an investor. You might find yourself talking to the investor or with a member of his or crew. If an investor is rehabbing a property in one of the areas you are focusing on, then he or

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she may want a deal you find in that same area or one similar to the property they're already working on. Let the investor know you are just starting out and that you will be looking for houses that need to be rehabbed. Ask them if they would like you to contact them when you find a rehab for a good price. Most would be happy to have you bring them a good deal. You save them time researching so they can spend more time rehabbing.

Realtors, bankers, appraisers, lawyers, etc.
Professional people who are in the real estate business know investors. They are people you want to interact with.

Call the "I Buy" ads
Call all the "I buy" ads you see in the newspaper, such as advertisements that read: "I buy houses. Pay cash. Any area, any condition." There are usually two categories of people who place these ads: 1) wholesalers – buy low and sell low; and 2) retailers – buy, fix, and sell properties or buy, fix, and keep properties.

When you talk to the wholesalers:

- Tell them you're looking to buy some properties
- Let them know you are a new investor in town and you need some deals
- Ask them if they have any inventory (properties for sale)
- If they have inventory, ask them to fax you a list of the properties they have for sale

Next, drive by the properties. Now you will see where these wholesalers are finding the good deals and where wholesale deals are being done in a short period of time. You will find that wholesalers typically farm an area. Usually they concentrate in two to three different areas. You'll also see how much they're asking for the properties and what type of houses they have.

Call them back and say:

"I might be interested in some of the properties you have for sale. I like working with investors. I don't care how much money you are going to make on a deal as long as I get the deal I need. By the way, the properties here on the list, are you going to be assigning them or do you already own them?"

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If they say they're an assignment of contract, figure they paid about $3,000 less than what they're asking. If they say they own it (they may not – but they may want more money), figure they paid about $10,000 less than what they're asking. Ask them if they have any funding sources (hard moneylenders). Now we're finding a potential funding source for us to borrow money from. We are also finding a funding source for our buyer to use.

When you talk to the retailers:

- Ask them what kind of properties they are looking for
- Find out if they are into major rehab or a little fix-up
- Ask what areas they are focusing on
- Find out what price range they prefer

Whatever you do, don't become a Realtor for other investors! Don't waste time looking for the "one" property an investor wants. It is helpful to know what they are looking for and where, but find great deals and let everyone know what you have.

Be sure to get their phone numbers, fax, email, etc. so you can reach them quickly.

ADVERTISE TO FIND YOUR BUYER

As we mentioned before, don't panic if you don't have any investors in your database right now. In fact, many of our students find a great deal and get an offer accepted without having a potential buyer lined up. They know if the price is right, it will not be difficult to wholesale the property. Again, this goes back to the idea of buying right. If they have figured in a good range of profit for an investor, investors will want the property. In these cases, to find their potential buyer, they simply place an ad in the newspaper.

To attract investors, the ad should state what the property is worth fixed up and how much you are asking for it (what you have it under contract for plus your profit). When the investor sees a huge spread and calculates his or her potential for profit in purchasing your property, your phone should start ringing off the hook! In fact, one of our students had over 50 calls in one day from an ad they placed!

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Here are a couple of sample ads:

3 bdrm 2 bath Terrace Park area Worth $160,000 – Will Sacrifice for $100K! Phone #

Attention Investors!! 3bed/2ba Valued at $80K – Fire sale - $40K - Cash Buyers Only! Phone #

Once you have started working on a database of potential buyers for the properties you want to wholesale, be sure to use a system that is organized and includes their names, phone numbers, fax number, email, and other pertinent information, such as what types of properties they are looking for, what areas they like to invest in, and what price range they prefer. Included in this chapter is a Buyer Tracking Sheet for you to use until you find the system that works best for you.

WHAT TO OFFER

When wholesaling a property, how do you figure out what to offer? Here is a formula you can use:

What is the After-Repair Value (ARV) $________________

Subtract repairs – $________________

Subtract profit for the investor – $________________
If ARV is under $80K,
subtract $15K
If ARV is over $80K,
subtract 20% of the ARV

Subtract at least $5K for you – $________________
(or whatever you want)

Equals the most you would offer = $________________
(TOTAL)

Remember, you can always offer less. You may also have no clue as to the cost of repairs. You can get bids, ask the owner what he thinks it will cost, or come up with a ballpark figure. This doesn't have to be rocket science. You could get three bids and there could be a $20,000 difference. One investor may think it needs $10K worth of work and another thinks it will

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be more like $23K. If you would rather work with percentages, you will find it depends a lot on the area and the prices. Here is an average percentage guide you can use:

Low-Income Areas – Offer 35 to 70% below ARV
Working Class Areas – Offer 25 to 40% below ARV
Middle-Income Areas – Offer 20 to 30% below ARV

For example		
	ARV	$160,000
minus	Repairs	$30,000
minus	Profit for investor	$32,000
minus	Your profit (what you want)	$10,000
Equals the most you would offer		$88,000

or
30% below $160,000
Equals $112,000

Let's see how using the percentage would work:

For example		
	ARV	$160,000
minus	Repairs	$30,000
minus	Purchase price	$112,000
Leaves profit for you and investor to split		$18,000

This is not a deal that would be appealing to the investor and would offer you very little, if any, profit!

As you can see, if there are a lot of repairs, using percentages alone will not work. If there had been only $10K worth of work, here is how the numbers would have gone offering 30% below.

For example		
	ARV	$160,000
minus	Repairs	$10,000
minus	Offer	$112,000
minus	Your profit	$6,000
Leaves profit for investor		$32,000

This would be an easy deal to wholesale to an investor!

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NEGOTIATING WITH THE SELLER

1. Introduce yourself

2. Find out if they are the seller

3. Ask, "Do you have a few minutes to answer some questions?"

Now take a moment and explain a little about how you operate. You need to let the seller know how and why you buy. You need to let them know you buy one of two ways: cash or terms.

"When I buy with all CASH, it is at a discount. I will fix up the property and sell it on a new loan to a new owner. Often, this requires me to do a lot of repairs and bring it up to minimum housing codes. Or I buy the property with terms such as owner financing and that usually means I will keep it as a rental. I may even owner finance it for one of our potential homeowners that we currently have approved."

If you have their interest, continue to see if it's a real deal!

4. Where is the property located?

5. How much are you asking?

6. Do you own the property free and clear?

7. If YES, this is great because they can do whatever they want to do.

8. If NO, ask:
   a. What is your Loan Balance?
   b. How many years are left on the principal balance?
   c. How much are the monthly payments? Does this include taxes and insurance (PITI)?
   d. What is the least you will take as a down payment?

9. Roughly, how much do you think is needed to repair the property?

10. What is the lowest you will take, on a cash or a term basis? Stop and wait. (Remember, you have told them you are an investor who buys houses for cash to resell

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or for terms to hold for residual income). Let them think about it; see what they say.

11. Have you had any offers?
    a. If so, what were they?
    b. Why didn't you accept any?

12. How long have you been trying to sell?

Now, you pause. Wait and see how they respond to your conversation. Remember, if someone is not motivated now, that does not mean they will not be motivated later. So, we need to let them know if it is not going to work for us, they can call us later if they do not have any luck in selling.

Now end with this:

"What will you do if you do not sell the property?"

This is a great way to end. It makes them really think, "What if?" However, if it looks positive, you will need to set up an appointment with them to look at the property immediately and get a signed contract.

Whatever you do, don't procrastinate; if you do, someone else will get there first and they will be the one making the money!

A useful tip when negotiating: Most of the time you should make both a cash offer and a terms offer at the same time. People love choices and it helps them see the difference in regards to the cash discount versus terms. It also lets them decide if it is really cash now that they need or getting closer to the full price offer that they want, which is only available if we can get owner financing.

HOW TO DO THE CONTRACT

To be a binding contract, it must be in writing. You can use contracts found in proprietary software or get one from your local Board of Realtors. You can also use a Letter of Intent, a one-page offer that is simple and helps you in negotiations when you are using a Realtor and don't want to burn them out when making lots of offers at once. Make sure they are comfortable with it.

When you fill out the contract (or Letter of Intent), always put your name and/or assigns as the buyer. This gives you the

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right to assign the contract. Always put in your subject to clauses – give yourself a minimum of 10 business days. This is for your protection.

Closing should be a minimum of 30 days, preferably 45 to 60 days. If the seller feels this is too long, tell him it takes about 10 business days to get all the contractor bids completed. Tell them if it does not work for you, then you will back out of the contract within the 10-day inspection period so it doesn't tie up the property. Use your title company or lawyer to close. Always try to have your seller and your buyer pay all the closing costs.

Do not give a large deposit, even if the Realtor tells you to. $10 is preferable, but you may have to give $100. Never give the deposit to the seller. Always have the title company or your attorney hold the check.

Here's how it looks:

<u>Assignment of Contract</u>

First Contract

- Get a signed purchase contract
- Fax purchase contract to closing agent
- Start marketing for your new buyer
- Assign the contract

Assignment Contract

- Fax assignment contract to closing agent
- Take backup offers until closed
- Once closed... collect your check!

What Happens on the Day of Closing?

- New buyer comes to closing with all the money
- Seller comes to closing to sign and get his/her money
- You show up and get your check

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Double Closing

First Contract

- Get a signed purchase contract with you as the buyer
- Fax purchase contract to closing agent
- Start marketing for your new buyer
- Find new buyer, sign second purchase contract with you as the seller

Second Contract

- Fax second purchase contract to closing agent
- Take backup offers until closed
- Once closed… collect your check!

What Happens on the Day of Closing?

- New buyer comes to closing with all the money
- Seller comes to closing to sign and get his/her money
- You show up last and sign both the purchase contract with you as the buyer and the second purchase contract with you as the seller and collect your check.

WHY WHOLESALING?

Wholesaling is one of the quickest ways you can make money in real estate investing. And it can work for everyone. It is not necessary to have great people skills to negotiate a wholesale deal. If you lack confidence, putting money in your pocket quickly will certainly do a lot to build confidence.

You don't have to use any of your money or go out and get a loan. You don't have to spend a lot of time fixing up the property. And you can avoid holding costs. You will not have to worry that the property may not sell and you have to keep making those monthly payments. You don't have the risk that, as you rehab the home, you may run into major issues with electrical wiring or plumbing.

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Potential wholesale properties are often very easy to locate. You will find them in low- to middle-income neighborhoods where there are distressed properties and more renters than owners. If you happen to live in a middle-income neighborhood where none of these types of properties exist, get out of the area. It will open your eyes. Drive 20 minutes out of some cities and you will find yourself in a totally different market. There are varying real estate prices even in close geographic areas. Look in the areas where the working class lives. You can do it!

In some areas, you will find that a four hundred thousand dollar home is a distressed property. You will see this all the time in California. Don't be discouraged. You can still wholesale four hundred thousand dollar houses! You may not do as many, but you can still make money from them. Just find the motivated seller with a distressed property or situation.

As your understanding of wholesaling grows, you will see that you can apply wholesale strategies to other real estate avenues such as pre-foreclosures. For example, you can wholesale a pre-foreclosure! However, you will find that HUD and VA will not allow you to put the house under contract with "and/or assigns" attached to it (additionally, many banks will not allow an assignment of contract).

Some investors will make an offer in the name of a trust and then assign their beneficial interest to the investor before closing. Be careful with HUD and VA foreclosures. You should never bid on the owner occupied ones unless you plan to LIVE in them. We are not saying planning on living there and later changing your mind. DO NOT BID if it is on an owner occupied list. Why do we stress this so much? Because doing otherwise can land you in jail. If the HUD and VA properties do not sell while on the owner occupied list, they will be offered to all bidders. That is the time you can go in and make an offer through a HUD-certified agent.

When you cannot put the offer in your name and/or assigns, you can leave it out and do a double closing. This is very characteristic of what many investors will do. Remember, some banks will allow and/or assigns. We have had students make offers exactly this way and get them accepted. But you will find, for the most part, banks are not excited about and/or assigns.

Another caution is that when you are dealing with HUD and VA, you may find they have certain stringent requirements about the deposit and if you can get it back. It may be more money

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than you are willing to risk losing. Find out how the system works by asking a HUD- or VA-certified agent who specializes in this kind of property.

EXAMPLES OF SUCCESS

We have talked about the importance of driving for dollars and marketing to find a great wholesale deal, but we have also had students who made offers through Realtors and wholesaled the property.

One student was out making four to five offers a week and not finding a deal. His onsite mentor came and informed him they would be making 40 offers that week. It may be hard to make 40 offers if you haven't found 40 vacant or distressed houses when you were driving around! But his mentor knew how to approach the situation.

What they did is they gave 40 Letters of Intent to a Realtor who had pulled up properties on the MLS that matched the search criteria of having a distressed property or motivated seller (remember the keywords you find in this manual). Out of the 40 offers, one was accepted. It was a great deal! The student wholesaled the property and put five thousand dollars in his pocket. The following week, after the first offer was accepted, he made 30 more offers and got another one accepted!

Some call this "shot-gunning," where you get a Realtor to pull up listed properties in your target area and put in 50 offers per week without seeing the properties. It is not a new concept. We know investors who have been doing it for more than 20 years.

Another student decided she didn't want to waste time looking at houses if they did not have motivated sellers. Her time was valuable and there had to be a better way. So she approached her Realtor, a savvy real estate agent who understood all too well how much time you can waste looking at properties, and told her she wanted to write up a lot of offers and see what came back. The Realtor was able to appreciate that the student's proposal to write up multiple offers in a week's time was actually going to save her time in the long run (not all Realtors will see it that way, so don't be surprised if you don't find one excited to do this).

Next, the student signed a lot of contracts, each with an addendum that had the normal escape clauses, including one that stated the sale was subject to a walk-through inspection to

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be completed by the buyer. Then she went home to go through the MLS listings her Realtor had given her (with keywords pulled to find motivated sellers). She crunched some numbers on paper and called the Realtor who filled out the rest of the contracts with the purchase prices and faxed off the offers.

Now, this student did not intend to wholesale the property or properties she was going to purchase, but she certainly could have. Instead, she and her husband, who was a contractor, wanted to rehab houses. And sending a lot of offers at once seemed like the right way to get a good deal without expending too much effort. It was. In one week, the student made 25 offers. Out of the 25 offers, three were accepted.

She and her husband went to look at the properties and found that two of the houses needed too much work. Maybe she could have wholesaled them, but instead she backed out of those contracts. The negotiations for the home she did buy though started with her offering $175,000 on a $250,000 asking price. The seller countered at $223,000. The student came back with a counter proposal of $180,000. This continued on until they agreed upon a purchase price of $200,000.

Her husband decided he wanted to add a carport, update the bathroom, and add new carpet and paint. He figured it would cost him $10,000 to do this work. The Realtor said that with those improvements, the property would be worth over $275,000. Not a bad deal!

We use this illustration to show you that you can make offers through Realtors. If you have found an aggressive agent who understands what kind of properties you are looking to purchase and the concept of making multiple offers, then let that be another avenue for you to utilize. Remember, the more offers you make, the higher your success ratio will be.

Making three to five thousand on a wholesale deal may not seem like a lot of money. But if you evaluate just how much time you spend versus if you were to buy the property and fix it up, you will find that it will not only get you quick money when you wholesale a property, but you will also use your time more efficiently and be able to do several deals at the same time.

One of our students did four wholesale deals within a month and made $20,000! She had none of the headaches of having to get a loan or worry when the plumber would show up.

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EXIT STRATEGIES

Some of you may decide that after you find the deal, you would rather go for the big money and fix it up and resell it. That's okay. Many students have done just that and have been very successful.

As you look at properties, you will be deciding what your exit strategy will be and that exit strategy can change based on the deal or your current situation.

Some properties you find you may never want to renovate. They may be so ugly, you think they should be torn down. But another investor may want it for the right price.

On others, you may decide you will try to wholesale the house, but if you can't make the money you want from wholesaling, you will buy the property yourself, fix it up, and make far more money than you planned.

Then there will be the properties you want to do yourself right from the start, whether it is to fix the property up and sell it or hold on to it. You may exercise other techniques of real estate investing while holding the property. For example, you may rent it out and enjoy a positive cash flow along with the appreciation of the property. Or you might decide to do a lease option with the home, asking tomorrow's value but having cash flow today without the headache of being a landlord.

Understanding how to buy wholesale properties opens up a variety of exit strategies. The main thing you have to remember is you just need to DO IT!

Go out and look for wholesale properties. Make lots of offers and you will find a great avenue for quick cash.

At the close of this chapter are several sample forms and advertisements that will help you get started.

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ASSIGNMENT

The following is a suggested assignment.

1. Target a low-income area
2. Know the value of homes in the area using the comps
3. Drive for dollars and market to find sellers
4. Get a Realtor and title company on your power team
5. Make a lot of offers
6. Get a signed purchase contract with the seller in your name and/or assigns
7. Find your buyer
8. Sign an assignment of contract or a purchase contract with your buyer
9. Fax the documents to a title company or real estate attorney
10. Come to the closing and sign papers if doing a double closing
11. Collect your check!
12. Work on the 30-Day Plan of Action below

30-Day Plan of Action

The following is a suggested plan of action.

1. Set up shop
    a. Get a separate phone and fax line
    b. Get a d/b/a (doing business as - fictitious name)
    c. Open a business checking account
    d. Get business cards (can be simple… "I Buy Houses")
2. Locate tax assessor or county website

3. Market your business
    a. Signs, flyers – get 1,000 printed up
    b. Postcards for tracking vacant houses
    c. Run ad: "I Buy Houses"

4. Join a real estate investment club

5. Choose an area to target

6. Find and train at least one Realtor who understands this business and is willing to make multiple offers – possibly find at investor's club

7. Develop bird dog program, offer finder's fee

8. Drive for dollars at least 3 hours per week

9. Call the "I buy" ads

10. Find and put under contract at least one property you can assign or double close in the next 30 days

11. Be deal driven – don't care where you find the deals, just find good deals; that's all that matters

12. Focus on making offers, not negotiating deals

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BUYER TRACKING SHEET

Type of Buyer: I Buy/Investor Home Buyer

How did they find us? Our ad in the paper Referral We called them

Name: ______________________________

Address: ______________________________

Contact #s: Home ____________ Work ____________

Cell ____________ Fax ____________

Property Needed: Bdrms ________ Baths ________ Garage _____

Other ______________________________

____

____

Desired Area: ______________________________

____

Date Needed: ______________________________

Cash or Terms: ______________________________

____

Financial Info: Income ____________ Expenses ____________

Payment ____________ Deposit ____________

INVESTOR-SPECIFIC INFORMATION

Type of Property: SFR ____________ Multi ____________

Inv. Strategy: Hold ____________ Rehab ____________

# of Properties Wanted: ______________________________

Desired Area(s): ______________________________

Profit Needed: ______________________________

Assign. Fee Okay No ________ Yes ________ How Much ________

VACANT PROPERTIES

DATE ________________

Property Address ____________________________ Map ________ Card #1 sent _____
Tax Value __________ Market Value _____________ Sq. Ft. _______ Card #2 sent _____
Vacant ____ Occupied ____ Single Family ____ Duplex ____ Other ______ Rents ______
Free & Clear ___ Loan Balance ____________ PITI$ _________ Term___ Assumable ____
Bedrooms _____ Baths _____ *Utilities*: Water _____ Electric ____ Gas _____ Separate _____
#A Owner's Name __________________________ Phone (____) __________________
Address ____________________ City __________ Prov. _________ POC ___________
#B Owner's Name __________________________ Phone (____) __________________
Address ____________________ City __________ Prov. _________ POC ___________
Bird Dog _________________ **Referral Fee** _________ **PH #** ______________________

Property Address ____________________________ Map ________ Card #1 sent _____
Tax Value __________ Market Value _____________ Sq. Ft. _______ Card #2 sent _____
Vacant ____ Occupied ____ Single Family ____ Duplex ____ Other ______ Rents ______
Free & Clear ___ Loan Balance ____________ PITI$ _________ Term___ Assumable ____
Bedrooms _____ Baths _____ *Utilities*: Water _____ Electric ____ Gas _____ Separate _____
#A Owner's Name __________________________ Phone (____) __________________
Address ____________________ City __________ Prov. _________ POC ___________
#B Owner's Name __________________________ Phone (____) __________________
Address ____________________ City __________ Prov. _________ POC ___________
Bird Dog _________________ **Referral Fee** _________ **PH #** ______________________

Property Address ____________________________ Map ________ Card #1 sent _____
Tax Value __________ Market Value _____________ Sq. Ft. _______ Card #2 sent _____
Vacant ____ Occupied ____ Single Family ____ Duplex ____ Other ______ Rents ______
Free & Clear ___ Loan Balance ____________ PITI$ _________ Term___ Assumable ____
Bedrooms _____ Baths _____ *Utilities*: Water _____ Electric ____ Gas _____ Separate _____
#A Owner's Name __________________________ Phone (____) __________________
Address ____________________ City __________ Prov. _________ POC ___________
#B Owner's Name __________________________ Phone (____) __________________
Address ____________________ City __________ Prov. _________ POC ___________
Bird Dog _________________ **Referral Fee** _________ **PH #** ______________________

SAMPLE ADS FROM INVESTORS

I pay CASH for rental houses 555-1293	FAST CLOSING & QUICK CASH I will buy your house without any problems Call Sam 555-4492
WE BUY HOUSES CASH Any Area/Condition No fees 555-3939	Qualification blues? Credit problems? WE WANT HOMEBUYERS 555-1233
IMMEDIATE CASH No real estate fees No legal fees Any area/condition Top $$$ 555-4933	Payment assistance? Moving on? We buy and lease option houses, cash, any area, any condition 555-2390
FACING FORECLOSURE? Call me before they take your home and ruin your credit – I can help! Private & Confidential 555-4094	NEED TO SELL QUICKLY? We Buy Houses CASH Any area/any cond. 555-1234
"I am looking for fixer-uppers" The uglier, the better! Any area/cond./price 555-1493	WE BUY HOUSES ANY AREA/COND. WILL PAY CASH CALL NOW 555-9833
WE BUY HOUSES We'll buy your home, all cash or lease to purchase, make your payments, do repairs All price ranges 555-2394 or 555-2399	

SAMPLE "I BUY" ADS

I Buy Homes CASH
Close Quick
Call Sally
(800) 555-1214

CASH for Houses!
&
Multi-Family
Ask for Carol
(800) 555-1998

I'll buy your house CASH!
And close in 7 days!
Ask for Janet
(800) 555-3499

$ We Buy Homes $
Cash or Terms
(800) 555-1294

I Buy Homes, Multi-Units,
Condos, and Notes
$Cash$
(800) 555-9483

CALL ME LAST
SO I CAN BE YOUR
BEST OFFER
ASK FOR SUE
(800) 555-4958

SAMPLE POSTCARDS AND LETTERS

(FOR VACANT PROPERTIES)

Dear Property Owner: ______________________________

I am a real estate investor here in the _________ area and we buy houses for CASH or terms in any area or condition! We noticed your property located at __________________. If you are interested in selling, please give us a call at ___________.

By the way, if you have experienced excessive expenses while owning this property, we can help you recoup some of your losses. If you would be interested in owner financing the property, you could earn some income at very favorable interest rates.

If you prefer, please visit our website at ____________ for more information about our services.

Please call us NOW so we can help.

Sincerely,

____

Remember: Letters work better,
but postcards are faster and cheaper.
Again, what matters is getting the deal.

SAMPLE POSTCARDS AND LETTERS

(CONTINUED)

We BUY Houses!

CASH or TERMS
Any Area, Any Condition!

Need cash quickly?
We can help!

CALL NOW!!

(800) 555-1212

or email us at myname@mywebsiteaddress.com
www.mywebsiteaddress.com

If you can't use this card, pass it along
to someone who can.

Note: Use bright colors for signs, flyers, and postcards.

SAMPLE SIGN OR FLYER

$ CASH $

For Houses

Any Area, Any Condition

Call Now!

(800) 555-1212

Post these colorful signs:

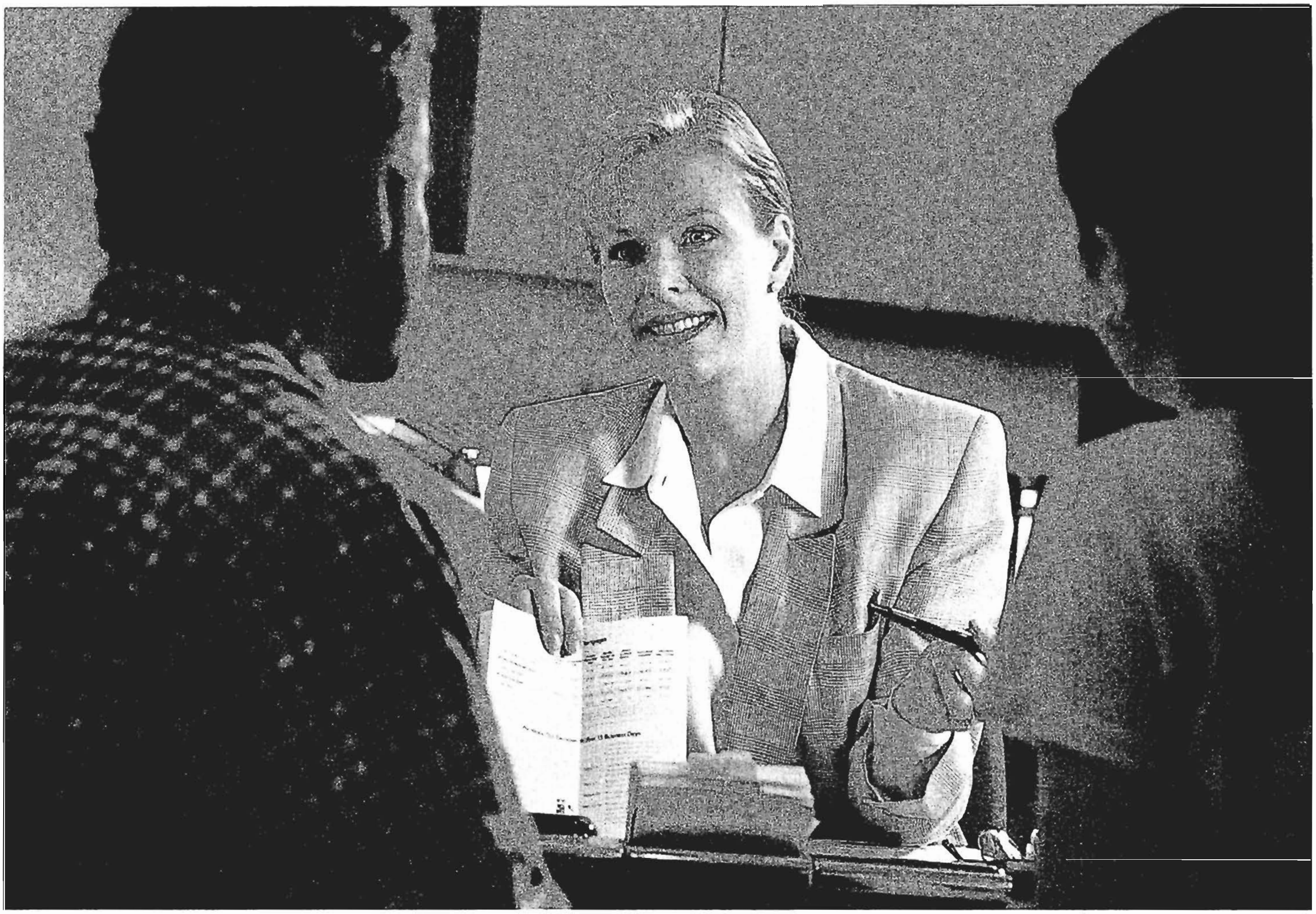
- ***On vacant houses (be respectful of where you post them)***
- ***Staple to survey stakes and place strategically at high traffic intersections around the area you are farming (follow city and code enforcement rules)***

SAMPLE SIGN OR FLYER

(CONTINUED)

Post these colorful posters:

- ***On laundromat, grocery, and department store bulletin boards***
- ***Public and church bulletin boards, as appropriate***



Chapter

5

Securing the Financing

Notes

Chapter 5
Securing the Financing

We have already discussed how you make your money in real estate when you buy and, therefore, the importance you need to place on buying right. To recap, you should never pay too much for the property. When you buy right, you are ensuring you get a great deal. And, as you already know, the key to finding a great deal is locating a motivated seller. But to be successful in real estate investing, you need to know not only how to find the motivated sellers and the great deals, but also how to find the money for those deals.

In fact, in real estate investing, what can make or break the deal is the financing. So you have probably already been asking the common question many students and investors ask: "Where do I get the money?"

To finance your deals, you can use traditional lenders such as banks and mortgage companies. But if you don't have the best of credit or your debt-to-income ratio is too high, you will need to find alternative sources of money. In this chapter, we will discuss several creative financing options available to you, so no matter your situation or the transaction, you will have the resources you need to close the deal.

GETTING CREATIVE

The more creative you are as you finance your deals, the more successful you will be. A crucial element to creative real estate investing is how well you solve the problems of your sellers. Motivated sellers have a need, and as you satisfy this need, you create a win/win situation. You can make a lot of money helping others solve their problems. And, as you learn different techniques and strategies, you will understand terms can sometimes be more significant than price or equity.

You may have heard from many well-intentioned people that there is no such thing as a no money down deal. This can become discouraging, especially if you have heard this said by a professional in the business, such as a Realtor or a mortgage broker. You may even hear some investors say you have to have money to buy real estate. But think of it this way: These skeptics have not used any creative financing or no money

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down techniques themselves, so they do not comprehend how you can own a property with no money down.

Having said that, even though many investors have purchased real estate with no money down, creative financing does not always mean “no down payment.” It usually refers to not using any of your own money. Instead, you want to use OPM, an acronym for Other People’s Money. Using various strategies and methods, as well as OPM, will afford you almost limitless ways to fund your deals. Structuring a successful no money down transaction comes from understanding the necessary ingredients that will satisfy the seller’s needs, while creating a great deal for you in the process.

WORKING WITH MORTGAGE BROKERS

As you begin to build your power team, you will realize a good mortgage broker is essential to your being able to obtain financing for each transaction. You are looking for a creative broker who works with investors regularly and has many financing programs available. Mortgage brokers tend to be more creative than bankers since they have several sources for funds and a variety of loan programs at their disposal.

Sometimes, however, you may find a small hometown bank will be eager to help you in your investing career. Some of these hometown banks offer portfolio loans, a loan the bank keeps in-house and doesn’t sell to the secondary market. When a lender sells a loan, there are strict guidelines they have to follow. If you have a good relationship with your banker and they do portfolio loans, they can sometimes be more lenient. Otherwise, you will probably find more creative financing using a mortgage broker.

Some mortgage brokers have access to private funds that require no qualifying by the borrower. Equity in the house is their only concern. It’s not the cost of the money that matters; it’s the availability that counts. You need a mortgage broker whenever you are going to deal in short-term money, unless you plan to develop relationships with your own private lenders.

Generally, the money these mortgage brokers will find for you comes from private individuals. The only consideration for one of these private loans is the Loan-to-Value (LTV) ratio. This short-term money is valuable to us as investors because you can do a loan on the value of the house, not what you paid for it. So if you buy right, you can borrow the money to both

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purchase the property and cover the costs to rehab it. You just factor these expenses into the cost of the loan. Again, private investors are usually only concerned about LTV ratio and the safety of their investment.

Typically we call private money "hard money" and these private lenders are sometimes called hard moneylenders. A hard moneylender lends at a low LTV, usually 60 to 75% of the after-repair value (ARV). They charge a higher interest rate (could be 12 to 18%) and points (1 point = 1%). The points are based on the amount you borrow and can usually be built into the loan.

The payments are typically interest-only payments with a balloon payment of the principal balance due in six months to one year. Sometimes there are no payments and interest accrues with a balloon payment of principal and interest in six months.

Calling Mortgage Brokers

To find mortgage brokers, see if you can get a referral from a Realtor or another real estate investor. Otherwise, simply open your newspaper or phone book and call those who sound creative. You don't have to make an appointment and meet with the broker; you just need to make the phone call. It takes time out of your busy schedule to go and meet with a broker only to find he/she cannot help you, so start with calls.

When you call mortgage brokers, you may come across someone who is rude and/or someone you are not comfortable working with. Politely tell them thank you very much and hang up. Some students take this personally and feel if they had more knowledge, the broker would have treated them differently. But after you start talking with several brokers, you will find this simply isn't true. Some will be rude or impersonal, but you will find many who will be very helpful. As you talk with these mortgage brokers, you will see they are eager to assist you in understanding what they can do for you.

As we have mentioned previously, when calling mortgage brokers or bankers, you should never give them your Social Security Number. Every time they run a credit check, it lowers your score. Before you allow the broker to check your credit, you will want to make sure they can help you. If you know your score, go ahead and tell them what it is. Just don't give out your Social Security Number until you are sure this is the

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broker you want to work with. Once you have decided this is the broker you are going to work with, then it is okay to let them run your credit and do a loan application so you can know just how they can help you and how much you can qualify for in purchasing real estate.

Pre-Qualified vs. Pre-Approved

You may have been asked, particularly by a Realtor, "Have you been pre-qualified?" or "Have you been pre-approved?" You may have wondered what the difference is between the terms pre-qualified and pre-approved.

When you get pre-qualified, the mortgage broker is looking at your income and debt to see how much you can afford to pay in a mortgage payment. Based on this information, they can then tell you the maximum amount of financing you can get. They will give you a pre-qualification letter stating you are qualified for a loan of "X" amount of dollars. This is not a guarantee they will lend you the money. It is simply stating how much you can borrow subject to verification of employment and income, approval of your credit, and an appraisal. Some sellers, particularly banks selling properties or individuals who are selling in a market where buyer demand is high, require a letter of pre-qualification before you can submit an offer.

With pre-approval, you are considered a step closer to getting the financing. Your income, credit, and employment information is carefully checked. This is still not a guarantee for the loan. Other considerations such as the appraisal and title work will be factored in before you obtain the loan. However, with a pre-approval letter, your offer to purchase will put you in a stronger position with the seller, as your ability to obtain financing appears more solid. Also, since the loan has been "approved," you should be able to close quickly. This can be very appealing to the seller.

Questions to Ask Mortgage Brokers

When you call, introduce yourself, *"Hello my name is _______. I am looking to buy some properties and have a few questions. Do you have a few minutes?"* If they say yes, then start asking questions. Remember not to give them your Social Security Number.

1. What is the most you will lend on a non-owner occupied property? What is the minimum amount? In some areas

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of the country, you can purchase properties for $15,000. If the minimum they will lend is $40,000, you would want to know this.

2. What is the most percentage-wise you will lend on owner occupied loans? What is the most for investor loans? We are talking percentage or LTV.

3. Is that amount (the amount they are willing to lend) based on appraised value or purchase price? Most of the time, they will say purchase price or whichever is less (meaning appraised value or purchase price, whichever is less). We like it when they say "appraised value," but it is harder for investors to find this kind of loan. But if you do find one who answers appraised value, you will ask him/her specific questions.

   In this case, give the broker this scenario:

   Take whatever percentage they told you they would lend, then take off the percentage sign and add thousands of dollars to become your purchase price. In other words, if they told you they would lend you 80%, your purchase price becomes $80,000, 90% - $90,000.00, 70% - $70,000.00. If they told you they would lend you 80%, say to them:

   "Let's assume I find a house that appraises for $100,000. But my purchase price is actually $80,000. Would you lend me $100,000?"

   If they say no, they're talking purchase price or whichever is less! If they say they would lend you $100,000, then you will go one step further. Take $10,000 off the purchase price no matter what number you're using. In this instance, we will drop the purchase price to $70,000. Then ask:

   "Suppose I get an even better deal on this house that appraises for $100,000. Instead of paying $80,000, my purchase price is $70,000! Would you lend me $100,000?"

   If they say yes, ask one more question:

   "Do you lend on the after-repair value?"

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After-repair value means the appraiser says this is what the property is worth fixed up and they look at that number rather than the as-is value.

The next list of questions is for everyone, whether they loan based on appraised value, purchase price, or whichever is less.

4. Do you allow the seller to take back a note?

   When a seller takes back a note, he is holding a second mortgage, possibly what would have been your down payment. This can be one way to get in with no money down. Some will say "yes," some will say "no," and others will say "yes, but..."

   The ones who say yes want money from you. They may do an 80-10-10, meaning 80% 1st mortgage, 10% seller carry 2nd mortgage, and 10% out of your pocket. Or they may do an 80-15-5, with 5% from you.

   The brokers who say they do allow the seller to take back a note may still want money from you. Verify just what they mean by asking:

   "So if the seller were willing to take back a 2nd mortgage of 20%, you would give me an 80% 1st mortgage? Is that correct?"

   You want to know now, not just before closing, if they want money out of your pocket.

5. Do you do piggybacks?

   A piggyback is where the broker uses either the same lender, but two loans, or two different lenders. It is usually an 80% 1st mortgage and a 20% 2nd mortgage. That's 100% financing. The 80% 1st mortgage is usually at the normal investor interest rate. The 20% is typically higher; it could be as much as 10% interest.

   Not long ago, it was easy for an investor to get a piggyback, but now it is harder. Occasionally, our students will still find them. But if you have not purchased a home, this is still commonly used for owner occupied homes.

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6. Do you have any creative financing, private investors, or hard money?

   If they say they do, ask them what kind of creative financing they have. Can they get you in with no money down? Do they have access to a lot of hard money and work regularly with private investors? Also, ask about the terms of the private investors or hard moneylenders as they can vary from lender to lender.

7. Do you have any equity lenders?

   Equity lenders lend a low LTV, usually anywhere from 60 to 70% of the appraised value. Typically, they are not as expensive (point and interest wise) as a hard moneylender. The loan is usually a short-term loan of one to two years and there could be a prepayment penalty on the loan.

8. Do you offer any loans for fixing up the property?

   Sometimes they have rehab loans to fix up the property or construction loans where they lend you the money to buy the property and rehab it. Sometimes they have Title One loans and FHA 203K loans.

9. Do you have non-conforming loans?

   Here are some examples of non-conforming loans and their description:

   Stated income loans – You do not have to prove how much money you make. It originally started for business owners who take a lot of deductions.

   No ratio loans – No debt-to-income ratio. They will verify employment and assets, but not your income. If you are self-employed, they need to see a two-year business license or verification from a CPA of two years employment.

   NINA – No income or asset verification. They will check your credit and verify you have a job. They will not verify where you are getting your down payment. It can come from a third party! They don't care where the money comes from (cash advance, relative, etc).

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No Doc – No documentation. This type of loan only requires verification of where you have lived for the last two years. No income, no assets, no employment. These loans have a little higher interest rate than conforming loans, but offer a lot more versatility to an investor.

10. Is the loan based on the property itself or do you look at my income?

    If you are buying income property, they will usually count 75% of the income. As long as your mortgage, taxes, and insurance are less than 75%, you should not have a lot of difficulty qualifying for the loan.

11. Up to how many units do you lend?

    Up to four is considered residential; five or more is considered commercial. Commercial loans will be different and you don't need to know how they work at this time. But if you do find a great commercial property later on, you will know which brokers to call back, including the commercial loan officer at the bank.

12. What is the interest rate?

    This will change from day to day, but it helps to have a ballpark number.

13. What kind of fees do you charge?

    When they talk about points, remember one point equals one percent of the loan.

14. Do you allow the seller to pay the closing costs? How much do closing costs typically run?

    They will usually allow the seller to pay 3% of the purchase price in closing costs.

15. Do you allow some type of seller concession, such as a repair or decorating allowance?

    Usually they will allow the seller to give a repair or decorating allowance that will come out at closing. They usually allow a certain percentage. If they tell you 6%, ask if the seller pays the closing costs, is that 6% total,

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or 6% concession plus 3% closing cost, equaling a total of 9%? Often, they allow a maximum of 6% to be paid by the seller.

16. How long does it usually take to get an approval? How quickly can you close?

    You want to make sure you put a long enough timeframe in your contract. Usually make your closing date a little longer than the broker expects it to be.

17. What would you like to see in a loan package?

    Try to have everything they ask for to expedite the loan process.

18. If the seller were to put me on the deed, could I get a refinance loan instead of a purchase loan?

    Refinance is always based on appraised value. If we buy below the appraised value of the property, we can get in with no money down. Be sure to ask them if there is any "seasoning." Seasoning means you are required to have been on the deed for a period of time, usually six months to one year.

SELLER FINANCING

What is seller financing? Seller financing simply means the seller is not getting all cash at closing. It may mean the seller receives no cash, but will receive mortgage payments from you each month. They are the bank! They did not lend you the money; instead, they took a promissory note and secured that note with a mortgage.

Sometimes the seller will receive some cash at closing from the loan you received from the bank and the difference between the loan and the purchase price in payments as a second mortgage. For this to work, you will need to find a lender who allows the seller to carry some of the financing.

Seller financing is the best financing of all. You will find you save money by not having to pay fees associated with getting a loan, such as points and origination fees. Often, you can negotiate a better interest rate, especially when savings accounts in banks are receiving lower interest rates.

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And with owner financing, you can easily negotiate certain terms in the mortgage that will benefit you. For example, you can put special clauses in your mortgage that will allow you to transfer a mortgage to another property (substitution of collateral clause) or allow you to obtain a new first mortgage (right to subordinate clause). There are no due on sale or balloon payment provisions in the mortgage if you do not put them there.

Some sellers will actually do 100% financing. One of our students bought a 45-unit building with no money out of her pocket. She had a positive cash flow of $5,000 per month.

Always ask the seller if they will carry 100% of the financing. Worst-case scenario, they tell you no. But sometimes they will say yes!

When trying to get the seller to create 100% financing, you have to gain their trust. If they are concerned about no cash from you, you can help them feel more secure by giving something extra.

With any mortgage or deed of trust, there are two basic documents. The first is a promissory note given by the buyer to the seller acknowledging the debt as well as a promise to pay and the terms of the note. The other is a security instrument called a mortgage or deed of trust.

In the mortgage or deed of trust, the buyer who signed the promissory note pledges the property being financed as security (collateral) for the debt. The mortgage is a lien, not evidence of the debt. In essence, when a buyer signs the mortgage, he or she is saying, "If I do not perform according to the terms of the note, then you can take back the property."

When there is no cash given as a down payment, the seller may be concerned that if the property was damaged, they could lose money. The property itself may not be able to satisfy the debt. If you give them something extra, like a lien on one of your other properties, they may feel more secure knowing the extra collateral will give them some cushion. The note stays the same; only the mortgage or deed of trust is changed.

Most of the time, however, you will have a seller who wants some cash in their pocket. Now you have to find out what the needs of the seller are.

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Does the seller need some cash right now? Or does the seller feel that if you have a vested interest in the property, you will take better care of it and make the monthly payments? In other words, is the seller just looking for security?

If the seller needs cash and wants a hefty down payment, maybe the seller could subordinate his position, allowing you to get a first mortgage with a lender and have the seller hold a second mortgage. See the example below.

Example	
Asking price	$100K
Seller willing to carry	$80K mortgage
Down payment	$20K
You offer	$100K
Give seller	**$40K** from 1st mortgage loan from the bank
Seller will carry	**$60K** 2nd mortgage

If the seller needs security, knowing that he received more money up front may help alleviate some of his fears. In this case, you may offer to give the seller more money and have him carry less. See the example below.

Example	
Asking price	$100K
Seller willing to carry	$80K mortgage
Down payment	$20K
You offer	$100K
Give seller	**$60K** from 1st mortgage loan from the bank
Seller will carry	**$40K** 2nd mortgage

If the seller is not comfortable in holding a lien in second position, then maybe you can give the seller even more cash and have a much lower mortgage. See the example below.

Example	
Asking price	$100K
Seller willing to carry	$80K mortgage
Down payment	$20K
You offer	$100K
Give seller	**$75K** from 1st mortgage loan from the bank
Seller will carry	**$25K** 2nd mortgage

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If the seller is still concerned about holding a note in second position, you will need to try to find out what will work for the seller and still get you what you want.

We will explore other options that may be more appealing to the seller shortly.

Due-On-Sale Clause and Land Trusts

Sometimes the seller has a mortgage on the property, but they may still be willing to work with you on the financing. If the mortgage is assumable and does not require a new buyer to qualify, then you can assume the mortgage and ask the seller to carry a second mortgage for the difference between the purchase price and the assumable mortgage. But when the mortgage is not assumable or when qualification by a new buyer is required in order for an assumption to take place, there will be an acceleration clause in the mortgage that states if the property is sold, the lender has the right to demand payment of the remaining principal balance. This is sometimes referred to as the “due-on-sale clause.” In other words, if the title is transferred, the bank may decide to “call the loan due.”

Back in the ’70s when interest rates began skyrocketing, people started having trouble selling their homes. So sellers had to get creative. They started letting more buyers assume their mortgages or they created wraparound mortgages. The banks wanted the money that had been locked into low interest loans to be available to lend at the higher market interest rates. The acceleration clause (a.k.a., due-on-sale clause) was a way of eliminating low interest loans and freeing up money to lend at the higher rates.

Wraparound Mortgages

Wraparound mortgages are an important tool in buying houses when there is an existing mortgage on the property. A wrap is a seller carry back loan that surrounds (or wraps) already existing financing. It enables the buyer to obtain financing without paying off the existing loan.

The buyer’s mortgage and payments are based on the terms of the wrap, such as interest and timeframe, and have nothing to do with existing financing. The seller keeps the difference between what he or she receives from the buyer and the mortgage payment of the existing financing.

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To illustrate, let's say you negotiate to purchase a house for $130,000. The seller is willing to do a wrap mortgage for the full purchase price at 10% interest amortized over 30 years. The seller's existing loan is based on an original loan of $80,000 at 7% interest amortized over 30 years. The seller has owned the property for 10 years.

This is how it looks:

- $130,000 at 10% interest amortized over 30 years = $1,140.84 per month

- $80,000 at 7% interest amortized over 30 years = $532.24 per month.

Each month, the seller will receive $608.60 more than his or her mortgage payment. At the end of 20 years, the seller will keep the full $1,140.84 per month until the principal is paid off in 10 years.

In essence, a wrap allows the buyer to take title to a property by combining a first mortgage and a second mortgage where the second mortgage wraps around the first. Sometimes it is called an all-inclusive mortgage (AIM) or an all-inclusive trust deed (AITD).

Land Contract, Contract for Deed, and Agreement for Deed

The terms land contract, contract for deed, and agreement for deed essentially mean the same thing: a promise to pay. Until the debt is paid, the seller retains title and the buyer receives an equitable interest in the property.

The buyer does not become the titleholder until the terms of the contract are satisfied, at which time the seller actually deeds the property to the buyer.

A contract sale is handled by an escrow company that holds the Warranty Deed signed by the seller until the buyer satisfies the terms of the contract.

One benefit of using land contracts or contract for deed is they can be used as a tool to avoid the due-on-sale clause, since title does not transfer until the terms are satisfied. Another benefit is there are minimum closing costs involved because owner financing is used.

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OTHER LOW OR NO MONEY DOWN TECHNIQUES

Assume first mortgage and have the seller carry a second
One no money down technique is to assume the first mortgage and have the seller carry a second. Often, there is a huge difference between what you have negotiated with the seller as a purchase price and the assumable loan he or she has. This difference can empty your pockets quickly or put the deal too far out of reach. Ask the owner to carry a second mortgage for the difference.

Owner takes back a note
Another technique is to have the owner take back a note for a short period of time, allowing you to get a refinance loan instead of a purchase loan. A refinance is based on the appraised value and not the purchase price, so if you are buying below appraised value, you can get into the property with no money down. It can have interest accruing and mortgage payments or no payments and a balloon. However, you need to use caution when using this technique. Ensure you have a lender who can refinance quickly without seasoning and one who will base that refinance on appraised value even though you have not owned the property for very long.

Split funding
With split funding, the investor offers a small amount of cash to close the deal, with the remaining amount due months later. No interest is paid and only one lump sum payment is due. Basically, it is a way of getting in with no down payment or with very little down and then having a balloon payment of the principal due later, such as in six months.

The term is negotiable, but enables the investor to fix up the property and have it sold or refinanced before the balloon is due. The advantage to the seller is that a distressed property gets fixed up and the seller gets his or her money no later than when the balloon payment comes due.

Balloon the down payment
This is similar to split funding, but you give no cash. Instead, you ask the seller if he or she will carry the note and wait six months or longer for the down payment. You will be making mortgage payments each month, which may relieve the owner of debt if it is a wrap mortgage or of management woes if the seller owns it free and clear. This can also solve problems the owner may have if they live out of state.

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Additionally, this will give you time to come up with the money if you plan to sell the property and thus pay off the debt and pocket the difference. Or if you are planning on keeping the property, you can possibly use the extra money from the rents (your positive cash flow) to come up with the down payment, or you may decide to refinance.

Pay the down payment in installments
You can ask the seller to let you pay the down payment in terms. The payments can be made over several months or years. Of course, if you are keeping the property for income, you will want to make sure it still has cash flow.

Subordination
Subordination is simply moving a senior loan to junior position. It allows you to get a new mortgage, even though you already have seller financing in place. In other words, subordination occurs when the seller agrees to take back a second mortgage and allows you to get a first new mortgage on the property. It works best with properties carrying low or no mortgages.

Why are sellers willing to subordinate? You may find an extremely motivated seller. Perhaps they have a distressed property they cannot sell. Or they may get more money from you with subordination than they would get if they sold the property "all cash" to some other buyer. Remember, the sales price can sometimes mean more to the seller than cash.

Substitution of collateral
Substitution of collateral simply means you are taking an existing mortgage on one property and you are transferring it to another. In other words, you are substituting the collateral from one property to another. This can work for a down payment or can be used to purchase the property. In using substitution of collateral to purchase the property, you will now own it free and clear. You can then refinance it, pulling cash out for future investing or to pay off the loan that was placed on an existing property you own.

Joint venture with the seller
Ask the seller to let you help sell his or her property and split the profit between you. If there is a lot of equity or you can force the appreciation by doing a little repair, you and the seller can make some good money. Make sure you have a contract that states how much the split is and the terms you have negotiated for your protection.

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Joint venture with an investor
Let's say you find a phenomenal deal, but you are strapped for money. You could bring in another investor to be the money partner. Often, in the commercial arena, an investor will bring in several other investors to purchase high rises, etc.

Partners
When using partners, you need to have all your numbers worked out and the entire deal planned very carefully. It is customary to split the profit equally, but sometimes you may do a 40/60 or 30/70 deal.

How do you find a partner? Attend your local real estate investment group or advertise in the newspaper.

Important Note: When using a partner, be sure to consult with an attorney. It may not be in your best interest to create a partnership. Many people have been hurt as the result of a partner incurring litigation, and having judgments attached to them and their assets because of the partnership. It is usually best to keep them as a money partner where both of you are placed on the deed. This way, when the property is sold, you both will receive your portion of the profit.

Raise the price and lower the terms
To make seller financing work, particularly with no down payment, you can offer to pay more money than the seller is asking. This may appeal to a seller who is more concerned with price than the terms and doesn't really need the cash.

Lower the price and raise the interest rate
This is often used to appeal to an investor who wants a higher interest rate and sees the potential of making more money if the note is carried over a long term. This is beneficial to you because your interest payments are tax deductible, and if you do sell the property, you owe less because of the lower price (you have more equity in the property). Again, knowing the needs or desires of the seller can help you create the optimum win/win situation.

Assume the seller's obligations
Instead of giving cash for a down payment, you can assume the seller's financial obligations. If the seller has a payment they need to make, you could make the payment and count that as your down payment. Or maybe you could take over a credit card bill and spread the down payment over several months or years.

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Credit cards
We have had students who used a credit card to purchase a property.

For example, one student had a credit card that had $25,000 available credit on it. He was able to get a cash advance for a $50 fee with no interest for six months. He used the money to buy a property for $18,000 and to cover his rehab costs. He saved hundreds of dollars not using a lender who would have charged some hefty fees to borrow such a minimal amount. Plus he was able to purchase the property and rehab it with no money of his own. It was a very effective way of using OPM.

Get a line of credit
There are many different types of lines of credit. You may have a strong portfolio with your bank and can get an unsecured line of credit.

One of our students was a schoolteacher who was purchasing houses at a reduced price. Before she went to an auction where she would need cash to purchase the property, her bank approved her for a $35,000 line of credit, which was almost double the amount she needed for the sale.

Another line of credit is one that is secured. Possibly you have a large sum in the bank and you borrow against that amount. This may freeze up your account, but it can prove valuable in building a strong relationship with your bank for future lines of credit that won't be secured. It can also improve your credit as the bank reports your good payment history to credit bureaus.

Another secured line of credit may be taken on a property you own. This could be your personal residence, or it may be another investment property you own. It is usually called an equity loan and is based on the equity you have in the property.

For instance, if you own a property worth $100,000 and owe $50,000, the lender may give you $30,000 in a line of credit, which becomes a second mortgage. You will then have the option of pulling out all of the $30,000 at once, or you will be given checks to use as needed.

The advantage of a line of credit is that if you need only $5,000 for a down payment or for repair costs and pull out just the $5,000, you will only pay interest on that $5,000. If you then pay the $5,000 back, you will have no interest accruing, but will still have access to up to $30,000 whenever you need it!

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Trade for the down payment
Trade something you already own that has value for the down payment. You may have something of value the seller would happily take as a down payment. It could be something as simple as a boat or a vehicle. It may be a rundown property a motivated seller deeded to you. Finding the needs of your seller will allow you to find creative solutions to fund the deal.

Use equity on an existing property
You may own a property that has a lot of equity. Many investors will refinance that property and pull out the equity to be used as down payments or to pay cash for the next deal, and then refinance that property after it has been fixed up if they plan to keep it. Or they will sell the property and then use the excess proceeds to buy again.

Buy low and refinance to pull your cash out
If you have cash, you may want to buy low and refinance to pull out your cash. But if you want to go this route, remember that some lenders may require seasoning.

Over the years, lenders were hurt by unscrupulous investors who would purchase a property, do shabby repairs, and then sell the property for more than the value using an appraiser who over-inflated the appraisal. So many lenders started requiring seasoning. You may still find some lenders who don't have an issue with seasoning, but before you pay cash, make sure you can refinance quickly if that is your plan.

Use hard money
Hard moneylenders are a critical element to you being able to have quick access to cash. Liquidity can make the difference between getting the deal and losing it. Quick closings can also help you negotiate much lower prices. They are also vital for an investor who does not have good credit.

Hard moneylenders usually base the loan on the property itself, not your creditworthiness. Because they lend at a low LTV, they have less risk. If you don't make the payments, they simply take the property and fire sale it.

As already discussed, we can find hard moneylenders through mortgage brokers, but there are other ways to find these private investors. For instance, you can check the courthouse for private note holders. If you consistently see a name that doesn't look like an institutional lender, you have probably found a hard moneylender. Don't be confused if the note holder

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is in the name of a Corporation or LLC. Most investors who lend money will use one of these entities.

You can also find hard moneylenders through your local real estate investment club and through other networking opportunities. For example, network with other investors you meet when attending auctions and calling the "I buy" ads in the newspaper. You may come across a hard moneylender or someone who can refer you to a good one.

Other sources for finding hard money include professionals associated with the real estate business. For example, accountants and CPAs have clients who are looking to invest their money. They may already have clients who hold one or more notes. Likewise, insurance agents have to put the lender on hazard insurance policies. If you know an agent, maybe they would look through their records to find the private lenders. Title companies and closing attorneys prepare closing documents for private moneylenders. Most should be able to give you at least one source for hard money.

You can also look in the newspaper for hard moneylenders. Often, you can find people wanting to lend money in the classified ads of the newspaper under the financial, business, or real estate section. Sometimes they may appear as "loan sharks." Remember, it is not the cost of the money, but the availability of the money that makes hard money so appealing. If you factor in all the costs of the loan and can still make money, why wouldn't you use a hard moneylender? Most investors who plan to do rehabs will use a hard moneylender.

Sometimes our students have used hard money to buy a property they plan to keep as a rental. Once they have it rehabbed, they turn around and refinance it. The hard money gave them a way to purchase and rehab with no money of their own. They now have it rented and find it much easier to get the refinance loan as the property is no longer vacant and is in excellent condition. Between fixing the property up and getting it rented, they have forced appreciation and may even pull out cash at closing (just make sure you will still have cash flow when you do this!).

As mentioned before, hard moneylenders are private investors. They lend at a much higher interest rate, usually 12 to 18% (one student found hard money at 24%!). And they typically charge points, anywhere from 2 to 10 points. Again, remember one point equals one percent of the loan amount.

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You would want to pay a higher interest rate with lower points than a lower interest rate with high points. For example, if you were to get a loan at 18% interest and 2 points that you had for six months, your cost for the loan would be 1-1/2% per month X 6 months (equals 9% + 2 points = 11%). If you were to get a loan at 12% interest and 10 points for the same period of time, your cost for this loan would be 16% (1% per month X 6 months equals 6% + 10 points = 16%).

You may consider negotiating with the seller to pay the points. This could potentially save you money, but it really is the same as getting the seller to accept a lower purchase price. However, you will find that for some sellers, this is preferable to actually accepting a lower price. The reason is they may not want to tell family members they accepted the lower price, when in fact they would accept less money.

This is something you may want to explore as you negotiate with the seller. The benefit of having a higher price for you is that it may be easier to turn around and sell the property for more money if it appears the purchase price was higher.

Most hard money loans are short-term loans of six months to one year. The investor wants to get in and out quickly. They make their money on the points and when this money is freed up, they can lend it out again. They also want less risk and a short period of time fits their risk tolerance. Nevertheless, you may want to ask them if there is a prepayment penalty if you pay the loan off early. There probably won't be, but it never hurts to ask.

Wanting to protect their interest, hard moneylenders will usually lend 60 to 75% of the after-repair value. They usually do their own drive-bys to ascertain the value of the property, but they may use someone else, an appraiser or someone they trust, to assess the ARV for them.

After you have established a good relationship with a hard moneylender and they feel you know what you are doing, some will put the money in your bank account within 24 hours. This will enable you to take advantage of foreclosure auctions and other deals that may need quick cash. And for those of you who may have trouble getting a loan through an institution because of credit issues, a hard moneylender can give you a pre-qualification letter, enabling you to make offers on bank owned properties and to sellers who insist on having a pre-qualification letter.

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The bottom line is every investor should have at least one hard moneylender in their pocket!

Sell off part of the property
Sometimes you will buy a property that can be split into several useful parts. You can sell off part of the land or some of the houses and use the profit from that sale to make your down payment on another sale.

For example, let's say you are buying six houses at $25,000 each. You negotiate a 60-day close and you need 20% down. You sell two of the houses for $40,000 each. At the simultaneous closings, you make your down payment of $30,000 from the profit you made from the sale of the two houses.

Blanket mortgage
A blanket loan covers more than one parcel or lot. It is usually used to finance subdivision developments. However, it can be used to finance the purchase of any kind of property.

Blanket mortgages are used for multiple reasons. For example, some lenders have a minimum amount they are willing to lend. If the house you want to purchase is less than what they are willing to lend, you may want to combine one or more properties in a loan that blankets them.

The advantage of a blanket loan is that you usually pay less in closing costs (one closing for several properties).

The disadvantage is if you want to sell one of the properties. To do so, you will need the lender to release it (usually they will for a price) or you will need to refinance. It is imperative that you get a partial release clause put into the mortgage contract to protect yourself (consult with a lawyer). This clause permits the borrower to obtain a release of any one lot or parcel from the lien by repaying a certain amount of the loan. The lien will stay in place on the remaining properties.

Another reason you may want a blanket mortgage is because once you have multiple loans, it becomes harder to get a loan. By combining several properties you are purchasing, you will have less loans on the books.

One of our students was purchasing 23 homes from one owner. He found it easier to get six loans with one loan covering up to four houses than it would be to get 23 loans. For him, a blanket loan made complete sense.

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Sometimes a lender will insist upon a blanket mortgage to reduce their risk. They lend you the money to purchase the property, but they want to attach the loan to the one purchased and a property you already own! Be careful. This is not a good loan for you.

When you are filling out loan applications, you need to be cautious. You have to show your debts, so those properties you have loans on will show up. But the properties you have purchased without institutional lending will not show up on your credit report. Even though they have equity, you may not want to list them as an asset. The lender may want to attach them into a blanket mortgage.

Making the seller your partner
Equity participation is when you make the seller your partner by giving them an interest in the property. For example, if your down payment was to be 20%, you can give the seller an equitable interest in the property of 20% instead of having to come up with the down payment. When you sell the property, the seller gets 20% of what the property sells for. To illustrate, if you purchased a property for $100,000, you would get a mortgage of $80,000 and give the seller a 20% interest in the property. Let's say that after two years, you sell the property for $150,000. The seller would receive $30,000 ($10,000 plus his initial $20,000) and you would profit $40,000! Win/win!

Equity partnership
This is similar to the equity participation made when the seller was your partner, but in this case, you make someone else your equity partner.

Let's say you are purchasing a property worth $180,000 for $120,000. Your lender requires $24,000 for a down payment.

You know your dad has been complaining about the low interest rate he has been receiving on his savings at the bank and that he is interested in doing some real estate investing. You sell him an equity share in the house. He has $12,000, so you give him a 10% share of the house.

You also have a couple of sisters who have expressed an interest in doing some investing. You ask them how much they can invest.

One sister has $9,600, so you give her an 8% share in the house. Your other sister who just got a bonus from work has

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$2,400 to invest. You give her a 2% share in the property. Now you have your $24,000 for the down payment and your family owns 20% of the house.

You purchase the house and sell it for $180,000. You will have $60,000 profit from the sale. Your dad gets $6,000 (plus his initial investment of $12,000); your sister who had an 8% share in the home receives $4,800 (plus her initial investment of $9,600); and the sister with the bonus has made $1,200 on her initial investment of $2,400. And you have made a handsome profit of $48,000!

Do you think your family might want to do this again? Do you think they may spread the word and you will have a lot more people wanting to own a share in the equity of a house?

Ask the Realtor to take back a note for his commission
Some real estate agents may be willing to take back a note for their commission, particularly if they are having trouble selling the property. Most of them realize something is better than nothing. If their commission would be the down payment you need, then taking back a note could close the deal.

Also, if the owner does 100% financing, he or she may be unable to pay the Realtor because of lack of funds. One of our students actually had a Realtor lend the down payment money from the Realtor's self-directed IRA. The student got a first mortgage from the bank and the Realtor held a second mortgage. You can always ask!

Closing strategies on cash flow properties
On income-producing properties, setting the closing date between the 3rd and 5th day of the month can help you produce the down payment you need.

At closing, you would get most of the rent for that month, plus the deposit and the last month's rent. Taxes are usually prorated and the real estate tax credit could also help with the down. But be aware that in some states, the deposit is held in escrow and you don't collect the last month's rent.

Find out what is applicable for you where you live. Sometimes the lender wants to see proof of funds and you have to bring money to the closing table, but you can put money back in your pocket afterwards. With seller financing, you will not have to worry about proof of funds.

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Create a note and sell it
There are many ways to create a note and many different types of notes. For example, when a seller carries the financing, a promissory note is created with the buyer promising to pay the debt and the terms of the note. A mortgage or deed of trust is created as a security instrument using the property as collateral for the debt. When a seller holds the "mortgage" or "takes back a note," the seller is holding a promissory note and a mortgage or deed of trust.

These notes and the security instrument can be sold to an investor. There are note buyers all over the country who buy notes on a daily basis. Most notes are sold at a discount, which is one of the ways a note buyer makes his or her money.

There are many factors that affect the value of the note. The primary factors are:

- The interest rate – The higher the interest rate, the more valuable the note and the higher the yield.
- The credit of the borrower – The better the credit, the more the note buyer will pay for the note.
- Timeframe – The shorter the term, the more they will pay for the note. If it needs to be amortized over 30 years, then create a balloon in 10 years. Note buyers like to get in and out quickly. Since they buy at a discount, they make money when they buy.
- How old is the note? – They like notes to be "seasoned" one to two years. A seasoned note shows a payment history and provides less risk to the note buyer.
- LTV – How much is the loan to value? Note buyers want to see some equity in the property.
- What position is the note? – Typically they want a note that is in first position.
- What kind of property, condition, and location? – They will take these factors into consideration.

These variables will affect how much the note is discounted and therefore the value of the note (what the note buyer ultimately will pay). Many investors will work with a seller to

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create a note that is sold at the same time the property is closed on and the seller gets cash at closing. This is a simultaneous close and even though it doesn't have any seasoning, this technique can be valuable to the investor buying the property.

You can get creative working with notes. For example, you could sell a "partial" note (selling part of the payments for your down payment). To illustrate, let's say you make an offer on a property for $150,000. The seller owns it free and clear and is willing to carry the financing with 20% down at 10% interest amortized over 30 years. You offer to give the seller the $30,000 cash down payment he wants if he is willing to give up the first 28 monthly payments. You show him how this will make him more money. Here is how you get the $30,000 for the down and convince the seller to carry the financing:

Create a $150,000 note at 10% interest = $1316.36 monthly payments. You are going to sell off the first 28 months of payments for $30,937.77. This will give the investor who purchases the note $36,858.08 – a yield of 15%! From the $30,937.77, you will give the seller the $30,000 down payment.

After 28 payments, the mortgage reverts back to the owner. At this time there is a principal balance of $147,916.97. The seller already collected $30,000 and still has 332 months of payments coming!

If you added the principal balance of $147,916.97 to the $30,000 down payment, the owner has already made $27,916.97 in addition to the remaining payments he will be receiving. Even if you sold the property or refinanced it at this point, the owner will have made $27,916.97 above the purchase price!

If you continue making mortgage payments, the owner will make $263.27 more per month than if you were paying on a $120,000 note ($150,000 purchase price minus $30,000 down = $120,000 note at 10% interest = $1053.09 monthly payments). You have just created a win/win situation!

Make sure that when you sign the purchase contract, you put in the contingency: "Sale is subject to buyer selling 28 monthly payments at $1316.36 for a minimum of $30,000." Your lawyer can help you with contingencies. The note sale will take place simultaneously with the purchase of the property giving the seller the $30,000 down payment.

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1031 Tax Exchange
In layman's terms, a 1031 Tax Exchange allows an investor to pull his profit from one or more real estate properties to purchase other property without it becoming a taxable event.

An exchange occurs when an investor buys and sells a property simultaneously to defer capital gains tax. Capital gains tax can be permanently deferred as long as an outright sale does not occur. The properties have to be like-kind. All real estate is considered to be like-kind.

Qualifications of a 1031 Exchange include:

- Must use a qualified Intermediary (Exchanger) that is unrelated

- The seller must identify the property he or she plans to purchase within 45 days of closing

- The property must be purchased within 180 days of closing

- The replacement property has to be the same or more than the property being sold

- The replacement property must be held for a minimum of two years

One of our students owned a duplex from which she was receiving $700 a month positive cash flow. She lived in an area that had a lot of appreciation and her property was now worth considerably more than she owed. She used the 1031 Exchange to purchase property in another state where she had attended college a few years earlier.

With the profit she received from the sale of her duplex, she bought five multi-unit buildings. She borrowed money from an institutional lender and used the money from her duplex as the down payment to purchase the properties. Her positive cash flow from the units she bought increased to $2,500 per month.

There are many things you can do when you implement a 1031 Exchange. For example, other investors may sell several properties at once to purchase a large commercial building using a 1031 Exchange. Consult with a tax professional for assistance with 1031 Exchanges.

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Grants
There are many federal, state, and city grants available depending on where you live and what you want to do. For example, the government offers several grants for property improvements and property development that is intended to help low-income families or the elderly. And there are grants available for rehabilitating specific geographical areas.

Talk to bankers, real estate agents, and your city to see if they know of any grants available and contact your local housing authority to find out how government grant programs work. You should also network with investors who do rehabs or provide housing for the low-income population.

You'll also want to check with the federal government. You can go to the hud.gov website and look up the grants that are available there. HUD (Department of Housing and Urban Development) provides numerous grants for neighborhood revitalization. Additionally, the USDA (U.S. Department of Agriculture) provides loans and grants for rural multi-family housing for low-income individuals.

Try to locate a government grant and loan specialist to help you take advantage of the various grants available.

Options/straight options
An option is basically securing the right to purchase a property up to a certain time period for a specific price. There is usually consideration money given that can be non-refundable. You are paying for the right to tie up the property for a period of time for an agreed upon price. The seller cannot sell the property to anyone else during this time. You are not obligated to purchase the property; you just have the right to purchase it for a certain period of time. Sometimes this is called a straight option.

Straight options are commonly used by developers purchasing raw ground and by those investing in commercial properties. These developers and investors don't want to purchase a property only to find out that after they have run tests and feasibility studies, they cannot build on the property or that it is not suited for what they want to do. Sometimes they have to get zoning changes. At the same time, they don't want to spend all this time and money doing their due diligence only to find out the owner sold the property to someone else.

When it comes to houses, most people only think of lease option. But you can sometimes secure a straight option on a

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house and assign the option for a fee. Sometimes you will find a motivated seller who has not been able to sell the home. You know it is because the seller lacks the marketing skills and you feel you could sell this property quickly. Using an option would allow you to do just that.

Sandwich lease options

Many of our students have made a lot of money doing sandwich lease options. A sandwich lease option is where you buy with a lease option and then sell with a lease option. You are essentially sandwiched between two lease options.

Students like the sandwich lease option because you can usually get in with minimal cash (usually $100) and receive from your tenant/buyer 3 to 5% of the purchase price in option consideration money. At the same time, you can have positive cash flow.

The properties involved in lease options are usually nice homes in great neighborhoods. We will learn more about lease options in the next chapter. Be sure to look into the laws of your state regarding lease options.

Assignment of contract

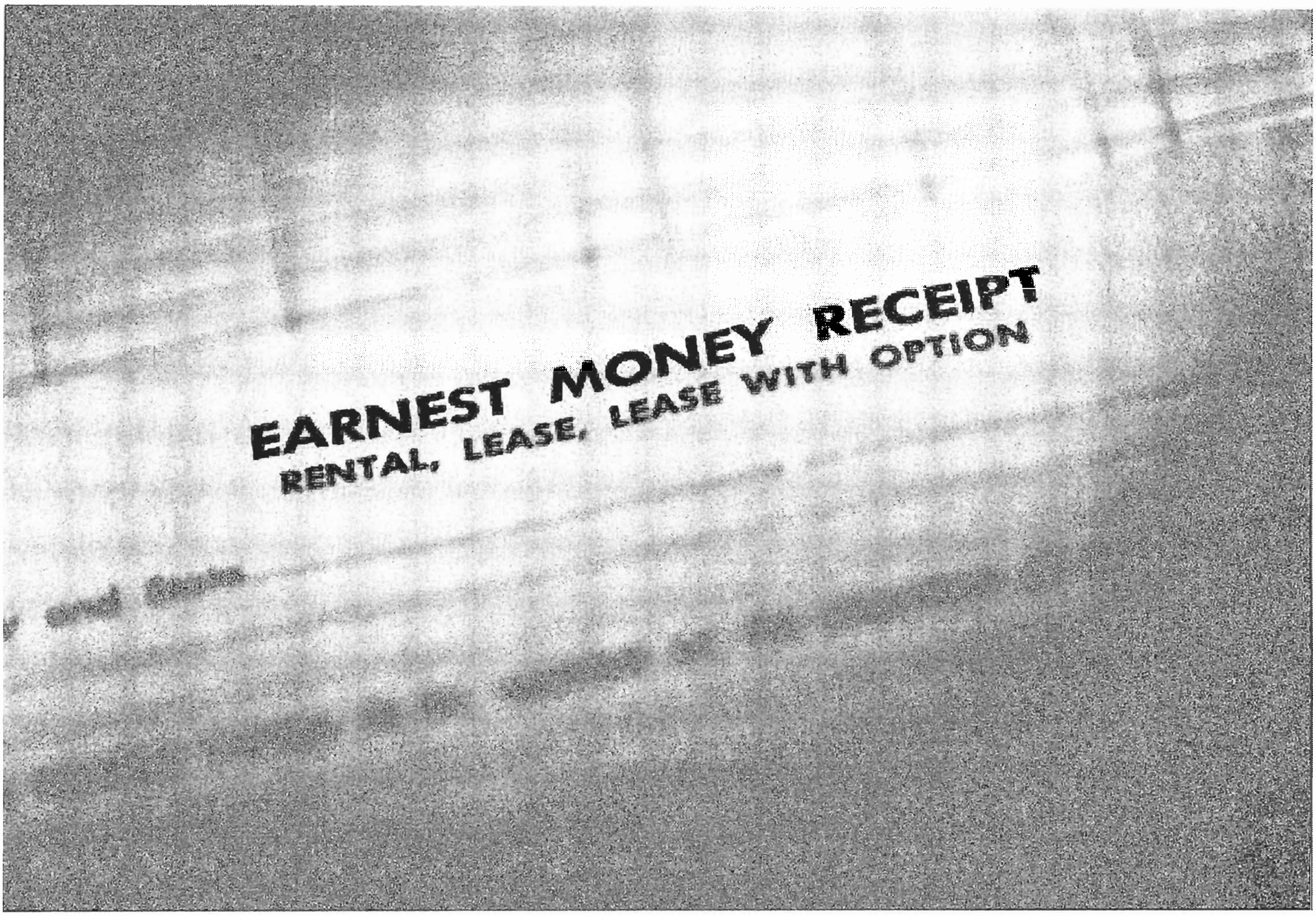
We discussed assignment of contracts in our chapter on wholesaling, but, as a reminder, with an assignment of contract, you never purchase the property. You get the property under contract and either assign the contract or do a double closing. This is quick money with limited risk. You don't have to get a loan or rehab the property because you are not purchasing the property. You find a great deal and wholesale it to another investor who does all the work.

REVIEW

There are probably a thousand and one ways to creatively purchase real estate. But the first step in creative financing is solving the problems of your motivated seller.

Become a problem solver! This is an essential component in real estate investing. Think creatively as you attempt to satisfy the needs of your seller.

Strive to produce a win/win situation at every opportunity. Sellers will work with you if they feel you can satisfy their needs and help them with their problem. Be creative!



Chapter 6

Profiting By Controlling Property: Lease Options

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Chapter 6
Profiting by Controlling Property: Lease Options

An option is a contract that gives you the right to purchase a property for an agreed upon price up to a certain timeframe. This is called a "straight" option. This kind of transaction is called a unilateral contract because only the seller is bound by it. An option obligates the seller, but not the buyer. The buyer has the "right" to purchase the property, but does not have to.

As we learned earlier, a straight option is frequently used by developers and buyers of commercial property. A builder does not want to purchase raw ground only to find out it cannot be built on or that approvals to subdivide the property won't go through. By the same token, the builder does not want to pay a lot of money doing perk tests and feasibility tests only to find out the seller sold the property to someone else. So the builder uses a straight option, an important element of which is consideration. The builder gives the seller consideration (usually money) that is frequently non-refundable for the right to tie up the property and lock in a purchase price. Another way of thinking about consideration is that it is money the buyer pays to the seller to have the right to purchase the property at a later date.

Investors will use a straight option to hold on to a property for future appreciation. They know the potential of the area and want to lock in at today's value. Other investors will get an option and sell the contract to another investor. For example, one Realtor got options from three owners that included a corner lot. It was in a commercial area, but the buildings were old and rundown. He tied up the properties with the option and then turned around and sold his option to a drug store chain for five hundred thousand dollars.

You may find a homeowner who has a property he wants to sell, but is having trouble selling. You know you could sell the property quickly because you know how to market a property and attract buyers. So, you get an option to purchase the property and start marketing it for sale. Why would the seller do this? Because the seller got the price he wanted and you are willing to do all the work.

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The idea here is that an option gives you control of the property without you having to purchase it.

It is creative financing! You can make a profit without using any of your money. You can quick-turn a property and make fast cash just like when you wholesale a deal!

ELEMENTS OF A STANDARD OPTION CONTRACT

Elements you will always see in an option contract include:

The contract must be in writing
As with all contracts, an option must be in writing. A handshake or verbal agreement is not enough. You must have all parties on the title sign the option contract and date it. Be sure to check the title so you know who will need to sign the contract. Who are the individuals involved? Who is the buyer and who is the seller?

Location of the property
If the property has an address, write it down. It wouldn't hurt to also put the parcel identification number in the contract. If it is raw ground, you may also want to put the legal description of the property in addition to the PIN number.

Consideration
The amount of the consideration will be in the option contract. This is what makes the contract a legal, binding contract. Usually the consideration is money, but it can be whatever the buyer and seller agree to. When you are the buyer, you will want to pay as little as possible (perhaps as little as $10). But when you are the seller, you will want your tenant/buyer to pay three to five percent of the property's purchase price.

Timeframe
A specified timeframe is written into the option contract that gives the buyer a period of time to exercise the option. This timeframe will have a date. Any time up to that date, the buyer may exercise his option. This means that even though the buyer may have a five-year option, he can exercise it any time before that date. If he decides to purchase the property six months into the option, there is nothing stopping him from exercising the option and buying the property.

Purchase price
In the option contract, it will state the agreed upon price.

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WHAT IS A LEASE OPTION?

Just as the name implies, a lease option incorporates two components: an option (the right to purchase the property for a specific price for a certain period of time) and a lease agreement. You have probably heard the term "rent to own," which is what most people call a lease option. Negotiated in the contract are the particulars of the terms that have been agreed upon.

A lease option is an excellent tool in controlling real estate and creating wealth. Gaining control over a property with relatively no risk empowers an investor and opens up immense opportunities for obtaining properties with very little money.

Lease option vs. lease purchase
There is a big difference between a lease option and a lease purchase. A lease purchase obligates the tenant/buyer (lessee) to buy the property within the term of the lease, whereas a lease option gives the tenant/buyer the right, or option, to buy the property and the seller (lessor) must sell.

With a lease option, the tenant/buyer is not required to exercise the option and therefore is not obligated to purchase the property. With a lease purchase, however, the tenant/buyer is obligated to purchase the property. As a buyer, we only want to do lease options.

Another term you should not be confused with is purchase option. A purchase option refers to purchasing the property with the exit strategy of selling it on a lease option.

Additional components of a lease option
You will have the same elements in a lease option contract as you would in a standard option contract, however, you must additionally have:

- Lease Payments – Specified in the contract will be the amount of the rent and when the rent is due.
- Term of the Lease – How long the lease is for and if it can be renewed.
- Additional Monthly Option Consideration – Many investors will charge more money for rent and give a credit towards the purchase if the option is exercised.

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If you do this, be careful to not call it "credit" in your contract as this may give the tenant/buyer an equitable position in the property.

- Maintenance – Usually there is something in the contract that states who pays when something needs work.

BENEFITS OF A LEASE OPTION

There are benefits in a lease option to both the buyer and the seller. Let's explore the benefits and then see how those same benefits will help you as an investor.

Benefits as a buyer
The advantage of a lease option to a buyer who cannot qualify for a loan to purchase a property is that it gives him the opportunity to become a homeowner.

As the buyer works to build his credit, most lenders consider a lease option as though the buyer was actually purchasing the property. Often, they will do a refinance instead of a purchase loan. Usually the buyer can refinance on appraised value after six months. Also, prompt payments on a lease option by the buyer can help him qualify for a loan easier than if he had just been renting. A lease option can also benefit a buyer who does not have a lot of money for a down payment.

As an investor/buyer, you will gain financial leverage with a lease option while your risk is reduced. You can control a very expensive and potentially profitable home with very little money of your own and without owning it.

Many of these properties would normally require 10 to 30% of the purchase price down. Option consideration money is small compared to the property's value and the costs that would have been involved had you secured a loan.

Even if you could get a loan, it's much better to make money without loans. You can walk away from the contract if the property value goes down. You control the property.

You will accumulate equity faster than you would through conventional financing. This makes it even easier for you to "buy right." Because you are not getting financing and don't "own" the property, there will be no public record (other than a Memorandum of Option).

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You will also have increased buying power. You can get into a lease option with as little as $10 consideration money when you have a motivated seller who needs debt relief.

Additionally, you will not have the property showing up as a debt on your credit report. This, in itself, will help you be able to do other types of transactions without this particular investment creating an adverse effect.

As a buyer, you want to make sure the contract is assignable. You may decide to just assign the contract. Sometimes this is called an assignment option. You can assign a straight option or a lease option. You could even "wholesale" a lease option!

Some investors will use a lease option to allow them to gain control of the property and fix it up. They either sell it with a double close or bring it to a point where they can now obtain the financing based on the appraised value of the home.

You will find investors will also purchase rental units using a lease option. They get in for relatively little money and can fix these units up and increase rents, thereby forcing appreciation. Now the property will appraise much higher and they will likely have no difficulty in refinancing the property and possibly pulling cash out (making sure they still have a positive cash flow)!

A lease option requires very little or no money and offers investors a quick and productive way of generating income.

Benefits as a seller

As a seller, one of the advantages of a lease option is you can sell the property quickly. This is beneficial especially in areas that are experiencing a sluggish economy and where sellers have to wait a long time to get their houses sold. You have a great pool of buyers when you do a lease option.

With a lease option, you can ask top prices and get them. Typically, investors will charge the higher market value and then add for appreciation. An example would be a house that is worth between $110,000 and $116,000 according to the comps. If houses were appreciating at 8% per year and you gave your tenant/buyer a two-year option to purchase the property, your asking price would be $135,000 ($116,000 X 1.08 = $125,280 X 1.08 = $135,302.40).

As a seller, you will typically ask for 3 to 5% of the purchase price in non-refundable option consideration money. In our

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example, you would ask between $4,000 and $6,750. If the buyer's credit was horrible, you might want to get even more.

You can generate more cash flow as you can charge higher than fair market rent. With the higher rental fee, some investors will give credit towards the purchase price. Again, if you do, remember to be careful that you call it additional option consideration, not credit in your contracts. You must always be careful to not give equitable interest in the property. If your tenant(s) default, it is hard to evict them if they have equitable interest. At that point, you might have to foreclose.

Another benefit as a seller is you have a guaranteed rental income. If the buyer is ever late, the option is void. This is a great incentive for your tenant/buyer to make payments on time.

Additionally, maintenance is not a problem. Anything under $500, your tenant/buyer will have to pay for (stipulate this in your agreement). Usually, the tenant/buyer (optionee) will take better care of the property than a traditional tenant would. They now have the pride of homeownership, which will help free up your time from property management issues. And vacancies are rare. If the tenant/buyer moves out, you get to keep the consideration money.

You collect non-refundable option consideration upfront. Option money is tax deferred until the option is exercised and sold, or forfeited. That means you have tax-deferred money you can use for other properties you wish to invest in. You remain on the deed and maintain all the tax benefits of ownership.

As you can see, there are many advantages to doing a lease option for both the buyer and the seller.

BUYING AND SELLING WITH A LEASE OPTION

Buy with a lease option

Some of our students will purchase a property using a lease option. They take control of the property without the financial stress of large down payments or having to qualify for a loan. Then, they rent the property out and receive a positive monthly cash flow.

When it comes time for them to exercise their option, the property has increased in value and they qualify for a loan with no extra money out of their pocket. Or, they can simply walk away and not purchase the property.

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Sell with a lease option
Other students have purchased a home and fixed it up. They want a monthly income, but don't want to become landlords. They sell using a lease option, knowing they will get more than the property is worth today and have a nice cash flow with a tenant/buyer who will take good care of the property. They also get some upfront money from the option consideration.

Sandwich lease option
Then there are students who purchase using a lease option and then turn around and sell the same property using a lease option. As we learned earlier, this technique is known as a sandwich lease option where you are "sandwiched" in between two lease options, one with you as the buyer and the other with you as the seller.

Sandwich lease options are great profit centers. Understanding the mechanics of a sandwich lease option will not only increase your ability to find deals and make money, but you will also be able to just "buy" using a lease option or just "sell" using a lease option. Sandwich lease options will be the focus of the rest of this section.

Sandwich lease options are one of the best moneymaking tools in real estate. There are three ways you get paid when you do a sandwich lease option:

1. You receive a non-refundable deposit collected from your tenant/buyer – Quick money like wholesale!

2. You have a monthly income (difference between your payment and what you receive from your tenant/buyer) – Positive cash flow like a rental!

3. You receive money at the backend (difference between the option price you have with the seller and the option price you receive from your tenant/buyer) – Large profit like retailing (buy, fix, and sell)!

As you can see, you can make quick money doing a sandwich lease option, just as you can when you wholesale a property. The big difference is instead of looking for distressed or "ugly" houses, you will be looking for nice homes in nice areas. For many students, this makes lease options more attractive.

You probably noticed that you would also receive monthly income, just like if you were doing a rental, except with

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considerably less headaches. And you can see more profit at the backend without having to spend a lot of time and effort rehabbing a property and trying to sell it, so you escape the risk of time and capital often associated with investing in rehabs.

WHO AND WHAT ARE WE LOOKING FOR?

What are you looking for? Motivation! Motivation creates the circumstances that create the deal.

As discussed in Chapter 3, you will be looking for motivated sellers. No matter what kind of real estate investing you do, you will find a motivated seller is the key to finding the deal.

There are two kinds of motivation to sell. You are looking for owners who *need* to sell, not want to sell.

Want to sell – problem properties
Problem properties mean it is the condition of the house that is motivating the seller to want to sell. It may be an "unwanted house" the seller inherited. It could be a distressed house that is vacant and boarded up. This abandoned house may have owners who live out of state and can't take care of it. Or it may be an "ugly" house because of all the disrepair.

These are the types of homes we usually wholesale or rehab, but sometimes you may still want to do a lease option with such properties if you find the right deal.

Need to sell – problem owners
Problem owners are sellers who are distressed because of personal circumstances. It may be the result of a divorce or the loss of a job. The seller may have a lot of debt and is having trouble making house payments. Illness or death can create despair and the need to sell. Rising medical costs may create financial burdens. Any number of factors can create a need for debt relief, which is the number one motivation for a seller to do a lease option. These sellers *need* to sell. They are the types of sellers we should be targeting for lease options.

Which properties do you target?
Once you start focusing on certain neighborhoods and become familiar with them, you will have a good idea of the value of the homes located there. But until you are familiar with the prices in your target neighborhoods, be prepared by getting the comps for each area.

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Look at the comps and separately add up all the square footage of all the homes that recently sold in the area and then divide that total by the number of houses sold. This will give you the average square footage of homes in the area. Next, add up the selling price of these houses and divide that total by the number of houses sold. This will give you the average selling price of the homes in the area. Then take the average selling price and divide it by the average square footage figure to get the average price per square foot for that neighborhood.

Do this for each neighborhood you are targeting. This will give you an idea of the value of the homes in each area.

Now that you have that information, let's look at what types of properties you should be targeting:

- Nice homes in stable neighborhoods with little or no equity – We are talking about nice homes in areas where families want to live. Target those neighborhoods. Usually these properties will not have much equity, but that works to our advantage. No equity can be the incentive for a motivated seller to do a lease option. In such a case, we might tell the seller:

  "We usually buy cash or owner financing, but that won't work; you owe too much! One thing that might work is our lease option program. We can make payments for you and maintain your house until we sell it. When would be a good time for me to come take a look at it?"

- Homes priced 75% or higher than the median sales price in the area – Get information about the median sales price for your area from your local Board of Realtors. For example, if the median sales price in the area is $150,000, you would be looking for homes priced $112,500 or higher.

- Houses with no problems or needing little repair – With a lease option, you do no want a lot of rehab.

- Homes that are well located – You want to attract buyers. The homes should be in desirable neighborhoods.

- The home should have a favorable layout – Again, you want to easily put someone into the home.

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How to evaluate neighborhoods and areas
Here's a quick look at how you might evaluate a neighborhood to determine the best investment strategy for a property.

- Low-Income – Not for lease option (they are great for wholesale buying!)
    - Attractive prices
    - Favorable price versus rent ratio – area ratio 80/20 (80% renters/20% owners)
    - Strategy – Get in and get out

- Moderate-Income – Critical difference is homeownership
    - Homeowners
    - Tenants work in blue collar sector
    - Tighter competition for deals
    - Area ratio 50/50 or 60/40
    - Strategy
        - Wholesale
        - Buy on terms (owner financing), turn around and sell to buyer and be the bank

- Middle-Income – Most are owners and work in high-level blue collar jobs
    - Area ratio 80/20
    - Strategy
        - Great for purchase option
        - Retail – buy, fix, and sell
        - Rentals – Not as good cash flow, but have appreciation
        - Get in title
    - Urban
        - Quick-turn
        - Don't fight low-income tenants
    - Suburban
        - Hold
        - Control without owning
        - Structure favorable financing

Where do you find the deals?
- Real estate agents or brokers – Many times, a Realtor is unable to list the home because too much is owed. Ask agents if they would refer those people to you. Have a Realtor pull up everything for sale higher than 75% of the median price for the area and target those subdivisions. Ask if the agent can pull up expired or

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aged listings. Send postcards to the expired listings.

- Local newspapers – Call on FSBO and other house for sale ads that have been in the newspaper for a while. Ask if they would consider a lease option.

- Attorneys – Many attorneys work with people who have personal difficulties like foreclosure, bankruptcy, divorce, and probate. They may know someone to refer your services to.

- Tax liens – A tax lien can be an early detection of future financial problems. Check courthouse records.

- Divorce filings and bankruptcy filings – The majority of foreclosures are triggered by divorce or job loss. Check for recent filings at the courthouse.

- Churches and services that help senior citizens – They sometimes counsel people with financial difficulties.

- "For Rent" ads – Calling the "homes for rent" ads in your local newspaper is an excellent way to find someone willing to do a lease option. You are targeting the frustrated landlord. You can also drive through your target neighborhoods looking for "For Rent" signs. When you see one, get out of the car and knock on the door or write down the phone number from the sign and place a call. Ask if they would consider doing "rent to own."

- Marketing – Marketing is the number one most important aspect in finding the motivated seller. You have to market your business. Magnetic signs on a vehicle can bring in at least four to five deals per year. Signs should be placed in the neighborhoods you are targeting. Send postcards and flyers. Don't use black writing on white backgrounds. Instead, find colored paper, preferably fluorescent colors. Run ads in the paper. Advertise:
  - Quick closing
  - We provide immediate debt relief
  - Little or no equity – okay
  - Having trouble making your payments? We will buy your home or make your payments for you
  - Behind on payments? I can help!
  - Foreclosure okay
  - Free Report (can be as little as one page)

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- Fast – Free – Immediate relief

Important Note: See sample flyers, signs, and ads at the end of this chapter!

WORKING WITH THE MOTIVATED SELLER

When the owner calls, you will determine what kind of deal this is. When you receive calls from your ads and signs, you may find this is an "ugly" house even though the signs were placed in nice neighborhoods. Maybe this could be a wholesale deal if there is enough equity. Maybe the person is in pre-foreclosure and now you are doing a pre-foreclosure deal. Or if we find that the seller isn't willing to sell to us at a significant discount, we can offer our lease option program. The point is you will be determining just what kind of deal this is from the information the seller gives you.

Here's how it works: First, we will determine if the seller is motivated and willing to sell at a substantial discount. We'll start by introducing ourselves and our services and finding out about the seller's situation.

"Thank you for calling. My name is _______ and my company provides full service real estate solutions for any and all of your real estate needs. Who am I speaking with? (Address them by their first name after this.) Are you the owner of the property? Frank, in case we get disconnected, can I get a good contact number to call you back? How did you hear about us? Do you have a few minutes so I can ask you a few questions? First of all, tell me a little about yourself, Frank, and your situation."

Your goal is to uncover the seller's circumstance. Empathize with them. Remember, most of the sellers you will work with will need to sell their home. They are having personal problems and need your help. Be a problem solver. Let them know you can probably help. Make it a win/win situation.

Help them understand you purchase homes just like theirs from banks, private individuals, and other sources on a regular basis. Emphasize that their situation is not unique and you have the ability and stability to make their payments as part of your lease option program. This is important for them to know. They need debt relief and you can help them.

Get as much information from the seller as you possibly can while you have their attention. Try to make them feel

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comfortable. Calling you can be a difficult thing for them to do. Or if it makes you feel more comfortable, use the following questions to move the conversation along (a Property Information Sheet is provided at the end of this chapter that will be helpful in recording answers to these questions).

1. Where is the property located?

2. How long have you owned the property?

3. What is your reason for selling? (Listen carefully for motivation.)

4. What have you tried at this point to sell your property?

5. Is the home listed with a Realtor?

6. How soon do you want to sell? Close? (What they say here can give you an idea of their motivation.)

7. What is your asking price? Are you willing to owner finance at that price?

8. How did you arrive at that price? (Have they had it appraised recently or had a CMA – a Comparative Market Analysis – done by a Realtor? Do they know what other houses are selling for in the area?) … or, In your opinion, what is the appraised value of your property?

9. Do you have any mortgages on the property or is it owned free and clear?
   a. What is your mortgage balance? If they are reluctant to tell you, tell them: *"I am here to help you and am willing to make an offer today. But in order to make an offer that works for you and me, this is something I need to know."*
   b. What is your monthly payment? Let them know, *"I need to know if this is in line with market rent. Does that include taxes and insurance?"*
   c. Are your payments current? If they are not, how many payments have they missed? Has the bank started foreclosure proceedings? If they are in default, ask for them to have a copy of the notice they received from the lender when you arrive.
   d. Do you have any other liens on the property?

10. Tell me about your property

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a. Number of bedrooms
b. Number of bathrooms
c. Square footage
d. Construction type
e. Year built
f. Is the property vacant or occupied?
g. Is it a single family, duplex, or multi-unit?
h. Ask about the exterior of the home. Does it have a garage or a carport?

11. What, if any, repairs are needed? How much do you think it would cost to get the property fixed up?

12. If the property is rented, you need to know how much rent is collected. If it is vacant, ask, *"Now how much did you say you needed* (not wanted) *in rent?"*

13. Based on the information you receive, this question may apply: If I can provide immediate assistance with no cost to you, would you sell the home for what you owe on it?

Also, be sure to get all the contact information you need from the seller. Remember that the property address may not be the address where the owner lives. Make sure you get the owner's address and as many contact phone numbers as you can (home, cell, and fax number).

This should take no more than five to ten minutes. At this point, you will know just how motivated the seller is, and you may be able to make an offer.

If you have determined it is a wholesale deal or pre-foreclosure, you will use the techniques you have learned to complete those types of deals. Or you may wish to use the following script to see if the seller will work with you on a lease option.

If you are not comfortable going further on this, let them know you will need to evaluate this information and will call them back with what you can do to help them. You will still need to know the market value as we already talked about. If you are not sure, get the comps. If you have already figured out the value of properties in that area, then you are ready to go!

Lease option script to use with the seller
Always discuss motivation before money! If the seller's response to the motivation analysis reveals that we cannot purchase the property based on the seller's inability to sell to us

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at a significant discount, then we say:

"Normally we buy houses one of two ways: Either all cash at a discount or with our lease option program.

I hope you can appreciate the fact that we can't pay you cash for your property because you are unable to give the discount we would need to make a profit. However, that doesn't mean we can't buy your property.

One thing that may work is our lease option program where we guarantee to make your monthly payment for an agreeable period of time and then pay you close to the full amount of your asking price. Does that sound like something you might be interested in hearing more about?"

At this point, they will either want to work with you and have you come and look at the house, or they will be reluctant or want to think about it. If they are interested, set an appointment to meet with the seller at the property as soon as possible. If they hesitate, let them know they can think about it and if they are interested, to call you back. Don't waste time with a seller who is not motivated!

Preparing to meet with the seller

- Get there early and study the neighborhood
  - Make sure the neighborhood is desirable for a family to live – is it well cared for?
  - Take notice of homes and businesses in the area

- Check the exterior of the house
  - Look for things that will make this house unattractive to a tenant/buyer
  - If ugly, call and cancel the appointment – don't waste your time

Meeting with the seller

- Ask the owner to take you on a tour of the house
  - Introduce yourself – would you do me a favor and show me your house?
  - Build rapport – notice nice things in the house; praise the house
  - Notice things that need to be repaired or replaced – we want it in good condition. With a clipboard in hand, when you see a problem, stop and write it down – the seller will notice

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- Compare what you see with what the seller told you over the phone

- If there are problems with the house, say:

  "You have a lovely home. However, there are some things we need to address before we can put it into our lease option program. (Such as...)"

- If the property is beautiful, say:

  "I've got some great news. You have a lovely home that would fit nicely into our lease option program. Let's sit down so I can discuss with you exactly how the program works.

  What we do is purchase nice homes just like yours by guaranteeing a long-term lease with an option to purchase by an agreed upon date and at an agreed upon price. This program allows us to pay you much closer to your full asking price while providing you with solutions for your immediate and future financial needs.

  We have a list of carefully selected families who are looking to own a nice home like yours but unfortunately, they lack the ability to do so without a little help. The families we work with are unable to purchase a home because they either have no credit, some bumps in their credit, or they lack the 20% down payment that most conventional lenders require for them to buy a home.

  What we do is carefully screen these families to make sure they are potential owners and not renters. It is our experience that owners take pride in their home and maintain it at much higher standards than renters, and I am sure that you would agree.

  The reason this program has been so successful for us is because it creates a solution where everybody wins."

THINGS TO AGREE ON WITH THE SELLER

Price

"You know, the first thing we have to agree on is price. As I mentioned on the phone, we don't have to have a huge discount, but we can't pay retail. How much do you have to have?" You need to have a price. Once price is agreed upon,

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write it down.

Lease option term length
"How long would you like us to make your payments and keep it in good condition?"

You want to get as long as possible. If they ask, *"how long is normal?"* Say: *"The length of time that we need to pay for the house in full varies on an individual deal basis, however, we normally like 60 months. Will that work for you?"*

You are looking for at least 36 months. Ask for more, but be willing to settle for less. If they say they won't go longer than 24 months, ask, *"How about if we do it for 24 months with the right to extend for 12 months? Will that work?"* Write down the agreed upon timeframe.

Payment amount and when you will start making payments
Your monthly payment has to be at or below average market rent to create a monthly spread for cash flow. Try to defer payments as long as you can.

"We would like to put your property into our program and make our first payment in 60 days."

If they object: *"The reason we need 60 days is because we need to find a qualified buyer. We don't want to stick just anyone into your home. We need to screen them."*

Once you have agreed on the three things (price, term, and payments), you are going back to the office to do the paperwork.

"I'll turn this paperwork in and get the contracts drawn up. I'm going to take this information back to the office. Can we meet tomorrow night?"

Now you can go back home and prepare the paperwork. The first contract you write up will be the hardest one you will ever do. But by doing this at home, you will have time to think of what you want to do.

Once you start making offers, you'll soon find that the contract will be easy for you. You may even find yourself keeping extra blank contracts in you car to complete on the spot.

However, for now, if you need an attorney's advice or help in drawing up the contract, this will give you that opportunity.

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CONTRACTS AND DOCUMENTS TO USE AS THE BUYER IN A LEASE OPTION

The contract you will want to use as a buyer is the Residential Lease with Option to Purchase Contract. It is one contract versus the two contracts that you will use as a seller – an Option to Purchase Contract and a Residential Lease Agreement Contract. Contracts and documents you will use (samples of some of these are included in the manual):

Property Information Sheet
You should have already completed a property information sheet as you talked with the seller at his or her house.

Authorization to Release Information
The owner's signature on this authorization allows you to contact the owner's lender or insurance company.

Letter of Instructions to the lender/title/escrow
This informs the lender as to why the payments and coupons are to be sent to a different entity.

Residential Lease with Option to Purchase
Included in your manual is a sample Residential Lease with Option to Purchase Contract. You will notice that the lease agreement is for one year with the right to extend the term four times for a total of five years. If the seller agrees to a longer timeframe, you may want to put that number in instead of one year. Look at item 24. That is a protection to you if you do not find a tenant buyer. You can back out of the contract and receive all of your money back. You will want to put at least 20 business days to give you a full month. If the seller cannot vacate the property that quickly, adjust the contract accordingly. Do not record this document unless your seller is not living up to the terms agreed upon in the contract. By recording this document, you may trigger the due-on-sale clause.

Memorandum of Option
This document will give you first right of refusal and prevent your seller from trying to sell the property out from underneath you to another buyer or to further encumber the property. It also protects your equity if the property goes to foreclosure. A Memorandum of Option signed by you and recorded clouds the title. If it is signed by both parties and notarized, it carries more weight! Once a Memorandum of Option is recorded, any new liens placed on the property will be in junior position.

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Assignment of Option
This document is used to assign all rights and interest of the option from the seller to the buyer. This will allow you to assign your option to your tenant/buyer when they exercise their option.

Addendum to Lease/Lease Option Agreement
This is optional. It would be used if there were changes to be made to the monthly payment because of rising cost to the seller. For example, it allows changes to be made to the monthly payment based on increases in the taxes, insurance, homeowner's association fees, etc. You would probably not want to use this document as a buyer.

Exercise of Option
Use this form when you want to exercise this option.

A Contract for Sale and Purchase
This is to ensure that if the owner were to die, you would be able to still exercise your option to purchase the property.

Sellers Disclosure
Have the seller fill this form out to disclose if the property has any problems.

Important Note: Be sure you contact your local real estate professional or real estate lawyer to research the appropriate documents that are required for all real estate transactions in your state.

BULLETPROOF YOUR OPTION WITH YOUR SELLER

What protection do you have if the seller doesn't live up to the terms of the contract? How can you add protection to your option?

Record the Memorandum of Option
We have already discussed recording a Memorandum of Option. It will put a cloud on the title. If it has been signed and notarized by both the buyer and seller, it will carry more weight.

The seller can still sell the property if there is a Memorandum of Option recorded, but any buyer purchasing the property will have evidence that the title is clouded. Most likely that would discourage a buyer from purchasing the property. If the buyer did purchase the property, he or she would have to honor your option. There is always the chance that the buyer may try to not live up to the terms of the contract and you would have to take him or her to court.

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Record a mortgage or deed of trust

You may want to also consider recording a mortgage or deed of trust on the property. That may sound strange as you did not go out and get a loan on the property, nor is the owner financing the deal for you.

A mortgage or deed of trust is a security instrument that is used to secure payments on a promissory note. It is a lien, securing collateral for the note. When a buyer signs the mortgage or deed of trust, he is saying, "If I do not perform according to the terms of the note, then you can take back the property." The mortgage or deed of trust obligates one party (in this case, the buyer) on another agreement (such as a promissory note to the lender).

A mortgage or deed of trust can actually be recorded to secure the performance of any agreement, including a lease option. You would be using a Performance Mortgage or a Performance Deed of Trust, which is simply a modified version of a mortgage or deed of trust, to secure your option. You, as the buyer, will now hold a lien to the property. Your position is secured by the lien, establishing that you have an ownership interest in the property. The seller will be unable to sell the property until the lien is taken care of.

If the seller refuses to sell the property to you and is in default of the terms of the Option to Purchase Contract, you potentially could foreclose on the property. Each state may have varying opinions in reference to your position of being able to foreclose (it is always up to the judge's interpretation of the law).

In essence, if you were to start foreclosure proceedings, the seller would then have to go to court to protect his property from being foreclosed on. This is a much better predicament to have the seller in, rather than you having to go to court to force the seller to perform according to the terms of the Option. Also, by placing a lien on the property, it will make any new liens that may attach to the property subordinate to your lien.

Escrow closing documents

What would you do if the seller dies or fades out of the picture? How will you get him to sign the deed? If he died, that is an impossible feat. If he merely vanished, you would have to try to find the owner. Instead of having that become a nightmare for you, you should have your title company or attorney set up an escrow right from the very beginning. The seller will sign the deed (a warranty deed in most states), the Purchase Contract, and the escrow/closing agent instructions to be held in escrow

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until you are ready to exercise your option. When you exercise your option and purchase the property, the title company or attorney handling the escrow will give you the deed, which will be recorded (putting you on the title and making you the owner of the property).

BULLETPROOF YOUR OPTION WITH YOUR TENANT/BUYER

We have already alluded to the fact that you want to make sure you do not give your tenant/buyer any equitable interest. If your tenant/buyer is in default of the terms of the Lease Agreement, you have the right to evict him. If the tenant/buyer wants to stay in the property and goes to court, he may argue he has equitable interest in the property. If the judge believes your lease option is a seller/buyer relationship rather than a landlord/tenant relationship, then your lease option is considered an installment contract, or a contract for deed.

If this were to happen, you would have to foreclose in order to get the tenant/buyer out of the property. We have already discussed how that can be time-consuming and expensive, depending on the state in which you live.

To avoid giving your tenant/buyer equitable interest in the property, you may want to do the following (consult with an attorney for assistance):

Always use two contracts
When you are the seller of a lease option, you want to use two separate contracts: the Residential Lease Agreement and an Option to Purchase Contract with your tenant/buyer. Make sure the lease does not refer to the option.

You pay taxes and insurance
You should always pay the taxes and insurance for the property. If the tenant/buyer pays them, it may appear as a sale.

Always get a security deposit
Since sellers do not get security deposits, whereas landlords do, your landlord/tenant relationship is more secure.

Never give more than a one-year lease option
Never give your tenant/buyer (or any tenant) more than a one-year lease option. If the lease option is to be longer, then give him or her the right to renew up to two times, if it were a three-year option. Sign new Lease Agreements and Option to Purchase Contracts each time your tenant/buyer renews.

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Use correct terminology on your contracts
In some of our examples in this chapter, we have used the word "credit" because it will aid in learning the material and help you remember to "add" those figures in when working on calculations, however do not use the word "credit" in any of your actual lease option contracts/agreements. Instead, use the words "option consideration." Some investors will use "option consideration" instead of "credit," "landlord" instead of "seller," and "tenant" instead of "buyer" in their contracts to help protect them against the tenant/buyer having equitable interest in the property. Consult with your lawyer for help in drafting the appropriate language for your contracts.

FINDING TENANT/BUYERS FOR THE DEAL

First, you will need to start marketing to find a tenant/buyer. Later on, you will have to build a database from the calls you receive and from referrals. Your tenant/buyer will be one of the best to give referrals because they are excited about the prospects of finally being able to purchase a home. As far as they are concerned, they own the house.

Step-by-step marketing plan
The following offers a suggested marketing plan to help you locate your tenant/buyer.

1. Run an ad in the paper under "Houses for Rent" and "Houses for Sale" – Your ad should run Friday, Saturday, and Sunday or Saturday, Sunday, and Monday.

Rent to Own **Good area, Huntersville** **2 story, double car garage** **$1145/month + Deposit**

2. Post signs in the area – "Why rent? Own for less!"

3. Place a "Rent to Own" sign on the property – You will get a lot of calls from people driving through the neighborhood. There may also be neighbors who have family members who need a place to live.

4. Put flyers on bulletin boards – Post flyers in grocery stores, laundromats, restaurants, or anywhere there is a bulletin board that allows public postings.

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5. Send postcards to tenants in apartment buildings or hand out flyers – Get a list from a mailing service or look up addresses of the complexes in a reverse directory from the library or off the Internet. It will not have all the occupants who are living there, only the ones with phone numbers. But in the book form, it will probably have all of the addresses. You can send out postcards offering, "Why rent when you can own?"

When the potential tenant/buyer calls
When they call, you will need to take control of the situation.

1. Get their name and phone number and where they are currently living.

2. Ask them how they heard about you – Now you can track which ad or marketing technique has a higher success ratio. Also, you may have used different phrases in different advertisements and you can see which ones are working better for you.

3. Ask them if they were looking to rent or to buy if you could make that possible for them. If they say rent: *"I'm sorry, but one of the qualifications is that you are looking to buy the house provided you like it."*

   If they are only wanting to rent, don't waste your time; end the call.

   If they say buy or rent to own: *"Great! You've called the right number. How much of a deposit do you have to put toward the purchase of your next home?"*

   You are looking for between 3 to 5% of the purchase price, but if they offer more, say: *"Great! That's just the deposit we were looking for."*

   Otherwise, get their name, number, and deposit amount. Add them to your buyer database. Let them know you will call them when something becomes available that fits.

4. How much of a payment can you afford? – You want to make sure they can afford the rent you will be charging.

5. How much rent are you paying now? – Is there a huge gap between what they are paying now and what they

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say they can afford? You may want to find out why they can afford so much more. Otherwise you may have a tenant/buyer who cannot afford to pay you the full rent each month.

6. Obtain the name and phone numbers of present and previous landlords – Never just get the number of the present landlord. They may want to get rid of the tenant. The previous will be more truthful.

7. How many people will be living with you? How many bedrooms do you need? – Is the home large enough for their family?

8. What area are you looking to buy in? – If you don't have any properties available in that area, let them know: *"I don't have any properties in that area right now, but I should soon."* Look in that area and start calling to see if you can work out a deal.

9. Put all their information into a database, including name, telephone number, deposit amount, payment they can afford, names and contact information for present and previous landlords, number of people, and bedrooms needed.

Now you can give them the property address and have them drive by and look at the house and the neighborhood. You do not want to waste time driving over to the house only to be stood up because they did not like the area. Tell them you are taking a lot of calls on the property, so if they are interested, they need to call back as quickly as possible.

MEETING WITH YOUR POTENTIAL TENANT/BUYER

When your potential tenant/buyer calls back with a favorable response after taking a look at the property, arrange a time to meet each other at the property. Tell him or her to bring a checkbook because you will be collecting a deposit.

There are two approaches that investors like to use when meeting a tenant/buyer at the house.

First approach – personal showing
You schedule a time and meet them at the house. The last thing you want to do is give them a sales presentation. Open the house and invite them inside to take a look: *"Feel free to*

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walk through the house; I'll be in the kitchen." When they come back in, close your newspaper and look up; they will feel compelled to tell you what they liked about it. If they don't say anything, you can say, *"Great house – what do you like?"*

If they say, *"It's great! How much is the deposit?"* You say: *"How much are you prepared to give me today to hold the property?"* They will usually give you more than what you would have asked!

You should consider looking for at least $1,000. If they offer less, say *"I can't hold the house for that – normally we collect $1,000."*

Second approach – open house
Schedule a time that you can be at the house for an "open house." Tell each of your potential tenant/buyers to meet you at that same time and how much deposit to bring.

Let everyone walk through the home at the same time. This can create a bidding war. Don't follow them around! Wait in the kitchen as discussed before.

Or you can arrive a few minutes late. You should have several people anxiously awaiting your arrival. You will have a clipboard with a list attached of those who have called. You will have blank rental applications under the list. Look at the list you have compiled and call out the first name on the list. Take the person or couple that answers to the name through the house. Have them fill out the rental application and collect a deposit that will be refunded if you do not lease the house to them. If they do not want to give you a deposit, throw their application in the trash. You want serious buyers. After you have finished with the first person, call the next name on the list and do the same thing.

No matter which approach you decide to use, once you have the deposit, cash the check at their bank. The remaining deposit will be collected when paperwork is signed. You will then give the keys and possession of the property to the tenant/buyer.

HOW DO I QUALIFY THEM?

Let the mortgage broker help you "pre-qualify" your new buyer/tenant. Once you have the rental applications, give them to the mortgage broker on your team that specializes in loans for people with bad credit. Ask the broker if it looks like they will be able to qualify for a loan within the next year or two. Remember

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that their credit may be terrible now, but they may qualify later if they work hard to not have any more late payments. Your broker will have an idea if that is possible. And, of course, if they are doing a lease option, it will give them a better chance of being approved for the financing.

What do you do if they have horrendous credit? You don't have to lease option the property to them. But if they are the only interested buyer for the property and you are willing to give them a chance, you may want to ask for a larger deposit.

Since the consideration money is non-refundable, you should explain to them that your mortgage broker does not think they will be able to exercise their option and purchase the property at a later date because of their credit. You may even want to have them sign a document stating that they understand the implications of losing the consideration money. Use caution, as you don't want to have to go through the trouble of evicting a tenant because they are in default of the lease agreement.

You will also want to talk to their current and previous landlords, check out their references, and verify employment. If you feel you don't know how to do this, you can hire a service to do it for you.

CONTRACTS AND DOCUMENTS TO USE AS THE SELLER IN A LEASE OPTION

Rental Application
Get as much information as you can to determine if they are going to be able to qualify for the property.

Authorization to Release Information
You want the authorization to have their credit checked. This is a huge determining factor as to whether or not this buyer will be able to perform and exercise the option.

Residential Lease Agreement
You are using two contracts when you are the seller in a lease option. The first is a Residential Lease Agreement and the second is an Option to Purchase Contract. The reason you use two as a seller is to not give your tenant/buyer any equitable interest in the property. If the tenant/buyer ever defaults on the terms of the lease agreement, you can evict them and the option becomes null and void.

If they have equitable interest in the property and you try to

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evict them, and the tenant/buyer fights the eviction and takes you to court, the judge may rule that because they have equitable interest in the property, you cannot evict them. You are now faced with having to foreclose to get them out.

In some states, foreclosure can be lengthy and costly. It is advisable that even if you are offering a two-year lease option, that you put into the contract a one-year option that can be renewed for one more year if the tenant/buyer has made the lease payment on time each month. The reason you want only a one-year option is because if you have to evict the tenant/buyer and you go before a judge, the judge may attack the validity of a lease greater than one year. The judge may see it as you actually carrying the financing in the case. Again, you would have to foreclose to remove the tenant/buyer. You will need to get a deposit in addition to the consideration money to keep the landlord/tenant relationship in check.

Option to Purchase Contract

This is what makes it a lease option. Without the option contract, you have simply entered into a lease agreement. The option gives your buyer the right to purchase the property, but not the obligation. It is what makes this transaction a lease option or "rent to own." If the lease agreement is not fully executed, such as payments made on time, the option becomes null and void.

Option to Purchase Disclosure

This disclosure is a protection for you. It basically states the tenant/buyer has been made aware that there are legal and financial implications to the lease option and that he/she has been advised to seek legal counsel. It also states they are aware that if they default on the lease agreement, the option is void and they have no rights to the property. It further states that they will not receive money back except for their deposit. It states that the landlord has not made any representations or disclosure "as to the property, its ownership, the condition, the neighborhood, or the value of the property." This is a powerful document to protect you.

Addendum to Option to Purchase Contract

This contract states the option consideration is non-refundable and states what terms the tenant/buyer has to adhere to in order to get the deposit back.

Addendum to Lease/Lease Option Agreement

This is an optional contract and should only be used in cases where you as the seller may need to have some of the terms

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changed at a future date (such as the lease payments being raised because you anticipate you will incur rising prices on property taxes or rising interest rates on a loan that does not have a fixed rate). This is usually only used if you have actually purchased the property. Most of the time, you will not have any need to use this addendum.

EXAMPLES OF HOW TO MAKE MONEY IN A LEASE OPTION

You are probably thinking, “Show me how I make money!” So let’s take a look at some examples.

Example #1

You negotiate to pay the seller $235,000. The house is worth $250,000 and you have a one-year option. The houses in the area are appreciating at 5% per year.

The seller wants $1,100 per month, but will credit you the full $1,100 towards the purchase price.

You sell the home to your tenant/buyer for $262,500 (5% above the $250,000 market value) on a one-year lease option. You want $1,500 per month, of which you will give a credit of $600 per month (40%). How much profit do you make?

Example			
	Seller Receives	You Receive	Tenant/Buyer Pays
Purchase Price	$235,000	$262,500	$262,500
Consideration	$100	$5,000	$5,000
Rent	$1,100/month	$1,500/month	$1,500/month
Credit		$1,100/month	$600/month

Let’s see what everyone makes.

The seller at closing receives the purchase price of $235,000 + consideration of $100 minus monthly credit of $13,200 ($1,100 X 12) for a profit of $221,900 minus any liens on the property.

You received $5,000 consideration from your tenant/buyer. You paid $100 consideration to the seller. You had a profit up front of $4,900! (Great competition for a wholesale deal.)

Then, each month, you collected $1,500 from your tenant/buyer and paid $1,100 to the seller for a profit of $400 per month. You had a positive cash flow of $4,800 per year! (This is excellent

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competition for rentals.)
Next, at closing, you receive the difference between your tenant/buyer's purchase price of $262,500 and the $235,000 you pay the seller minus the rent credit of $7,200 and the option consideration credit of $5,000 that you give to your tenant/buyer. You are also given rent credit of $13,200.
Your profit at closing is $28,500. That is money you made at the back end of the deal. (No rehabbing, but great profit!)

Your total profit is $38,200.

Can you see how a lease option can beat a wholesale deal, a rental, and a rehab deal? Let's do another example.

Example #2
You find a house worth $180,000. You get a four-year lease option to purchase it for $168,000.

You have less than 10% equity in the home! But properties in your area are appreciating at 8% per year.

Your payments are $1,050 per month. You pay the owner $500 in consideration money.

You find a tenant/buyer to purchase the home for $200,000 (based on a current value of $180,000, the home will be worth $208,372.50!) on a three-year option.

Your tenant/buyer's payments are $1,400 a month. You collect $8,000 non-refundable option consideration money.

Example			
	Seller Receives	You Receive	Tenant/Buyer Pays
Purchase Price	$168,000	$200,000	$200,000
Consideration	$500	$8,000	$8,000
Rent	$1,050/month	$1,400/month	$1,400/month
Credit		$200/month	$200/month

At closing, the seller receives $168,000 plus $500 consideration collected earlier minus $7,200 ($200 X 36 months) rent credit = $161,300 minus any liens on the property.

You receive $8,000 consideration from your tenant/buyer minus $500 consideration money you pay to the seller, for a quick profit of $7,500! (Think wholesale.) Each month, you

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receive $1,400 per month in rent and pay the seller $1,050 for a profit of $350 per month and a total of $12,600 after three years! (Think rental income.)

At closing, you receive the difference between your purchase price of $168,000 and the $200,000 your tenant/buyer pays to you minus $5,000 consideration money and $7,200 rent credit. Your profit at closing is $19,800. (Think retail - same profit as many rehab jobs.)

Your total profit is $39,900 ($7,500 + $12,600 + $19,800).

And that was on a home that did not even have 10% equity!

As you can see, lease options work great even if there isn't much equity. You created the equity by asking tomorrow's value.

It is imperative that you keep up with property values and the appreciation for your area. Remember that certain neighborhoods may increase in value faster than others.

Become a real estate expert. Pay attention to what is going on in the areas you are farming. Talk to city planners, Realtors, and appraisers. Ask them questions that will help you become familiar with the real estate environment.

You need to know what is happening economically. All these things will affect not only the value of the properties, but the appreciation as well.

Example #3
Lease options can work on multi-unit properties. You may want to buy with a lease option and just collect rents and exercise your option to purchase it before the time period runs out. Or you could do a sandwich lease option.

For example, let's say you find an 8-unit complex. The seller is a tired landlord and is willing to sell the property to you on a three-year lease option for $320,000. You feel the property is worth $375,000.

The seller has been collecting rent of $500/month per unit even though the going rents in the area are averaging $560 per month. You agree to pay him $2,800 per month. He wants $1,000 option consideration money. Multi-units are appreciating at 5% per year.

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You find a tenant/buyer who is willing to pay you $400,000 for a two-year option. You want $3,200 per month and $15,000 consideration money.

Example			
	Seller Receives	You Receive	Tenant/Buyer Pays
Purchase Price	$320,000	$400,000	$400,000
Consideration	$1,000	$15,000	$15,000
Rent	$2,800/month	$3,200/month	$3,200/month
Credit		No credit	No credit

At closing, the seller receives $320,000 plus the $1,000 consideration money collected earlier for a profit of $321,000 minus any liens on the property.

You collect immediate cash of $15,000 in consideration money minus the $1,000 you paid to the seller for a profit of $14,000! (Quick money like wholesale.)

Each month, you receive a positive cash flow of $400 without any of the headaches of being a landlord for a total of $9,600 after two years. (Beats doing rentals!)

At closing, you receive the difference between your purchase price of $320,000 and the $400,000 that your tenant/buyer pays to you minus $15,000 consideration money that is credited to your buyer.

Your profit at closing is $65,000. (Do you think you would rather do this than rehabs?)

Total profit is $14,000 + $9,600 + $65,000 = $88,600!!

Let's do one more!

Example #4
You find a distressed seller who is willing to sell you the house for $50,000 if you will just take over the payments. Houses in the area are selling for $57,000.

You give her $100 consideration and your rent each month covers her payment of $350. You have a five-year option to purchase the property. Properties in the area are appreciating at 7% per year.

Notes

You find a tenant/buyer who will pay your $65,000 asking price on a two-year option. You collect $3,000 consideration money and rents of $700 per month with $200 as credit towards the purchase price.

Example			
	Seller Receives	You Receive	Tenant/Buyer Pays
Purchase Price	$50,000	$65,000	$65,000
Consideration	$100	$3,000	$3,000
Rent	$350/month	$700/month	$700/month
Credit		No credit	$200/month

At closing, the seller receives her $50,000 asking price minus $100 consideration credited towards the purchase.

You get $3,000 from your buyer in consideration money minus the $100 you gave the seller for a profit up front of $100. You receive a positive cash flow of $350 per month for a total of $8,400 after two years.

At closing, you receive the difference between your purchase price of $50,000 and the $65,000 your tenant/buyer pays to you minus $3,000 consideration money that is credited to your buyer and $4,800 rent credit. Your profit at closing is $7,200.

Your total profit for the deal is $18,500.

This is on a house that had only $7,000 in equity!

Let's put a twist on this scenario. After two years, your tenant/buyer gets a job transfer and moves out of state. He gave you enough notice that as he was moving out, your new tenant/buyer was moving in. Let's keep things simple and leave the terms the same. $65,000 purchase price, two-year option (you still have three years left on your five year option), $3,000 consideration and $700 a month rent with $200 being credited towards the purchase price.

After two years, your new tenant/buyer exercises her option and purchases the property. Let's see how the numbers work out:

You receive $3,000 up front from your first tenant/buyer minus $100 you gave to the seller. You collected an additional $3,000 in consideration money two years later from your second buyer

Notes

At closing, you receive the difference between your purchase price of $50,000 and the $65,000 your tenant/buyer pays to you minus $3,000 consideration money that is credited to your second buyer and $4,800 rent credit.

Your profit at closing is $7,200.

Now let's see what your total profit would be. You receive a total of $5,900 up front ($3,000 from your first buyer minus your $100 consideration money and $3,000 from your second buyer) + rents of $16,800 and $7,200 at closing for a total profit of $29,900!

The benefit of having a tenant/buyer not exercise their option is that you can keep their option consideration money. If the second buyer couldn't buy it and you had another buyer for one more year (since you had a five-year option), you could make even more money.

Lease options work for fixer-uppers, too!
Let's say you find a distressed property that you want to purchase, fix up, and sell. You don't have the money for the down payment and are also concerned about all the fees you would have to pay in order to get financing. One solution would be a lease option. For a minimal amount down, you can gain control of the property, rehab it, and then turn around and sell it.

Suppose you find a property that is really "ugly" and you don't like to do major rehab. Maybe you want to do the deal, but you are just too busy and don't have the time required to rehab the house. Or perhaps you may have just decided after learning about lease options that you never want to fix up a property again! What are your options? One option is to do a sandwich lease option on a fixer-upper. You just market that you have a distressed property to find the tenant/buyer who is looking for this kind of deal.

Needs Rehab! Rent to own, $0 down, you fix. Phone #

Investor special! Sweat Equity for down. Phone #

Be sure your lease agreement stipulates that the tenant is to complete the work before he or she moves in and periodically check on the property to see how things are progressing. If the house is livable and just needs a little fix-up, you could go ahead

Notes

and let your tenant/buyer move in. If you do, you will want something in writing concerning the terms both of you have agreed to. Additionally, you might want to calculate how many repairs are to be accomplished each month. The repairs would be on a list with a completion date next to each repair. You would check every month to see that the repairs were completed and initial both your copy and your tenant/buyer's copy. If the repairs are not finished by the completion date each month, then your tenant/buyer will be in default on the terms of the lease. You may want penalties such as a given amount paid extra because they are in arrears of accomplishing the tasks of repairs rather than evict them. Either way, you will want an ironclad lease agreement that has been approved by your attorney.

Many investors also use the lease option to "fix" a mistake they made. They may have bought a house to rehab, but find they underestimated the repair work and holding time. Now it's winter, the market has slowed down, and they need to unload the house. They've already taken a big hit on their profit and will lose even more money if they have to wait four to five months longer to get the house sold. By using a lease option, they can sell the house quickly and for top dollar.

Everywhere in America, there are people desperately wanting to purchase a home, but because of credit issues or new jobs, they cannot qualify. You can solve their problem and make money!

To illustrate the profit potential, let's look at three ways to buy a house with a fair market value of $110,000! In the following example, NOI is Net Operating Income.

Buy & Rent	Buy & Lease	Sandwich Lease Option
$875 rent	$1,100 rent	Collect $1,100 pay $750 rent
$10,500/year rent	$13,200/year rent	Make $350/month x 12 = $4,200
-5% vacancy	No vacancy	No vacancy
-5% repairs	No repairs	No repairs
-$2,500 taxes	-$2,500 taxes	No taxes
-$300 insurance	-$300 insurance	No insurance – additional insured
-$450 water	-$450 water	No water
-$1,800 heat and lights	No heat and lights	No heat and lights
$4,400 NOI	**$9,950 NOI**	
-$7,509 mortgage	**-$7,509 mortgage**	
-$3,109 negative cash flow	**$2,441 positive cash flow**	**$4,200 positive cash flow**

Notes

We hope you are excited about the income potential of lease options and sandwich lease options. A sandwich lease option is creative financing for both the buyer and the seller!

13 STEPS TO BEING SUCCESSFUL IN LEASE OPTIONS

1. Get into the property with very little money
   a. No big deposit to seller
   b. No repairs
   c. No Realtors

2. Only do lease options in highly desirable neighborhoods
   a. $75K to $220K in most areas – work in 75% of the median sale price and higher
   b. Be aware of what the market rent is
   c. Make sure you can rent it to cover your payment to the seller

3. Know the value of homes in your target neighborhoods
   a. Find out what homes are selling for
   b. Blow up a map for your target neighborhoods
   c. Get the comps and put the numbers on your map

4. Have time to find your tenant/buyer
   a. Try to make the date you start making payments be a minimum of 30 days after the seller vacates the property, but preferably get 60 days

5. Have a long enough agreement with the seller
   a. The lease option contract with the seller should be at least 36 months, but preferably try to get a 60-month timeframe (remember you put a date, not how many months, in the contract)

6. Have the title checked
   a. Order a preliminary title search (you are looking for any liens or judgments that would prevent the conveyance of the property)

7. Record a Memorandum of Option
   a. Memorandum – There is an option to purchase this property; if more information is needed, contact (your name and #) – If both you and the seller sign the Memorandum of Option before a notary and record it, any lien attaching will be in junior position to your option

Notes

8. Do not lease option small houses under 1,000 sq feet
    a. It limits the number of tenant/buyer prospects (a 3 bedroom/2 bath is preferred)

9. Do lease options in your company's name
    a. Gives credibility/asset protection
    b. Corporation or LLC

10. Have the seller change his insurance policy
    a. The policy should be changed from an owner occupied to non-owner occupied/landlord policy
    b. If the owner-occupied insurance policy remains in place and it is now a non-owner occupied property, the insurance company will likely not pay a claim
    c. Try to be listed as an additional insured
    d. Be sure to recommend a tenant policy to your tenant/buyer
    e. Give a letter explaining to the tenant their need to be insured
    f. If the seller does not want you on the insurance policy, tell him: *"We are not talking about taking you off the property; we are talking about putting us on – we do have an interest in it!"*
    g. If the seller still won't put you on the policy, tell him you will have to wait one more month to make the payment

11. Try to make seller's payment directly to the lender
    a. Get a copy of the payment coupon book and have the seller do a change of mailing address to your Post Office box
    b. Have the seller sign the Letter of Instructions to the Lender
    c. Get an Authorization to Release Information Form signed
    d. If the seller objects to you making payments to the lender, be sure to let the seller know that it is company policy to never make payments if the seller isn't paying the loan (but you can keep collecting payments from your tenant/buyer)

12. Don't do repairs
    a. To seller: Anything under $500, you don't have to worry about; anything major, you will be responsible for.

Notes

   b. To buyer: This is your house. Because of this, anything under $500, you will need to take care of. However, we realize this is still not in your name yet, so you won't need to worry about anything over $500.

13. Always give yourself the right to extend for another year or more

HOW TO DO A LEASE OPTION

1. Market your business – Get people calling you!
   a. Tell everyone what you are doing
   b. Place ads in the paper
   c. Use signs, flyers, postcards, and magnetic signs

2. Screen the seller – Determine what kind of deal this is
   a. How much are the payments?
   b. How much do they owe?
   c. What is the condition of the house?
   d. Why are they selling?

3. Screening will determine if it is a lease option
   a. Not a lot of equity
   b. Payments are current
   c. No repairs
   d. Market rent to payment ratio – Market rent will cover payment

4. If it looks like a lease option
   a. Go to the script: "However, one thing that might work is our lease option program"

5. If they say yes
   a. Go look at the area
   b. Inspect the neighborhood
   c. Inspect the property

6. If it looks good
   a. Keep appointment
   b. If it doesn't, do not proceed; cancel the appointment!

7. Have the seller take you through the house
   a. Use a clipboard to write down any repairs
   b. Settle on three things: price, timeframe of L/O, and payment start date

Notes

8. Reach an agreement – Get the paperwork done
   a. Property Information Sheet
   b. Authorization to Release Information
   c. Letter of Instruction to the Lender/Title Escrow
   d. Residential Lease with Option to Purchase
   e. Memorandum of Option
   f. Assignment of Option
   g. Addendum to Lease/Lease Option Agreement
   h. Exercise of Option
   i. Contract For Sale and Purchase
   j. Sellers Disclosure
   k. Prepare to open up escrow to hold the signed deed, purchase contract, escrow instructions

9. Title work ordered

10. After paperwork done – Find your tenant/buyer

11. Advertise – Rent to own

12. Screen tenant/buyer
    a. Rental application
    b. Authorization to Release Information

13. Complete paperwork with tenant/buyer
    a. Rental Application
    b. Authorization to Release Information
    c. Residential Lease Agreement
    d. Option to Purchase
    e. Option to Purchase Disclosure
    f. Addendum to Option to Purchase
    g. Addendum to Lease/Lease Option Agreement

14. Collect tenant/buyer consideration money and collect rent

POINTS TO CONSIDER

Lease options provide another great opportunity for you to make money and be successful in real estate.

A lease option is a multi-profit center. You can get quick cash from the consideration you collect up front just like investors who wholesale properties. Plus, you can have a positive cash flow, sometimes more than if you had purchased the property and rented it out. And you can make even more money when the option is exercised, without all the headaches and risks that are associated with doing rehabs.

Notes

Lease options can be done in almost every market in the country. There are always going to be people who are having personal challenges in their lives and need debt relief and they are always going to be looking for a solution.

Sometimes their situation may seem hopeless as they have no equity in the property. They can't sell the property because they cannot pay the Realtor or closing costs. Or they don't have time to wait for a Realtor to sell the property. They are struggling to find the money to pay the mortgage each month. They are falling farther and farther behind. They feel a deep sense of urgency to get rid of the payments that are weighing heavily on them. They need help now!

You can solve their problems and help them! Use a lease option to turn a bad circumstance into a win/win situation.

ASSIGNMENT

The following is a suggested assignment.

1. Call at least 10 Houses for Rent or FSBOs that have been on the market a long time.
2. Make copies of questions to ask.
3. Drive 10 blocks each way looking for houses for rent.
4. Use an Internet search engine to look for houses for rent. You will find a lot of websites.
5. Create a website to market what you do.
6. Put "Rent to Own" on business cards, posters, signs, etc.
7. Advertise in the newspaper: "I will buy your house or make your payments."

SAMPLE CAR MAGNET ADS

(Your Name) Buys Houses Cash or Terms 232-555-9969

We Buy Houses CASH or Terms 490-555-0932

We Buy Homes Any Area/Condition Cash or Terms 404-555-9459

Selling Your House? Talk to us FIRST 566-555-2344

SAMPLE NEWSPAPER ADS

3224 Real Estate Finance / Services

I'll Buy or Lease Your House
Within 48 Hours or Tell You Why
No One Else Will
Ask for Gary 800-555-1234

We'll Buy Your Home Today!!!
Don't Make Another Payment
Ask for Pat 800-555-1445
Or visit our website @
www.mywebaddress.com

Do You Own An Unwanted Home?
Free Consultation
Sell Today
Call Dave 800-555-1258

Jenny Buys Houses
Immediate Debt Relief
Locally Owned and Operated
800-555-6584

3231 Wanted Real Estate

Payment Assistance
We Buy and Lease Houses
Don't Delay, Call Today
Bryson 800-555-6598

Behind on Payments?
Need Immediate Help?
Call today for free consultation
800-555-8755
Or visit our website for
information on how we
can provide you with
hassle free help!
www.helpisontheway2u.com

Area Specialist Buys Real Estate
Little or No Equity OK
Cash or Terms
Prices Quoted By Phone
Dana 800-555-6999

Corporate Leases Needed
Your Home May Qualify
Don't Make Another Payment
Ask for Perry 800-555-2475

3231 Wanted Real Estate

Can't Sell Your House?
Behind on Payments? Little or
No Equity? I can Help!
Call Jordan 800-555-8852

Free Report
How to Sell Your Home in
3 Days or Less!
Any Area or Condition
Jack 800-555-8566

I'll Buy Your Home FAST!!!
Here's your immediate solution:

- Fast Closing
- Instant Debt Relief
- No maintenance
- Foreclosure Help
- No Equity? No Problem!
- No Commissions

24 hour FREE recorded message
Call Dave
Toll-Free: 800-555-1488

Your ads should be in the newspaper every day!
(You can't catch any fish if your line is not in the water.)

SAMPLE SIGNS AND FLYERS

Sell Your Home in 3 Days or Less!
No Equity
No Problem
We Can Help!

Call Now for Free Consultation

800-123-4567

www.yourwebsite.com

800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567	800-123-4567

WE BUY HOUSES

WE TAKE OVER PAYMENTS

Insert your phone number
and website address here

Any Price - Any Location

SAMPLE POSTCARDS

WE'LL BUY YOUR HOME

NO

FEES OR POINTS
COMMISSIONS
OBLIGATION

- **PRICES QUOTED BY PHONE**
- **ANY AREA, ANY CONDITION**
- **BEHIND ON PAYMENTS?**
- **LITTLE OR NO EQUITY?**
- **FACING FORECLOSURE?**

DON'T MAKE ANOTHER PAYMENT
SELL TODAY!

800-555-5555
www.yourwebsite.com

WE PROVIDE VALUABLE INFORMATION…
YOU NEVER KNOW WHEN YOU OR A
FRIEND MIGHT NEED OUR HELP!

KEEP THIS CARD!

SAMPLE POSTCARDS

(CONTINUED)

**PUT YOUR PROPERTIES ON "AUTO PILOT"
WITH OUR PERFECT TENANT PROGRAM**

Dear Property Owner:

How would you like all the benefits of investment property ownership without any of the headaches? Our company will lease your property on a long-term basis, guarantee the monthly payments, take over the maintenance, and deal with all of the management headaches! Just tell us where to send the monthly rent check.

For a no-obligation proposal, please call Michael or Patricia at 800-555-5555 or visit our website @ www.yourwebsite.com and never be faced with problem tenants, late payments, vacancies, maintenance calls, evictions, and other management nonsense.

Thank You!
Your Name

SAMPLE PROPERTY INFORMATION SHEET

CONTACT INFORMATION			
SELLER NAME AND ADDRESS:		HOME PHONE: WORK PHONE: CELL PHONE: EMAIL:	
GENERAL INFORMATION			
ASKING PRICE:		HOW DETERMINED:	
REASON FOR SALE:			
REPAIRS NEEDED:			
VACANT OR OCCUPIED:		MOVING DATE:	
FIRST MORTGAGE			
LOAN AMOUNT:		BALANCE:	RATE:
LENDER NAME, ADDRESS, AND TELEPHONE:		ACCOUNT NUMBER:	DUE DATE:
		PITI:	PMI:
		BALLOON:	DUE DATE:
SECOND MORTGAGE			
LOAN AMOUNT:		BALANCE:	RATE:
LENDER NAME, ADDRESS, AND TELEPHONE:		ACCOUNT NUMBER:	DUE DATE:
		PITI:	PMI:
		BALLOON:	DUE DATE:
PROPERTY INFORMATION			
BEDS/BATHS:	SQ. FT.:	LOT:	CONSTRUCT:
GARAGE:	BUILT:	SUBDIVISION:	GATE CODE:
TAXES:	HOA LAST PAY:	HOA NEXT PAY:	HOA DUES:

INSURANCE INFORMATION		
COMPANY:	AGENT:	TELEPHONE:
POLICY #:	PREMIUM:	RENEWAL DATE:
TANGIBLES		
FRIDGE:	MICROWAVE:	RANGE:
DISHWASHER:	WASHER:	DRYER:
OTHER		

SAMPLE AUTHORIZATION TO RELEASE INFORMATION

Date

Lender Name
Lender Address
Lender City, State, Zip

RE: Account or Loan Number:
Borrower Name:
Borrower SSN:
Borrower Name:
Borrower SSN:

To Whom It May Concern:

I/We hereby authorize you to release any and all information regarding my loan, including loan status, interest rate, payoff amount, amount of monthly payment, late charges, penalties and fees (if applicable), and any other information about our account that might otherwise be protected through the Right of Financial Privacy Act of 1978, Fair Credit Reporting Act, or any other federal, state, local, or lender regulations to:

Your Name, Your Title, Your Company Name

It is requested that this information be faxed immediately to: *Your Fax Number*

It is understood that a photocopy of this form or facsimile will also serve as authorization.

____________________________________ ____________________________________
Borrower's Signature Date Borrower's Signature Date

____________________________________ ____________________________________
Printed Name Printed Name

State of ___________________________

County of _________________________

The foregoing instrument was acknowledged before me this ________day of ________, 20___ by John and Jane Seller, who is/are personally known to me or who has/have produced ____ as identification.

____
Notary

(Seal)

My Commission Expires:

SAMPLE LETTER OF INSTRUCTIONS TO LENDER

April 10, 2006

American Lending
Payment Processing
P.O. Box 123
Phoenix, AZ 87555

Re: Loan #123456789
1234 Power Ranch Road
Orlando, FL 12345

To Whom It May Concern:

Please be advised that we have retained a management company in Florida to collect the rents and make the loan payments on the above-described property and loan. The company is:

XYZ Realty
1234 Orange Blvd.
Orlando, FL 12345

Beginning with the check due on July 1, 2006, your check will come directly from XYZ Realty. Please send future statements or notices requiring changes in the amount of the payment directly to them.

Thank you for your help and attention to this matter.

Sincerely,

John and Jane Seller, Owner

SAMPLE RESIDENTIAL LEASE WITH OPTION

THIS AGREEMENT made and entered into on April 10, 2006 by and between John and Jane Seller (landlord/owner), hereinafter referred to as "Lessor", and XYZ Realty (tenant/buyer), hereinafter referred to as "Lessee". Lessors lease to Lessees all the goods and chattels detailed in the inventory designated as Schedule "A" annexed hereto and specifically made a part hereof, and also that certain dwelling house situated at and more particularly described as follows:

1234 Power Ranch Road
Address

Orlando	FL	12345
City	State	Zip Code

Legal Description:

To Be Attached.

Together with all appurtenances for a period of one year to commence on April 10, 2006 through April 09, 2007 with the right to four (4) consecutive terms of the original term with Lessee's notification to Lessor in writing thirty (30) days prior to end of term.

1. RENT. Lessees agree to pay, without demand, to Lessors as monthly rent for the demised premises, the sum of $710.00, in which the payments are due on or before the tenth (10th) day of each month. The first payment will be due on or before July 10, 2006.

2. SECURTIY & OPTION. Upon the execution of this lease, the Lessee's shall pay unto the Lessors, the first month's rent as well as the sum of $100.00 as security for the faithful performance by Lessees of the terms hereof, to be returned to Lessees, without interest, on the full and faithful performance by them of the provisions hereof, plus the sum of $100.00 as down payment for the option to purchase the aforementioned property. This sum is non-refundable.

3. USE. The Lessees shall use the premises hereby leased exclusively for a private residence. Lessees shall be permitted to access the above dwelling for the purpose of showing the property to perspective tenants, contractors, and partners.

4. PERSONAL PROPERTY. All personal property placed or moved in the premises above described shall be at risk of the Lessees or owner thereof, and Lessors shall not be liable for any damage to said personal property, or to the Lessees arising from any act of negligence of any co-tenant or occupants of the building or of any other person whomsoever.

5. COMPLIANCE. The Lessees shall promptly execute and comply with all statutes, ordinances, rules, orders, regulations, and requirements of the federal, state, and city governments and of any and all their departments and bureaus applicable to said premises, for the correction, prevention, and abatement of nuisances or other grievances, in, upon, or connected with said premises during said term.

6. FIRE. Lessee will not allow any items on or in the dwelling, which will endanger the habitants or the premises. That in the event the premises are destroyed or so damaged by fire or other unavoidable casualty as to be unfit for occupancy or use, then the rent hereby reserved, or a fair and just proportion thereof, according to the nature and extent of the damage sustained, shall, until the said premises shall have been rebuilt or reinstated, be suspended and cease to be payable, or this lease shall, at the election of the Lessor, thereby be determined and ended, provided, however, that this agreement shall not be construed so as to extend the term of this lease or to render the Lessor liable to rebuild or replace the said premises.

7. ACCEPTANCE. Lessees hereby accept the premises in the condition they are in at the time beginning of this lease and agree to maintain said premises in the same condition, order, and repair as they are at the commencing of said term, excepting only reasonable wear and tear. Lessee agrees to pay for all repairs costing less than $500.00 each month arising from the use thereof under this agreement, and to make good to said Lessors immediately upon demand any damage to water apparatus, or electric lights or any fixture, appliances or appurtenances of said premises, or of the building, caused by any act of neglect of Lessees, or of any person or persons in the employ or under the control of the Lessees. In the event of any default by Lessor or then in addition to any other remedies available to Lessee at law or in equity Lessee shall have the option to terminate this lease and all rights by giving written notice of intention to terminate, via certified mail.

8. TERMS OF CONTRACT. It is understood and agreed between the parties hereto that time is of the essence of this contract and this applies to all terms and conditions contained herein. Lessees shall have the unqualified right to sublet and/or assign, sell, transfer, and convey any rights which the Lessee or their administrators, successors, executors, and heirs may have in this contract to a third party without written notice. Any assignment will release Lessees from any liability, as new assignee will accept all rights, obligations, and responsibilities agreed upon in this agreement between Lessor and Lessees.

9. NOTICE. It is understood and agreed between the parties hereto that written notice by certified mail or delivered to the premises hereunder shall constitute sufficient notice to the Lessees and written notice by certified mail or delivered to the office of the Lessors shall constitute sufficient notice to the Lessors, to comply with the terms of this contract. The Lessor's mailing address is P.O. Box 4, Orlando, FL 12345.

10. RIGHTS. The rights of the Lessors under the foregoing shall be cumulative, and failure on the part of the Lessors to exercise promptly any given rights hereunder shall not operate to forfeit any of the said rights.

11. UTILITIES. The Lessees shall be responsible for the payment of all utility bills (water, electricity, telephone, etc.) and specifically including, but not limited to glass breakage and all doors and screens. The Lessors will be responsible for all structural repairs, meaning the roof, exterior walls, foundation, and to pay all repairs costing greater than $500.00 per incident. In the event Lessor is delinquent on any payments required under this agreement to include repairs and maintenance, Lessee shall have the right to make such payments as necessary to cure defaults or make said repairs on behalf of the Lessor. Any payments made by Lessee will be credited to Lessee on a two to one basis (2 to 1). The closing agent will apply said credit towards the purchase price at the time of closing.

12. REPAIRS. The Lessees will permit the Lessors or their agent, at any reasonable time, to enter said premises or any part thereto for the purpose of exhibiting the same or making repairs thereto.

13. RECOVERY. If either party of this agreement shall bring legal action for enforcement of said agreement, the prevailing party shall recover the cost of the proceedings including reasonable attorney fees.

14. EMINENT DOMAIN. If the leased premises, or any part thereof are taken by virtue of eminent domain, this lease shall expire on the date when the same shall be so taken and the rent shall be apportioned as of said date. Lessee shall be entitled to FULL refund of any option consideration money and security deposits.

15. BENEFIT. All covenants and agreements of this lease shall be binding upon and inure to the benefit of the heirs, executors, administrator, and assigns of the Lessor and Lessee, without affecting the restrictions imposed by Section 3 hereof.

16. RIGHT TO EXTEND. Lessee shall have the right to extend the agreement for six (6) months, for an additional fee of $1.00.

17. CHATTELS. The said Lessees hereby pledge and assign to the Lessors all the furniture, fixtures, goods, and chattels of said Lessees which shall or may be brought or put on said premises as security for the payment of the term herein reserved.

18. VALIDITY. It is expressly agreed between the parties that if any clause of this lease be found unconscionable it shall not affect the validity of the remainder of this lease.

19. ENTIRE AGREEMENT. Neither party has made any representation or promise, except as contained herein. Any and all modifications to this agreement must be in writing and signed by Lessee/Lessor and/or assigns.

20. INSPECTIONS. Real property taxes on the property, both general and special assessments, if any, for the current fiscal year shall be prorated for the close of escrow and be paid by the Lessor. Also, the Lessors shall provide the Lessees with a certificate from a licensed and bonded exterminator showing that there is no evidence of termite infestation in improvements on said property. Should termite eradication be required, the Lessors shall perform the same at their own expense. The Lessees shall examine the leasehold premises to determine that the premises are in good and inhabitable condition, as are the condition of the electrical, plumbing, and heating system, and if they are not, said leasehold period shall not commence until the premises are in such inhabitable condition. In addition, the Lessees shall examine said premises and prepare a list of those items damaged at the commencement of the leasehold period. Lessees agree to notify Lessor immediately upon first discovery any signs of serious dwelling problems to include leaking roof, dysfunctional heating/air conditioning systems, spongy floor, crack in foundation, moisture in ceiling, leaking water heater, or evidence of termites.

21. PURCHASE. Lessees shall have the option to purchase said premises for the purchase price of $85,000.00. This option may be exercised at any time during the lease period upon notice to the Lessors in writing by certified mail. The Lessees shall place with ABC Title Company (title company/attorney), the option payment specified in paragraph (2) above paid by the Lessees to the Lessor in escrow as earnest money towards the purchase of said property.

    $100.00 (amount) of all rents paid by the Lessee up to the time of the exercise of the option shall be credited to the down payment. Should the Lessee exercise their option, the Lessors shall have ten (10) days to provide Lessees with an updated abstract showing their title to be good, marketable, and insurable.

    The Lessees shall close the transaction within seven (7) days from the delivery of said abstract. The closing costs shall be those costs incurred with closing escrow and shall be paid at the close of escrow as follows: Lessee to pay for their own closing costs. Lessor to pay for their own closing costs.

    This lease shall terminate upon the closing of the subject property and the Lessees shall not be liable for any rent subsequent to the closing date. All monies put up for security shall be returned to the Lessees at that time.

22. CONTEXT. The terms Lessor and Lessee as herein contained shall include singular and/or plural, masculine, feminine, and/or assigns neuter, heirs, successors, personal representatives, and/or assigns wherever the context so requires or admits.

23. AGREEMENT. This agreement constitutes the entire agreement between the Lessee and the Lessor, as written. No further promises have been made to one another whether it is written or verbal.

24. Lessee has fourteen (14) business days to cancel this agreement. The purpose of this right to cancel option is to allow Lessee time to properly inspect above said property. In the event that Lessee decides to cancel agreement within the allotted time, all deposits and options, consideration, and monies shall be refunded promptly.

25. DISCLAIMER. Parties in this agreement by their signatures agree not to hold the preparer of this document for any error, mistakes, omissions, or negligence.

X________________________________ X________________________________
Lessor: John Seller Date Lessee: Your Name, Title, XYZ Realty Date

X________________________________ X________________________________
Lessor: Jane Seller Date Lessee Date

State of ________________________

County of ________________________

The foregoing instrument was acknowledged before me this ________day of _________, 20___ by ________________________________, who is/are personally known to me or who has/have produced ____ as identification.

____
Notary

(Seal)

My Commission Expires:

SAMPLE MEMORANDUM OF OPTION

On this date, the following parties entered into an agreement in which XYZ Realty acquired an option to purchase an interest in property owned by John and Jane Seller.

The property is described as:

1234 Power Ranch Road
Address

Orlando	FL	12345
City	State	Zip Code

Legal Description: (To be attached.)

1. The term of this agreement is five (5) years, running through midnight April 09, 2011.
2. As part of this agreement, John and Jane Seller agree not to further encumber the property, nor sell any interest in the property during the term of this agreement. Any encumbrance placed on the property after this agreement is properly executed and recorded, including leases will be subordinate to this agreement and will be extinguished by the proper execution of this contract.
3. This agreement will bind heirs, executors, administrators, successors, legal representatives, and assigns of each party to this agreement.
4. In the event of foreclosure, the owners' equity at the sale and any right of redemption shall transfer to the Optionee without further compensation and this contract shall serve as conveyance without further action.

Signed and sealed this 10th day of April, 2006.

X______________________________
John Seller

X______________________________
Your Name, Title, XYZ Realty

X______________________________
Jane Seller

X______________________________

State of ________________________

County of ______________________

The foregoing instrument was acknowledged before me this ________day of _________, 20___ by ____, who is/are personally known to me or who has/have produced ____ as identification.

____
Notary

(Seal)

My Commission Expires:

SAMPLE ASSIGNMENT OF OPTION TO PURCHASE REAL ESTATE

For value received, XYZ Realty (Seller), assignor, assigns to Able Investor (Buyer), assignee, all rights and interest of assignor in an agreement, dated April 10, 2006 whereby assignor was given the option from John and Jane Seller (Seller), the following described real estate at a price and under the terms and conditions therein contained:

1234 Power Ranch Road
Address

Orlando	FL	12345
City	State	Zip Code

Legal Description:

To Be Attached.

Assignor, by virtue of this assignment, grants to assignee the right to exercise or reject the option in good faith and the right to recover any monies deposited by assignor to receive said option.

Dated April 11, 2006 .

X________________________________
Assignor: Your Name, Title, XYZ Realty

X________________________________
Assignor

X________________________________
Assignee: Able Investor

X________________________________
Assignee

State of ______________________
County of ____________________

The foregoing instrument was acknowledged before me this ________day of _________, 20___ by Your Name and Able Investor, who is/are personally known to me or who has/have produced ________________________________ as identification.

____
Notary

(Seal)

My Commission Expires:

SAMPLE ADDENDUM TO LEASE/LEASE OPTION AGREEMENT

Monthly payments are subject to change/increase on an annual basis due to increases in taxes, insurance, HOA, or any other easements that are the responsibility of the homeowner. The tenant/buyer will be notified in writing by certified mail with verifiable proof from the landlord/seller 30 days prior to the necessary increase. The tenant/buyer reserves the right to verify any and all changes to the monthly payment during the 30 days prior to the change. Any increase will be a dollar for dollar increase and the landlord/seller will not be experiencing a profit from any and all increases to the monthly payment stated in the original agreement. The purpose of this addendum is to prevent the landlord/seller from taking on any future costs that are the responsibility of the occupants.

X____________________________ ____________________________
John Seller Date

X____________________________ ____________________________
Jane Seller Date

X____________________________ ____________________________
Your Name, Title, XYZ Realty Date

SAMPLE TENANT/BUYER QUESTIONNAIRE

Name:____

Good contact number to reach you? ____________________________

How did you hear about us? ________________________________

Are you looking to rent or own a new home? ________________________

What area are you looking to live in? ____________________________

Where are you living now? __________________________________

What are you paying monthly to live there? ________________________

How many people will be living with you? __________________________

How much money do you have for a down payment for your new home? __________

How much can you afford as a monthly payment to own your new home? _________

How many bedrooms were you looking for? __________________________

How soon were you looking to move into your new home? __________________

SAMPLE RENTAL APPLICATION

Name ______________________________ Date of Birth ___________________________

Home Phone ________________________ Work Phone ___________________________

Social Security # ____________________ Driver's License # _______________________

Present Address ____

How long at this address? __________________ Rent $ _________________________

Reason for moving ____

Owner/Manager ____

Previous Address ____

How long at this address? ________________________ Rent $ ___________________

Reason for moving ____

Owner/Manager ____

Name, relationship, and age of every person to live with you ______________________

____

____

Any pets? ___________ Describe ________________Waterbed? __________________

Present Occupation ____

Employer Phone ____

Supervisor Phone ____

How long with this employer? ____

Previous Occupation ____

Employer Phone ____

Supervisor Phone ____

How long with this employer? ____

Current gross income per month (before deductions) $ ___________________________

Amount of alimony or child support you pay $ ____________ receive $ ______________

Savings Account Bank ______________________________

Branch ______________________ Account No. ______________

Checking Account Bank ______________________________

Branch ______________________ Account No. ______________

Major Credit Card __________________ Account No. ______________

Credit Reference __________________ Account No. ______________

Balance Owed ____________________ Payment ______________

Have you ever filed bankruptcy? __________ Have you ever been evicted? ______

Vehicle(s): Make __________ Model ______________ Year __________

Make __________ Model ______________ Year __________

Personal Reference: Name ______________________________

Address ____________________________ Phone ______________

Contact in Emergency: Name ______________________________

Address ____________________________ Phone ______________

I declare that the statements above are true and correct, and I hereby authorize verification of references given and a credit check.

______________________ ______________________

Date Signature

SAMPLE RENTAL APPLICATION DEPOSIT RECEIPT

Rental Application Deposit Receipt

This deposit of $______________ is refundable upon the following conditions:

1. Prospective tenant is not approved.

2. If approved, it may be applied to rent.

If the prospective tenant cancels after landlord has taken the time, expense, and trouble to check the tenant out, the deposit is NOT refunded; landlord will keep the deposit to pay for time and trouble.

Prospective Tenant ____

Landlord/Agent ____

(Date Refunded) ____

Prospective's Signature ____

Money Received ____

SAMPLE AUTHORIZATION TO RELEASE INFORMATION (PAPERWORK WITH YOUR TENANT/BUYER)

Authorization Dated: ______________________________

Tenant Name: ____

Address: ____

Phone: ____

Social Security #: ____

Date of Birth: ____

Landlord:

Name: ____

Address: ____

Phone: ____

Property:

Address: ____

Legal Description: ____

I/We, ______________________________________, being the tenant of the above described property do hereby authorize and grant permission to ______________________________, being the landlord of the above described property, to contact a/our lender or lenders or any of their agents for the purpose of gathering the necessary information concerning the successful performance of our option to purchase on the above described property.

_________________________________ _________________________________
Tenant/Optionee Date

_________________________________ _________________________________
Tenant/Optionee Date

SAMPLE RESIDENTIAL LEASE AGREEMENT (PAPERWORK WITH YOUR TENANT/BUYER)

THIS AGREEMENT made and entered into on April 24, 2006, by and between XYZ Realty (landlord), hereinafter referred to as "Lessor"; and Cliff and May Newlywed (tenant), hereinafter referred to as "Lessee".

PROPERTY: Lessor leases to the Lessee that certain residence described as:
1234 Power Ranch Road
Orlando, FL 12345

1. TERM: The term of this lease shall be for a period of one (1) year, commencing May 01, 2006, and ending April 30, 2007. This lease can be extended for one (1) additional year(s).

2. RENTAL: Lessee shall pay unto the Lessor the sum of $995.00 on the above described day of each month during the term of this lease, said sums being delivered to Lessor at the address so designated by Lessor.

3. SECURITY: Lessee has deposited with the Lessor the sum of $100.00 as security for the full and faithful performance by the Lessee of all terms and covenants contained herein.

4. USE: The property shall be occupied by Lessee and family, consisting of two (2) adults and two (2) children. Lessee agrees to use the property for residential purposes only. No animals or pets shall be permitted upon the subject property.

5. BROKERAGE: No real estate agents are involved in this transaction, nor are any entitled to brokerage commission as a result of this Lease Agreement.

6. DAMAGE TO PROPERTY: Should the property be partially damaged by casualty not due to the negligence of Lessee, or person having the consent of Lessee, the property shall be repaired immediately by Lessor and any rentals for the period that the property is untenantable shall be abated. However, should the property suffer substantial damages, Lessor may elect to terminate this lease, and rentals shall be adjusted up to the date of casualty.

7. CONDEMNATION: Should the subject property, or part thereof, be taken by the exercise of condemnation, eminent domain, or other governmental action, this lease shall terminate.

8. LESSEE'S OBLIGATIONS:
   a. Maintain the subject property in the same condition as when leased, excepting only the reasonable use of said property.
   b. Comply with all applicable housing, building, and health codes.
   c. Pay for all utilities utilized, including electricity, gas, water, sewer, and telephone.
   d. Keep the property clean and sanitary.
   e. Keep all plumbing fixtures in repair.
   f. Remove all garbage from the property.
   g. Use the facilities and appliances in a reasonable manner.
   h. Refrain from damaging Lessor's property.
   i. Conduct himself, and others on the property with his consent, in a reasonable manner.
   j. Provide Lessor with a key and access to the property.
   k. To pay for all repairs not covered by the owner's insurance policy.

9. LESSOR'S OBLIGATION:
   a. Comply with all applicable housing, building, and health codes.
   b. Maintain all basic structural and service components of the property so that same are capable of resisting normal forces and loads.

10. RIGHT OF ENTRY: Lessor shall have the right of entry upon the property to inspect the same, make repairs, and exhibit the property to others, provided that such entry is at reasonable

times.

11. LIABILITY: Lessee accepts the condition of the subject property, waiving inspection of same by Lessor, and repair of defects, if any. Lessee further agrees to indemnify Lessor against any loss or liability arising out of Lessee's use of the property, including those using the property with Lessee's consent. However, such indemnification shall only be applicable to the extent that Lessor's loss is not covered by insurance proceeds.
12. TAXES: Any taxes that may be imposed by governmental authority, whether they be sales, use, or resort taxes, shall be the obligation of Lessee.
13. ASSIGNMENT: Lessee may not make an assignment of this lease, nor sublet any part of the subject property, without prior written consent, which consent shall not be unreasonably refused by Lessor.
14. DEFAULT: In the event of a default, by either party, of any of the terms herein contained, the non-defaulting party shall be entitled to all remedies under law, reasonable attorney's fees, and court costs. Should it become necessary for Lessor to apply any part of the security to correct a default, Lessee agrees to restore the security to its original amount.
15. PERSONAL PROPERTY: Lessee shall be responsible for insuring his own personal property. Any personal property placed upon the subject property shall be at the sole risk of Lessee. Any property of Lessee remaining upon the leased premises after the termination of this lease shall be presumed abandoned, and may be disposed of by Lessor.
16. FURNISHED PROPERTY: If the subject premises are rented furnished, Lessee acknowledges receipt of inventoried furnishings in good condition. A copy of said inventory shall be attached hereto.
17. HOUSE: If subject property is a house or townhouse, then Lessee shall be responsible for waste removal, exterminating service, and yard and pool maintenance.
18. ALTERATIONS AND IMPROVEMENTS: Lessee shall make no alterations to the subject property without Lessor's prior written consent. Any improvements made by Lessee shall become the property of Lessor at the conclusion of the lease.
19. WAIVER AND SEPARABILITY: The waiver of any one breach of any provisions in this lease shall not be considered a waiver of that or any other provision herein. Should any portion of this lease be adjudged invalid, such invalidation shall not operate to invalidate the remaining provisions hereof.
20. BINDING EFFECT: This agreement shall be binding upon the parties hereto, their heirs, successors, assigns, and legal representatives.
21. ENTIRE AGREEMENT: This lease constitutes the entire agreement between the parties, and may not be modified, unless in writing and executed by the parties.

IN WITNESS WHEREOF the parties hereto have executed the foregoing Lease Agreement the day and year first above written.

WITNESS: ______________________ LESSOR:__________________________
Your Name, Title, XYZ Realty

LESSOR:__________________________

WITNESS: ______________________ LESSEE:__________________________
Cliff Newlywed

LESSEE:__________________________
May Newlywed

SAMPLE OPTION TO PURCHASE REAL ESTATE

THIS AGREEMENT, made April 24, 2006, by and between the seller, XYZ Realty hereinafter called Optionor, and Cliff and May Newlywed, the buyer, hereinafter called Optionee.

WITNESSETH, that for and in consideration of the sum of $5,000.00 paid by Optionee to Optionor, the receipt whereof is hereby acknowledged, the Optionor hereby gives and grants unto the Optionee, his heirs, personal representatives, and assigns, the right of purchasing, on or before April 30, 2008, the following described real estate:

Address: 1234 Power Ranch Road, Orlando, FL 12345

For the total purchase price of $105,000.00 of which the sum of $5,000.00 shall be paid in cash and the balance of $100,000.00 shall be paid as follows:

See Below.

If the Optionee elects to purchase the said real estate pursuant to this Option, Optionee shall give written notice of such to Optionor, by registered or certified mail to:

XYZ Realty, 1234 Orange Blvd, Orlando, FL 12345, on or before April 01, 2008.

All of the terms of the residential lease agreement must be complied with in order for this Option To Purchase Real Estate to be valid.

If the Optionee shall so elect to purchase said real estate, and shall mail a written notice of such election as herein provided within the time required, and shall tender the required amount of cash and deliver a promissory note for the balance, properly executed and payable in accordance with the terms agreed to herein, together with a real estate mortgage or deed of trust, real estate contract or other security acceptable to Optionor, securing said note, on the real estate herein above particularly described, then Optionor agrees to convey the real estate to Optionee, by warranty deed, free and clear of all liens, encumbrances, or taxes, to the date of closing of the purchase. Optionor further agrees, that upon such election by Optionee, to deliver to Optionee, within thirty days after receipt of such written notice of election to purchase, an abstract of title or a policy of title insurance in the full sum of $105,000.00 showing merchantable title to said real estate, and Optionee shall have a reasonable time, not to exceed five days, to examine the title insurance and to complete and close said purchase.

If the Optionee does not exercise the privilege of purchase herein given and does not fully perform the conditions herein within the time herein stated, the privilege shall wholly cease and terminate and the sum herein paid by Optionee shall be retained by Optionor as non-refundable.

This property is to be sold as is, where is, how is, and the buyers acknowledge that they have inspected the property and accept it in current condition. The Optionee's are responsible for all repairs to the property during the term of this agreement.

This agreement may be extended for one year for an additional fee of $ 1,000.00. This fee will not be credited towards the purchase price.

Optionee: Cliff Newlywed	Date
Optionee: May Newlywed	Date
Optionor: Your Name, Title, XYZ Realty	Date
Optionor	Date

Chapter 7

Becoming a Problem Solver: Foreclosures

Notes

Chapter 7
Becoming a Problem Solver: Foreclosures

What kind of visions does the word "foreclosure" evoke? Are you having thoughts of a homeowner falling behind in his house payments? Do you see the courthouse steps with people frantically bidding on a property that is being auctioned off? Or are you picturing a family being removed from their house by the sheriff with their belongings thrown all over the lawn?

Not a pretty image. Indeed, foreclosure is a harsh reality literally thousands of people throughout America are facing.

You may recall seeing a vintage melodrama where the heroine is strapped to the railroad track and the villain is standing nearby, dressed in black. The villain is holding the deed to the heroine's father's house. You see the train in the distance coming down the track, closer and closer. All the heroine has to do is agree to marry the villain and she will no longer be in bondage, and her father's home will be safe.

It sounds a little far-fetched, no doubt! But the truth is there are many people who feel like they are stuck on that railroad track and the train is barreling down on them. They need help – now! But they are going through such a wide array of emotions, they simply cannot think clearly. They have either exhausted all of their resources and/or they simply don't know what to do.

There are many reasons a homeowner may lose his home to foreclosure, but foreclosure is usually the consequence of escalated financial problems. These financial problems are almost always the direct result of circumstances that have happened in the life of the homeowner. Distressed situations such as job loss, divorce, death, or illness can cause the homeowner to become financially strapped and delinquent with his mortgage payments.

No matter what the cause, foreclosure creates a motivated seller. As you work to solve the homeowner's problem, you may be able to not only help them out of an untenable situation, but also make some good money in the process.

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WHAT IS FORECLOSURE?

Foreclosure is the legal process whereby a creditor forces the sale of a property that was pledged as a security for debt owed to the creditor when that debt has not been paid. Usually the creditor is the "bank" or lending institution.

While there are several kinds of foreclosures and the process can differ from state to state, there are basically two main types of foreclosures: judicial and non-judicial.

Judicial Foreclosure

Judicial foreclosure is used in mortgage states, or "lien theory" states. The usual procedure when a loan is in default is for the lender (mortgagor) to send a Notice of Intent to Foreclose (sometimes called a "Demand Letter") to the borrower (mortgagee). The letter lets the homeowner know the loan is in default and the lender intends to take action if the owner doesn't bring the loan current. It will include the amount due.

If the homeowner does not respond to the terms set forth in the Notice of Intent to Foreclose, the lender files a lawsuit, called a Complaint for Foreclosure, against the borrower. Next, a Lis Pendens ("lawsuit pending") is filed. The Lis Pendens signals the beginning of the foreclosure process and is a legal recording of the warning notices sent to any interested parties who may have claim against the property or its ownership.

After a period of time, a court hearing date is set for the sale of the property. The Lis Pendens is officially served as a summons by the court and delivered to the homeowner by the sheriff.

In "lien theory" states, the Lis Pendens is the first indication to the public that a property is in foreclosure. Other documents are filed in the courthouse until the last document, the Final Judgment of Foreclosure, triggers a Notice of Sale detailing the time, date, and place of the sale.

At the sale, the highest bidder gets the property. In some states, it is now the new buyer's property. But in other states, there is a "right of redemption" period that can last from 30 days to one year. In some states, the mortgagee is allowed to remain in the home until the right of redemption period has passed. The time sequence for all of these steps can vary from state to state.

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Non-Judicial Foreclosure

Non-judicial foreclosure is used in trust deed states, or “title theory” states. Instead of a mortgage, the borrower (trustor) gives a deed of trust to the trustee (usually an attorney) to hold for the lender (beneficiary). When the borrower is in default of the loan, the lender instructs the trustee to file a Notice of Default.

A Notice of Default is the initial start of the foreclosure process and is filed in the county recorder’s office. It is public record, giving notice that a property is in foreclosure. An equitable period of redemption follows the Notice of Default. This period can vary from state to state, but it is usually 60 to 90 days.

After that, the sale is advertised as a Notice of Trustee Sale. A short time later, the auction is held and the sale goes to the highest bidder. There is no redemption period after the auction.

Find Out the Process Where You Live

It is important for you to learn how the foreclosure process works in the state where you live and/or are purchasing properties and the timeframes involved.

To get this information, you can contact a title company or a foreclosure attorney and ask them to explain the process for your state. You want to make sure you understand the timeframes involved, especially from the initial time when the default notice is filed at the courthouse until the auction. Ask the title company or foreclosure attorney what that initial filing is called and where this information is filed in your courthouse.

You also want to know how many times the notice is advertised in the newspaper, and if this advertisement is only in a legal publication or if it will also appear in the legal section of the classifieds in your local newspaper. If it appears only in a legal publication, get the name of the publication and information on how you can purchase a copy.

You also want to know the amount of time you have to “cure” the loan before the auction and stop the foreclosure. For instance, in Georgia, the auction is held once a month on a Tuesday. The Friday night after the attorney’s office closes, it becomes too late to cure the loan and stop the auction. In the state of Washington, it is ten days before the auction.

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The important thing is you do not want to spend a lot of time and energy working hard to stop a foreclosure only to find out you have just one more day to cure the loan, even if the auction is not scheduled for another week. Always know your timeframes. If you are ever under the wire and need a few more days (and the auction is still several days away), you may want to contact the attorney's office or lender to see if they would still accept the money to cure the loan and stop the foreclosure.

If you are having trouble finding this information out, but have seen an advertisement of the sale, contact the person who is handling the sale, such as the attorney's office or sheriff's office. In some states, it is the sheriff who conducts the sale and you will find information about the upcoming auctions posted in the sheriff's office.

Check the Laws of Your State

As you can see, every state has specific procedures in handling foreclosures. If you feel as though you need more information about the system where you live, you can go to the law library at your courthouse and ask for your state's laws on foreclosure. And remember, check to see if there are relevant laws for your state (for example, some states require a contract that gives the owner a 5-day "right of rescission"). You can also check with an attorney or competent title company. You will want to comply with your state's statutes and laws.

THE THREE PHASES OF FORECLOSURE

Now that you know the two main types of foreclosure and are familiarizing yourself with your state's laws and processes regarding foreclosures, let's take a look at the three phases of foreclosure you are going to come across.

When most people talk about foreclosure, they are referring to one of the three phases of foreclosure. In the beginning of this section, you were asked what kind of visions the word "foreclosure" evokes. The information that followed was written explicitly to illustrate these three phases of foreclosure.

For example, the homeowner falling behind in his house payments demonstrates the first phase, which is before the auction. The people on the courthouse steps bidding frantically on the property is the second phase of foreclosure, the auction itself. And the family being removed from their house by the

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sheriff exemplifies the third phase of foreclosure, after the auction, when families lose their homes.

We want to impress upon you that foreclosure is not a pretty picture. You are in the people business. Real estate investing is working with people and the people you will be working with in the foreclosure market are real people experiencing a financial crisis that could literally cause them to be out on the streets.

The three main causes of foreclosure tend to be divorce, job loss, and unexpected medical problems. As you work in the foreclosure market, you will have the opportunity to help people who are devastated by the circumstances they are now in. Right now, they are stuck on the proverbial railroad track with the train barreling down on them. You can step in and give them a helping hand.

As you put people first and work to solve their problems, you should have more deals than you can even handle.

Phase 1 – Before the Auction

The first phase is before the auction, when you are dealing with an owner of a property that is being foreclosed on by the lender. The owner is in default of his mortgage or deed of trust. When you hear someone say they are "in foreclosure," they are likely referring to the pre-foreclosure stage, which is before the auction. This is the area of foreclosure that will be your main focus.

Phase 2 – At the Auction

The second phase is at the auction. This is where the property is put up for sale to the public through an auction. Many investors will purchase properties at the auction and find some really great deals. However, for many investors, it is too hard to compete with the "big guys" who have a lot of cash at these auctions. In some areas of the country, these "big guys" will literally bid the property up, possibly for more than it is even worth, simply to keep the "little guys" out of their territory.

If you live in an area like that, you may want to network with the "big guys" to see if they will sell you some properties. Sometimes they will not only sell you the property at a huge discount, but they may also be willing to "be the bank," meaning you do not have to go out and get a loan from traditional sources.

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Other areas will not have that problem, but it may still be hard for you to buy at the auction if they require all cash. This is another reason why it's important to find out the rules and regulations for foreclosure auctions where you live before you go to an auction. You are interested in finding out how much you have to come up with on the day of the auction, what kind of deed you will get, and if there is a redemption period. All these things may affect whether you want to buy at the auction.

It is also important for you to research the properties that you are interested in purchasing at the auction. Let's go through an example to see why.

On Saturday morning, you see a notice in the newspaper of a foreclosure auction being held Thursday morning. You know the area where the house is located. Houses there are selling from $85,000 to $90,000. The bank is owed $22,000.

You jump in the car and drive to the property. It doesn't look bad! It just needs a little paint and cleanup. You notice it is vacant, so you leap out of the car to look through the windows. You are surprised to see it looks pretty nice. Even the carpet appears to be in good shape. Now you are really excited!

Thursday arrives and you head over to the courthouse for the auction. You get the winning bid of $32,500! You spruce up the home and put a FSBO sign in the front yard. You get your asking price of $85,000. You go to the closing eager to pick up your check. You should have a profit of about $45,000 after subtracting repairs and closing costs. Wow! Real estate investing is great! At the closing, you look at the check. It's for only $1,450! What happened?! Someone made a mistake!

Actually, it was you who made the mistake. A big mistake! Because you neglected to do any research other than look at the house, you didn't know there was a first mortgage lien of $42,750 and back taxes of $800 on the property! It was, in fact, the second mortgage that was foreclosing. You were fortunate (even though you may not be thinking that right now) because you could have paid more than the house was worth!

The lesson: Never buy at an auction unless you do your due diligence. Buying a property at an auction does not guarantee a clear title. There may be some liens that will stay attached to the property. Usually, any junior liens are wiped out through the auction process. However, some liens that have been filed in junior position move into senior position, such as tax liens.

Notes

You should always do a preliminary title search before you purchase a property.

Another thing you have to be careful of is the fact that many times, you cannot get into the house. The bank does not own it. Sometimes an investor will approach the owner the day before the auction and be able to see the inside (don't count on that happening!). But realize the night before the auction, the owner may trash the house and do some pretty serious damage in a very short period of time. If you buy at an auction, always bid on it as though it was in horrible condition. Always look at the worst-case scenario; hopefully, you will be pleasantly surprised.

Phase 3 – After the Auction

The third phase is after the auction if the bank has taken the property back. The property is now a "foreclosure." Sometimes a foreclosure is referred to as an REO property (real estate owned – by a bank) or a repo (bank repossession). You may be able to buy directly from the bank if you approach them within two or three days. After that, they will list the property with a Realtor.

In some areas of the country, our students find great deals on bank-owned properties. In other areas, the bank wants too much and doesn't budge much. But even in the areas where they overprice the foreclosures, understand that if the properties do not sell and have been on the books for a long period of time, the bank will start coming down in their prices.

Additionally, as we discussed in Chapter 3, there are HUD and VA foreclosures as well as other government foreclosure properties to look into. These properties have gone through the foreclosure process and are now offered through a bidding process. To make an offer on one of these properties, you will need to have a HUD-certified broker make the offer for you. And because this is so important, it bears repeating: Make sure you do not bid on the owner-occupied list unless you plan to live in the home. Some students are eager to buy as owner-occupied because they can get in with less money or they are afraid they may not get the deal if they don't get in early. But whatever you do, DO NOT bid on a property that is on the owner-occupied list unless you are definitely going to live in it. Wait until it appears on the open bid.

You can view HUD, VA, and other foreclosures on the HUD website at www.hud.gov/homes/homesforsale.cfm.

Notes

Another Phase

There is one more phase of foreclosure where you can purchase a property. If you live in a state where there is a right of redemption after the auction, you can still pursue purchasing a property. A few investors focus on that period by contacting the owners to have them waive their right of redemption and negotiate with the bank to discount the note.

Many investors are successful doing this. But as mentioned earlier, your main focus is going to be on pre-foreclosures. You will find there is much more flexibility when you work in the pre-foreclosure market.

PRE-FORECLOSURES

Why buy a pre-foreclosure? First of all, there are tremendous opportunities to make money in the pre-foreclosure market. Secondly, you can find foreclosures everywhere. With the increase of corporate downsizing, divorce rates, and consumer debt, more people are facing a financial crisis. And that means every day, there are new foreclosures being filed. This can create an abundance of new leads every month. Thirdly, with pre-foreclosures, there is greater potential for making money while still helping people.

Buying pre-foreclosures is an exciting way to make money. You can buy the property under market value and make a profit immediately. You can obtain instant equity with very little money. And you can purchase a pre-foreclosure without having great credit. You may not even have to get a loan to obtain a pre-foreclosure. Many times, the owner will literally deed you the house. The owner is walking away and would rather have you get the house than the bank. Of course, the arrears still have to be paid to stop the foreclosure, but this can mean a great deal for you, and it has happened for some of our students. You have already learned the key to finding deals is to find a motivated seller. Well, people in foreclosure are highly motivated. They need debt relief! You can help them and make good money doing so.

When you purchase a pre-foreclosure, you do not have to go out and get financing. You are curing the loan by paying the arrearage and fees that have accumulated. To do so, you may be thinking, "How do I come up with the money?" Many of our students use a cash advance from a credit card or from a line of credit. Others will use "hard" money. But regardless of the

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source used, the nice thing about pre-foreclosures is the amount it normally takes to stop the foreclosure is much less than your down payment would have been on such a property. You don't even have to qualify for a loan. In fact, the amount our students have averaged to cure a loan has been from $3,000 to $10,000. Now this doesn't mean you won't come across one that may be $50,000 to cure. However, the deals are out there and most pre-foreclosures can be cured with very little capital.

Many of our students have found an investor who would fund the money and then split the profit. Still others will assign the contract (think wholesale!) to another investor.

THE SYSTEM FOR BUYING PRE-FORECLOSURES

Now, let's look further into pre-foreclosures by reviewing the system for buying a pre-foreclosure. It all starts with knowing where to find them!

Step 1 – Finding Pre-Foreclosures

The first step in working the pre-foreclosure system is locating the pre-foreclosures. There are many ways to find them. The following are some we have found to be quite effective.

County courthouse

The county courthouse provides a wealth of information. You can look up divorce cases, bankruptcies, judgments, delinquent taxes, probate, lawsuits, and… pre-foreclosures!

To find people in pre-foreclosure, what you look for will depend on where you live.

In mortgage states ("lien theory" states), the public filing of the default is a Lis Pendens. The process of foreclosure is much longer in a judicial state. You will want to search the lawsuits for foreclosures, usually looking for a Lis Pendens. In trust deed states, the first public notice is a Notice of Default. But the name can vary slightly depending on the state where you live. This is one area where your prior research into the applicable procedures for your state will come in handy. For example, you would look for a Notice of Default in states like California and Utah. In Arizona, the document filed is called a Notice of Trustee Sale. In Colorado, it is called a Notice of Election and Demand. And still other states will not file anything in the courthouse; their first notice to the public is in a publication.

Notes

The information in your courthouse may also be available to you online. Contact your courthouse and ask them if you can access the information you're seeking online and get the appropriate website address.

You can also go to www.netronline.com and click on "Public Records Online." Now click on your state. Go to your county and it will show you if it is online or not (you'll see an option to "Go to Data Online"). If available, click on this link and search for the appropriate documents. To help familiarize yourself with this process, we have included an assignment at the end of this chapter for you to do. It will help you know how to search in a county website and what kind of information you may find. Then you will feel comfortable going through your own county courthouse records online.

You should also be aware that tracking other filings in the courthouse, such as divorce cases, bankruptcies, etc., can help you find pre-foreclosures. The major cause of foreclosure is divorce. Sending postcards asking someone going through divorce if they would consider selling their property may help you find a person in foreclosure. Likewise, tax liens indicate some kind of financial duress, and so does bankruptcy. These are all indicators you may want to be aware of when looking for distressed sellers, some of whom may be in the beginning stages of foreclosure.

Title company

For those of you who live in states where title companies are predominantly used to handling the closings, you are in luck! Title companies are eager to give investors information.

For example, in an effort to promote their title business, they will help Realtors "farm" an area. Farming is a term used in the real estate industry to describe concentrating or focusing on an area, whether geographically or by type or size of property (single family residence, condo, up to 4 units, 5 to 10 acres, out of state owners, etc.). Title companies will pull up lists of these kinds of properties for Realtors to farm. The Realtor will then use the list for marketing campaigns to find prospective sellers. The title company provides this customer service hoping the Realtor will encourage their clients to use the title company to handle the closing.

Well, what do investors do? They buy real estate! So most title companies want your business as well. Ask them if they can pull up a list of properties in foreclosure for you. A number of

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them will actually already have a list prepared each week that they give to real estate agents and other investors.

Remember, you may also want the title company to pull up other information for you. For example, they can help you farm other areas you may be focusing on. Sometimes they can pull up comps for you. And a number of title companies will even print out labels for your target area (pre-foreclosures, out of the area owners, etc.). The title company on your power team can also do preliminary title searches, which you will need them to do before purchasing a pre-foreclosure.

Ask what kind of services the title company provides and if they charge a fee. You'll usually find that the more you use them to close your deals, the more they will do for you for free.

Legal publications or the legal notice section of your local newspaper

If you live in a state where the first indication of foreclosure is the publishing of the foreclosure in a legal publication or newspaper, then you will need to know which publication(s) it will appear in. You can also look for lawsuits filed that may indicate a foreclosure.

Attorneys

Attorneys, quite often, get information about foreclosures on a daily basis. They frequently market to these homeowners offering bankruptcy as a solution to stop the foreclosure. If you have a relationship with an attorney who would be willing to share that information, you may be able to reach owners before your competition even knows about their pending foreclosure.

Bankruptcy

Many investors will walk away from a deal if they see it is in bankruptcy. But if you know there is good equity in the property, you may be able to pick the property up in a few months with little competition. That's because most bankruptcies temporarily stop the foreclosure, but once the homeowner is out of court, the foreclosure will start up again.

Talk to the homeowner and let them know you are glad they were able to stop their foreclosure. Let them know that if the court dismisses the case, you would still be interested in purchasing the home. If the foreclosure process has not started, you could still send postcards offering to buy their home. When the bankruptcy is completed, they may be calling you (sometimes even before!).

Notes

Banks
Sometimes banks have clients who are willing to deed the house back to the bank in lieu of foreclosure. However, this may not be in the bank's best interest, especially if there are other liens associated with the property.

If you have a good relationship with the bank and they trust you will take good care of their client, they may refer the client to you.

Once you have established a pattern of purchasing foreclosures from them, they may give you the opportunity to purchase properties at a discount after an auction, before they turn those properties over to a Realtor to sell.

Realtors
Realtors often know early on that a home is being foreclosed on or that the owner is having financial difficulties and may soon be in foreclosure. You will probably need to pay the Realtor's commission in such a case.

If you find a pre-foreclosure at the courthouse and, in driving by the house, you see a Realtor's sign out front, contact the Realtor. Let them know you are a real estate investor and noticed the home is in foreclosure.

Tell them you would like to make an offer. Ask them to contact the owner and let them know you may be able to help them and to see if the owner would like to take a look at the offer.

What you are trying to accomplish here is to make sure your offer will be presented. If you submit a "low" offer, the Realtor may just disregard it or be embarrassed to present it to the owner (even though, by law, a Realtor must present all offers). By having the owner "agree" to look at the offer, you now have a Realtor who will present it to the owner.

If you feel your offer is too complicated for the Realtor to explain, you can ask to be present when the offer is presented to the owner or to be on a conference call with the Realtor and owner when the offer is presented.

Internet
There is an abundance of websites offering their services to help you locate pre-foreclosures. However, the drawback with some foreclosure services is that the information they offer is sometimes old.

Notes

Marketing
One of the most powerful tools to find someone who is in pre-foreclosure is to market that you offer solutions to such a problem. Marketing is simply spreading the word:

- Car Magnets – This is an effective way to get the word out that you buy foreclosures. Our students have had great response to magnetic car signs. They are usually inexpensive and last a long time. Check with your automobile insurance agent to make sure you have the correct coverage (in this case, your vehicle may be considered a "company" car and you will need that put into the policy).

- Newspaper Ads – Advertising in the newspaper can be expensive. Sometimes you can get discounts through your real estate investment club. Make an ad that is different to attract attention.

- Signs – Make them as large as you can. They need to be easily readable from a distance.

- Flyers – Create flyers letting homeowners know what you can do for them. Leave flyers on both the front and back doors of the house if no one answers the door.

- Mailings – This is a numbers game. Just because you haven't received a response to one mailing does not mean your mailings are not working. You need to send repeat letters. It may take four to five letters before you get a response.

- Postcards – A postcard takes only fifteen seconds to get your message across. Make it simple to get their attention. Use bullets and bright color backgrounds.

- Chamber of Commerce – Business owners often belong to the Chamber of Commerce. Sometimes businesses fail and the business owner may be falling behind on his or her mortgage payments. Put an ad in the newsletter the Chamber of Commerce sends out.

- Website – Create a website. Keep it simple. Sometimes you can put one up for free! Put your website address on all of your marketing materials.

Notes

Be consistent! You need to consistently market your business. If you knock on enough doors, you will get someone to open the door and let you in. If you keep making phone calls and leaving messages, eventually someone will answer or return your call. If you keep mailing letters, you will get results.

Step 2 – Determining Value

The default notices will tell you how much is owed, which will help you determine if this is a deal worth pursuing or not. But sometimes, depending on the attorney, information about what is owed may not be included. What you are trying to figure out is if there is enough equity for you to want to do the deal. Of course, this is just a quick calculation, as there can be other circumstances affecting the value of the home.

First, you will need to know property values for homes in the area. Get the comps if you don't know. Then determine what the gross profit would be by subtracting the amount owed on the property in default from the market value of the home. This gives you the approximate equity in the house. Remember this is just a ballpark number. There are other things to factor in, as you will find out later.

Also remember that pre-foreclosure is the best time to buy if there is equity in the property. To determine value, first use a rule of thumb – never pay more than 80% of value. You need a minimum of 20% equity after the property is fixed up.

To figure out true equity, take the FMV/after-repair value (ARV), which is determined by the comps.

Then, subtract:

- The principal balance of the mortgage
- All costs to bring the loan current and stop the foreclosure (include back payments, attorney fees, court fees, and late penalty fees)
- Any other liens, taxes, and/or judgments
- Repairs, if any
- Title work and title insurance

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This would give you the equity. Remember, equity is not profit. It is simply the means to the profit. If you were to fix the property and sell it, you would have closing costs, holding costs, and selling costs that you would subtract from the equity to calculate your profit.

Example:

After-Repair Value	$100,000
- Principal balance – 1st mortgage	$58,000
- Amount to cure the loan	$6,525
- 2nd mortgage	$10,000
- Back taxes	$1,500
- Repairs	$2,500
- Title work	$300
Equals =	$21,175 in equity

From the equity, you would subtract your closing costs as a seller, and holding costs (figure how long to rehab plus how long to resell = holding time). Once you have holding time, subtract that many months of taxes, insurance, utilities, outside maintenance, and mortgage or interest payments; the selling costs; the Realtor fee if you use a Realtor; and advertising fees if applicable. Whatever is left over would be your profit.

If you have no idea what is owed, then take a look at when the loan was created. Many times, the default notice will give you this date. How old is the loan? If you live in an area that has appreciated 5% each year, the loan would need to be at least five years or older to have any equity. For example, a $100,000 loan at 5% appreciation will be worth approximately $127,600 after five years. From that, you would be subtracting the arrearage and penalty fees, etc., possibly eating up the equity.

There are also other factors to consider. For example, if the owner put down a large down payment, obviously that would make the home worth more than the $100,000 loan. And if you live in a market that is rapidly increasing in value (and there is a tremendous rise in prices in certain markets!), you may find that in less than one year, there would be a lot of equity in a property.

Whatever you do, though, don't spend hours at the courthouse researching to see what was owed or what liens may be on the property. You could spend all that time only to find out the

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owner has already cured the loan or that they aren't willing to talk to you. You need to contact the owner before you spend too much time on any particular deal. Just try to get a general idea of what kind of equity may be in the home first. Then, if you think it may be worth pursuing, the next step will be contacting the owner.

Step 3 – Contacting the Owner

This is quite often easier said than done. The owner may be hesitant to open the door or answer the phone. Remember, they are experiencing an array of emotions. Try to picture how you or a loved one might feel if you were in this same situation. There are bill collectors and creditors bombarding them. The foreclosure clock is ticking. They are facing losing their home. Some homeowners handle this with denial, while others are angry and many are in anguish. They may be tossing the mail directly into the trash and hiding from the outside world.

Still, somehow you need to make contact with the owner. Knocking on doors is always the most effective way. But if they don't answer the door, leave a note letting them know you can help them. Send letters or postcards. Make phone calls. Be persistent in trying to contact them.

The following offers some tips on approaching owners.

Approaching the owner at the door – what to say
When you are meeting with the owner, be sure to go in casual attire. Don't drive the fancy car. You want the owner to feel comfortable with you and showing up in fancy clothes, driving an expensive car won't do that. Bring a clipboard with the paperwork you have and your information sheet.

When you knock on the door, there are two approaches you might use (be sure to first review any applicable state laws regarding approaching homeowners in foreclosure).

The first method is the gentle approach.

Knock on the door and introduce yourself. Let the homeowner know you are looking to buy a house in the neighborhood and someone said their house might be available for sale.

At this point, they may tell you it has already been taken care of and slam the door.

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How did they know you knew the house was in foreclosure? Do you think other investors have already contacted them?

Or, they may politely tell you the house is not for sale. Now you have a couple of choices. You can thank them for talking to you, hand them your business card, and suggest that if they change their mind, to please call you. Or you could say the reason you thought their house was for sale is because, according to public records, their house is in foreclosure.

At that point, they might invite you in to talk with them. Ask to see the house. Ask questions about the house and how long they have lived there, etc. At some point, ask them if they are current with their mortgage payments. They could lie to you, but most will tell you exactly what is going on in their lives.

The other method is the direct approach.

There are actually several direct approaches you may want to use (be sure to see the Important Note below before proceeding with any of these approaches). We have provided a couple options for using the direct approach below.

Introduce yourself. Ask, *"Are you Mrs. _______?"* You want to ask this early because you need to make sure you are speaking with the homeowner and not their parent or child. *"I noticed your house is in foreclosure. I may be able to help you. Have you considered selling your home?"*

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"Hello, I'm _________. Forgive me for intruding, but are you the person who may lose their home because of foreclosure? I am here to see if I can help you. I've helped many people in your situation. May I speak with you for a few minutes?"

*****

"Hello, I'm ____________, are you _______? I buy houses on the courthouse steps every month. I was wondering if you would be interested in selling before the auction. I can pay cash."

*****

"Hi, I'm ____________, are you Mrs. _______? In my business, I read the legal notices daily and noticed you are in default of your mortgage. I've helped many people by purchasing their home and stopping the foreclosure. Would you be interested?"

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Another approach that is gentle, but direct:

"Hi, I'm ___________, are you Mr. _____________? Great! I work with XYZ Company. We help people who are having difficulties with their lenders. According to public records, your mortgage company has filed papers with the county to start procedures to take your home from you.

Every day we help people just like you. We understand how challenging your situation is. We provide solutions to people in situations like yours. We can negotiate with the bank for forbearance, examine your ability to refinance your mortgage, or buy your home with cash. We can help you with moving expenses.

Most importantly, we work to stop the foreclosure and save your credit.

We offer a free, no obligation consultation to help you learn what your rights are and how we can help. We can explore which solution may be best for you. When would be a good time to meet with you?"

At this point, the owner may be interested enough to invite you in to discuss what you can do for them. If that happens, you can skip to Step 4 – Meeting with the Owner.

Important Note: States have different rules about assisting people in foreclosure or buying property in foreclosure. This will affect your approach. Be sure to always check the specific laws of your state regarding foreclosures first and any rules about approaching homeowners in foreclosure.

Approaching the owner by mail – what to send
Other ways to approach the owner include using notes, postcards, and letters to generate response.

For example, if the owner doesn't answer the door, leave a handwritten note (which you have prepared ahead of time) on the door. We have found that handwritten notes get the most attention because they seem so personal.

Or you could contact the owner by sending a letter. Better yet, use a postcard, which is cheaper and can get their attention without counting on them to open an envelope. Indicate what you can do for the owner. Most owners will need cash to relocate and pay debts. They are concerned with their credit.

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So specify in the postcard, using bullets to make your points quickly, that you may be able to stop the foreclosure, save their credit, and give them cash to move and pay bills.

Many of our students have been successful using campaigns that combine multiple approaches. For example, some students created a campaign that used both flyers and postcards and a simple system for delivering them.

Each week, when the default notices were filed, they would go to the courthouse, make a list, and map out the houses in foreclosure. Then, they would hire a college student to drive to each house and put a flyer on the door. Every week, they followed up with a postcard that had the same message as the flyers (such as "Avoid the stigma of foreclosure – this could be your last chance to get help from someone who cares!").

The important thing with your mailings is to be consistent and repetitive. You will find you do not always get a response from the first letter you send, but that's to be expected. You need to follow up with more letters. You may want to use the exact same message each time like the students above did, or you may want to send different letters with each mailing. This can take some time to keep track of the people you are sending letters to and which letters you sent. Create a database that will help you keep detailed, but efficient records.

A couple of tips to help you increase your response:

- Handwrite materials – As we mentioned previously, handwritten materials seem more personalized and often get more attention. Many of our students simply don't have the time to handwrite postcards or letters, but if you do take the time to handwrite your materials, make sure they are neat and easy to read. It is best to use your name on the letter because a company name can make the owner apprehensive. If you decide to send letters, handwritten or not, handwrite the envelopes to improve response.

- Overnight mailers get noticed – If you know the owner is still living in the home, you may want to overnight him or her a letter. It will get opened quickly. You may want to include a contract that is already filled out, offering to give the seller $5,000. Some students have used overnight mailers and put them between the screen and door with great results.

Notes

If the house is abandoned
Often, the owner has moved out and the house is now vacant. In this case, you will need to know how to find the owner.

Here are some ways to locate owners of abandoned properties:

- Neighbors – Knock on neighbor's doors. Quite often they know how to reach the owner. If you have trouble finding neighbors at home, use a reverse directory and put in the street name. You will see all the neighbors living on that street who have listed phone numbers. Call them.

- Lawsuit – If you find a lawsuit filed by the creditor (usually in judicial foreclosures), go to the courthouse and check to see what address was used to serve the papers. Also, check with the County Tax Assessor's office. See if they have a different mailing address than the house being foreclosed on. They may have a forwarding address.

- Post Office – Send a letter to the vacant address. Write or stamp on the envelope: DO NOT FORWARD, RETURN ADDRESS CORRECTION REQUESTED. This is a request to the Post Office to not forward the mail, but instead return it to you with the new address if they have one available.

- Phone Directories – Use a phone directory to try to find the owners of abandoned homes and use reverse directories to look up neighbors' phone numbers by their address.

- State Motor Vehicle Department – Contact the State Motor Vehicle Department to see if the person in pre-foreclosure has a current driver's license and address. Also find out if any cars are registered in his or her name and what the registration address is.

- Voter Registration Records – Check voter registration records in the county of the property owner's last residence. See if the owner has re-registered within the same county. If so, get the address.

- Private Detective or Skip Trace – A private detective can often locate the owner within a few hours.

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Approaching the owner by phone – what to do
Your goal is to meet with the owner, so ask for the owner, but make sure you do not sound like a bill collector.

Sometimes the person answering the phone, who may be the owner himself, will tell you the owner isn't home. If that happens, simply ask the person you're speaking with when they expect the owner to return. Let him know you help people who are having trouble making their house payments and you would really like to help the owner. Ask him to please give the owner your phone number. If you think you may be talking to the owner himself, ask, *"Do you think the owner might want to talk with me about this?"* Find out when it would be a good time to catch the owner at home.

If the person answering the phone identifies himself as the owner, ask when he could meet with you. If he seems hesitant, indicate that in order for you to determine if you can help, you will need to meet with him. Ask him to have these documents available for your meeting:

- The default information
- Information showing ownership of the property
- Property tax records
- Any letters or other correspondence from the bank
- Mortgage and loan documents
- Other liens and debts attached to the property
- Insurance policies

Screening calls
You will often have someone in pre-foreclosure call you in response to your marketing, such as the postcards you have mailed. As you screen calls, you are looking for motivated sellers. These are sellers who need to unload this house in order to get on with their lives.

You will also have people call on your ads and other marketing materials who are not motivated. Don't be discouraged if some of your callers are not good prospects; keep marketing and networking. You need to let everyone know you buy houses;

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you never know when, how, or through whom a great opportunity may arise.

When a homeowner calls you, always ask for the name and number of the person calling. If you get disconnected, you will have the information needed to return the call. And ask them how they heard about you (this will help you determine which marketing tool is the most effective in bringing you the calls).

Then ask them to tell you about their situation and what you can do to help them. Make sure you *listen* to what they are saying. If after listening to them, they haven't given you the following information, ask! (You may also want to use the following questions if you were to knock on a door and be invited in.)

Questions to ask the owner

- Do you have an attorney? (If yes, get the attorney's name and phone number. Ask what their attorney has advised them to do. This is important for you to know before you proceed any further.)
- When did you purchase the home?
- How much did you pay for the home?
- How much was the loan for?
- How much do you owe now?
- When did you get the loan?
- What is the lender's name?
- How many payments are you behind?
- What is the monthly payment?
- Does this include taxes and insurance?
- Have you been served with a foreclosure notice?
- Have you spoken to or been in contact with anyone at the bank?

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- How much money does the bank need to bring the loan current?

- Do you have any other mortgages or liens on the property? If they answer yes, ask:
    - What other mortgages or liens do you have?
    - Are you behind on payments?
    - When was the mortgage or lien recorded?
    - What was the original balance?
    - Are they foreclosing or trying to collect?

- Who do I need to contact? Get the names and contact information.

- How is the condition of the home?

- Do you have a current appraisal and survey?

- What do you think the home is worth?

- Do you still live in the home?

- Are you current with your property taxes?

- How much are your taxes?

- Do you owe the IRS any money?

- Have you spoken with anyone else about this problem?

- Is your home listed with a Realtor?

- Have you signed any contracts or anything else related to the house?

- Do you own any other properties? If they do, ask for the address or addresses of the other properties, and if they are behind on any payments for those properties.

Ask them to tell you about the house. Again, really *listen* to what they are saying.

You can expect that they will tell you the basic details about the house, such as the square footage, style of the house, number of bedrooms and baths, if it has a garage or carport, and any special features or amenities. But you also want to know about

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the condition of the property. Ask them how much work it will take to get it fixed up. Also ask:

- What are your plans?
- Would you consider selling your home?
- Would you consider moving if I helped you with the moving expenses and down payment on a new place?
- Do you have any family you could move in with?

If they seem uncomfortable answering these questions, let them know you need this information to determine how you can help them.

Many homeowners will open up to you. They want to know what you can do for them. They want to know how you can help. Let them know you can purchase their home quickly; you have worked with owners in all kinds of situations. But to be able to make an offer, you need to know what the home is worth, how much they owe, and what their expectations are.

To get this message across, you might say:

"We can purchase your home quickly, often within a week. We have worked with owners in similar situations as yours. Many have had very little or no equity in their homes. We can still buy the home. For us to make an offer, we will need to evaluate the condition of the property and what it is worth. You probably already know what is needed to make the house presentable to sell. We will take care of the repairs. We will also need to know what you owe and what you want from the sale."

Then say:

"Tell me a little bit about your home and situation."

You want to know why they need to sell their home. One of the reasons we stress listening to the owner so much in this manual is because if you truly listen to them, you will find they will often tell you the reason they have to sell. As they tell you about their circumstances, you need to understand what is happening in their lives. Try to determine the difference between what they want and what they need. If you were in this situation, what would solve your problem?

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Some things you can tell them (after listening!) would be:

"Would it help if I started making payments on __(date)____?" Or, *"I can take over your house immediately and make your payments to relieve you of that burden."*

If you feel there is enough equity in the property:

"I can give you money to move and get settled into a place you can afford." Or, *"If I were to take over your home immediately, so you can move, would that help you?"*

"I can understand how frustrating it must be to owe so much that you cannot even afford to pay the costs to sell your home. We have helped many people who were also in a similar situation. We have purchased homes with little or no equity."

Finding out their "needs"

As we mentioned, your goal is to not only evaluate the property and opportunity through this call, but to also find out exactly what needs the owner has that you can fill. You will go a long way in accomplishing this if you can establish rapport with the owner by listening to what they have to say and helping them feel comfortable with you and your ability to help them. You will also learn a great deal by asking all the questions above.

Once you have the information from them about the property and their thoughts on its value and condition, your next step is to see what kind of offer they might accept – how motivated are they?

Use one or more of these questions:

"Would you sell me your home for what you owe on it?"

"If I were to pay cash and close quickly, what is the least you would accept?"

"If I take over your home and let you stay until you need to move, would you be ready to sign papers today?"

"If you were to sign the paperwork today, you could just start over and be free of the hassles this house is causing. Would that be of help to you?"

If they are behind on their payments, ask:

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"How many months are you behind?"

"Have you received anything from the bank yet?"

"If I came in and made up your back payments, how soon can you move?" Or, *"Have you been looking for a place that better fits your budget for now?"*

You need to give them some hope. Remind them this is only a temporary situation.

As you talk with them, go through the property information sheet and write down the information they are giving you. Be sure to have a blank paper next to it so you can listen and write down what they are telling you. You will find that if you let them talk, not only will you usually learn much more about what is going on, but you will also make them feel more comfortable with you.

You are a problem solver and they need to understand you can help them.

Get the appointment

By now you should have built rapport with the seller, you know what he may be willing to do, you are getting close to figuring out or have already figured out what you can do to help him out get out of his current situation, and you will have a good idea about how motivated he is.

In your phone conversation, you will have already introduced the concept of you taking over the payments on the property and you will know if he may be receptive to this. If you feel this is a potential deal, your goal at this point should be to get an appointment. Ask the seller when you can come over and meet with him. Make sure all of the owners will be at the meeting, if at all possible. If one is out of state, try to set up a conference call with that person at some point. Let the person you talk with know you will need everyone who is on the deed to sign the paperwork in order for you to purchase the property. You want some dialogue going on between those who are in ownership of the property.

Also, try to have the meeting at the house that's being sold. Sometimes there may be extenuating circumstances that cause the first meeting to be somewhere else. That's okay. Just remember it is preferable to meet at the house so you can see the inside of the home.

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Ask the owner to gather all the information he can about the house and the mortgage before the meeting (payment stubs or statements, copy of the mortgage/deed of trust, letters and correspondence from the bank if in pre-foreclosure, property tax information, copy of the deed, etc.).

Before you meet with the seller
Before meeting with the seller, you will want to get the comps if you are not familiar with the area. This will help you determine if there is good equity, little equity, or no equity in the property.

You may find that the homeowner owes quite a bit more than the property is worth. If so, you would have to then consider if it was worth doing a short sale (we'll learn more about short sales later in this section), or maybe you'll decide you do not want to go any further with this deal. If you choose to not get involved, call the owner back and let him know of your decision and why.

If you do decide this looks like a great opportunity to make money and help the owner, then you may want to drive by the house before the appointment. Look over the neighborhood and if you still feel like this property has potential, keep your appointment. If not, call the owner and cancel the appointment, explaining why.

Paperwork checklist for pre-foreclosures
Plan ahead and have all the documents you need in a file folder that you can take with you to your meeting with the seller.

When you meet with the seller, you will determine if you can do something with the property. If you decide you want the property, then use the following documents:

- Authorization to Release Information – Get this signed so the lender will talk to you. A sample is provided at the end of this chapter. When contacting the lender, you want the payoff department. While on the phone with the payoff department, ask:
    - How much is the principal balance?
    - How much are the monthly payments?
    - Does that include PITI?
    - Is the mortgage current?
    - What is the interest rate?
    - Is it a fixed rate or variable rate?
    - Is there a prepayment penalty?
    - Also, order a payoff quote (what amount will pay

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the loan off) and have them fax the quote to you. This quote is usually good for 30 days. If they are behind in payments, order a reinstatement quote. Ask how much would it cost to get the loan back on track.

- Standard Purchase and Sales Agreement – This is the purchase contract between you and the seller. Once this is signed, you will fax a copy to the title company and order a preliminary title search. You can have it notarized, but it is not necessary.

- Residential Lease with Option to Purchase – This is an important document if you plan to bring the loan current to take over the payments.

- Seller's Property Disclosure – This is an important document to have the seller fill out, disclosing the condition of the property. Get a copy from your local board of Realtors.

- Bill of Sale – Use a Bill of Sale if personal property is involved (such as a refrigerator, washing machine, dryer, range, etc.). A sample Bill of Sale is provided at the end of this chapter.

- Affidavit and Memorandum of Agreement – If you are concerned the seller may sell the property to someone else before you close, this document would create a "cloud" on the title. A sample is provided at the end of this chapter.

Step 4 – Meeting with the Owner

As you meet in person with the seller, pay careful attention to what they say. They may even reveal more information to you in person than they did on the phone.

If they are willing to talk, try to find out what is happening. Attempt to find out why they stopped making payments. Try to determine what their needs are by asking questions.

- Have they tried to get a loan?

- Are they planning on moving?

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- Do they have a place to go?
- Do they need help to move?
- Are creditors harassing them for money?
- Are their utilities current?
- Do they need cash?
- What do they need the cash for?

Don't just jump from question to question. Listen to what they are saying and they may answer these questions without you even asking them. However, realize that these are the types of things you need to know in order to try to find the right solution.

Whatever you do, you need to establish credibility. The owner needs to feel he can trust you. He needs to know you can help him. Never say anything that isn't true. DO NOT make promises you can't keep. Be very clear about what you can and cannot do.

You may find owners who are in denial. If so, you need to help them face the fact they will lose the property if they don't do something. The train is barreling down on them, picking up speed. That roof over their head will soon be gone. Whatever equity they have worked so hard to build will be gone. Their credit will be destroyed.

Have they talked with anyone else about the foreclosure? Realize they may have been approached by other investors. Additionally, attorneys often receive lists of people in foreclosure and market their services to them.

Are they about to declare bankruptcy? If they have talked with an attorney, you may need to explain bankruptcy is only a temporary quick-fix. Once the bankruptcy is done, foreclosure continues and credit is damaged even more.

Have they talked with a Realtor? Often, the Realtor does not get the home sold in time and the house gets foreclosed on. If they are thinking of listing the house and will not commit to working with you, suggest they exclude you on the listing if they end up using a Realtor (basically, this exclusion indicates that you and the seller have been in discussions about possibly

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purchasing the property prior to the Realtor getting the listing; if you end up purchasing the property, the Realtor doesn't get a commission since you are listed as an "excluded" buyer). That way, when they realize the Realtor will not get the home sold in time, they can call you to purchase the house and they can avoid paying commissions.

Look at the owner's records
At your meeting with the seller, you will want to look at the materials you've asked him to have ready.

Look at the tax records to get the legal description of the property. Write this description down exactly as it is written, even if there are mistakes (it's better to get an actual copy of it).

Look at the deed. Are there other owners of the property that are going to need to be involved in this sale?

Find out what the zoning is and if the owner has a survey and a termite report.

Look at the mortgage statements to find the lender's name, address, and the account number. If the owner is behind in payments, be sure to look at any letters from the lender. Often, you will find a contact person for you to talk to. See if the owner will let you make a copy of their paperwork.

You'll also want to know when the seller can move out. They may need "moving money." Write down the terms the two of you have agreed upon. This will help you in writing your purchase contract.

Are there any other liens, mortgages, deeds, judgments, or encumbrances on the property? Find out exactly how much they owe. Remember it is possible that they'll lie to you, but usually they don't. Many times their mind is so fogged, they simply cannot think clearly and they just forget! That's one of the reasons why you want to get as much information as possible. You will verify everything later.

Let them know you may be able to help them by stopping the foreclosure and saving their credit. If they need money to move, you can pay their first month's rent and deposit (pay this directly to the new landlord; do not hand the seller the cash or they may spend it on something else). You can give them cash after they have moved out.

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The main thing you need for them to understand is that you will work to stop the foreclosure by bringing it current and by making the payments until such time as the property sells or you refinance it.

As we said before, sometimes they just want out and will deed the property to you. They are walking. They may be angry at the bank and would rather you get the property than the bank. Or they feel if they deed the property to you, they will be rid of the financial obligations haunting them.

Regardless, you will want to be sure to get a letter authorizing you to talk to and negotiate with the lender and/or attorney concerning the mortgage. This is the Authorization to Release Information document discussed previously. Have the seller sign this document. You will want to confirm with the lender what it will take to cure the loan and how much is left on the principal balance, but you will need the letter from the owner for the lender or attorney to release this information to you.

Do not forget that interest accrues daily and the amount it would take to stop the foreclosure now will be different than what it will be in two weeks.

Step 5 – Analyze and Inspect the Property

If you haven't already asked, ask the owner what he thinks the property is worth and what he is willing to sell it for.

Walk through the house and, if possible, do a thorough inspection of the property, preferably during the day. Turn lights on and off, flush toilets, and turn on the water to check the water pressure. Take a flashlight and look under the sinks, noting any damage you see. Look for water stains on the ceiling. Also, look at the condition of the roof. Find out how old the roof is and if they have had any leaks. Determine what kind of heat is in the home. Ask about the electrical system and the plumbing. Ask the owner what he thinks it will cost to repair the damage. With experience, you will be able to make an offer at this point, with contingencies included to help protect yourself while you verify the information.

Step 6 – Sign the Paperwork

If both you and the seller decide to move forward, you will have him or her sign the appropriate documents. The most important documents you will do at this time are the purchase contract

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(with contingencies included in the addendum to protect yourself – consult with your lawyer) or the residential lease option contract, and an authorization to release information document. The reason you would want to get the property under contract is to tie it up while doing your due diligence, but if you are not comfortable writing up a contract to purchase, then just have the letter of authorization signed. With it, you will be able to verify the information about the property and the owner's situation.

Some investors, while they are in the seller's home, will make a call to the lender's automated system to help validate the information they are putting into the purchase contract. The mortgage statements will also prove to be helpful.

Using the information you have gathered from the owner and from inspecting the property, make an offer. You will want to tie up the property to prevent another investor from slipping in. You will put in escape clauses to limit your risk. Some "subject to" clauses you might want to use are:

- Sale is contingent upon buyer's partner's approval.
- Sale is contingent upon buyer's approval of title report.
- Sale is contingent upon buyer's approval of inspection of property.
- Buyer shall have access to the property for the purpose of inspections and showing the property to prospective occupants.
- Buyer to receive a key upon signing the offer (if vacant).
- Buyer may assign this contract to any person or corporation prior to closing.
- Seller is aware that buyer is buying the property at a discount.
- Seller is aware that buyer intends to make a profit.
- Buyer to pay all costs incurred at closing. (Seller doesn't have money!)
- The liabilities for this property shall be for the property itself and shall not exceed beyond that.

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- This contract is subject to buyer being able to stop the foreclosure.

Create a contract that spells out the terms you have negotiated with the owner. Sometimes you create this contract during the negotiation. As you tell the owner what you can do for him, write it down in the addendum. For example, you might write in the addendum:

- Buyer to pay seller's first month's rent and deposit for an apartment up to $1,000.

If you plan on bringing the loan current and taking over the payments, then you would want to "buy" with a lease option. That way you will not have to get a loan to "purchase" the property. By doing this, you would gain control of the property and you would use various exit strategies.

If there is a lot of equity and you don't have enough cash to cure the loan and give the seller more money, you could give the seller some money now and in the addendum put:

- Buyer to bring loan current and make payments until buyer sells the property or refinances.

You may want to have your attorney help you prepare a contract you can later use as a template for all pre-foreclosure contracts you write, if you work in an area or areas where the same rules and laws apply to your contract. (Note: Many states require you provide the seller with a "Notice of Cancellation." In California, this is mandatory. It gives the homeowner a period of time, usually three to five days, to back out of the deal. This period is known as the "right of rescission.")

Have all owners who are on the deed sign the contract. Protect yourself by having the owners sign a Letter of Agreement and Addendum. Again, regardless of whether or not you are at the contract stage, make certain you have the owner sign the authorization letter, allowing the bank or attorney to release information to you.

Step 7 – Verify the Information

Now that the property is tied up, verify the information. You will want to confirm loan balances, amount of payment, and other liens. You will also check the title (order title work and

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insurance if possible), and order any inspections you may wish to do. This is all part of doing your due diligence.

Quickly go to the courthouse and check the title. If the title looks good, order a title report and title insurance. Some title companies will not issue title insurance on a home with an existing mortgage, but try to get title insurance whenever possible (it is a protection to you). If you cannot, make sure you have a competent title company and, if everything looks good after the preliminary search, quickly file the warranty deed. If you have found a lot of liens and judgments, get out of the contract.

If you have not yet talked with the lender or the attorney who is handling the foreclosure, you need to do that right away. With the authorization letter signed by the owner, you should be able to get the pertinent facts about the money owed on the property. Some larger institutional lenders may take a little while longer to give you the information you need, so be sure to contact them as soon as possible. Also, with the authorization letter, you will order a reinstatement quote and a payoff quote from the lender.

Sign the purchase contract as soon as you and the owner feel comfortable. Again, you should tie up the property quickly to prevent other investors from getting the deal. With your contingencies in your addendum, you and your attorney can limit your risk.

As you get comfortable doing foreclosures, you will always want to get all of the documentation up front. Many investors will immediately file the warranty deed to protect their interest in the property. You will find that if there is a problem with the property and you decide not to go forward, you can deed the property back to the owner.

What to do if there is not enough equity

Sometimes you may find there is not enough equity in the property because of junior liens and judgments. What do you do?

You could throw up your hands and walk away. Or you could contact the junior lien holders and negotiate with them to discount their liens. At auction, most junior liens are wiped away. And most lien holders understand what they are doing when they file the lien. The lien was filed because they were unable to collect a debt. They realize they may never collect the money.

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When you talk with them, let them know you were thinking of buying this home that's in foreclosure, but because of all the liens and judgments, there just isn't enough equity in the property to do so. You want the lien holder to know there are other liens, some of which may have been filed before his! This usually gives the lien holder more incentive to work with you.

Tell him that because of his junior lien, there is no equity, but if he will sell the note at a discount, you may be able to make it work. Expect the lien holder to go down to at least 50% of the lien. Lately we have seen a lot of junior lien holders taking 10 to 20% of the lien. That's as low as ten cents on the dollar!

Step 8 – Closing

Be certain you have done all your due diligence. Verify the information you have and make sure you approve of the terms and conditions you will get if you purchase the house.

You will want to make sure you do all of the following:

- Get a title search
- Have an inspection done on the house
- Receive the payoff amount from the lender
- Negotiate with any other lien holders, if applicable, and have a commitment from the lien holder to sell the note at a discount
- Look at bids for repairs
- Have the money or OPM to cure the loan (see Exit Strategies coming up next in this chapter)

If this has been completed and you know this is a property you want, you are ready to close. Your title company or attorney will help you do this.

You will now have the seller(s) sign any remaining documents, such as the purchase contract and/or lease option contract (remember to put your contingencies in the addendum). Any documents that need to be notarized will be signed in front of a notary. If you have not already done so, you will need to have the owner sign the warranty deed (you can get one from your

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title company or attorney). Immediately record the deed or have the title company record it. Once the deed is recorded, the home is yours! Make the monthly payments until you can get a new loan or sell the home.

If you want to cure the loan by bringing it current, make sure you have the lease option contract signed and the letter of Memorandum of Option to record. Verify you have the correct amount the lender needs to bring the loan current and stop the foreclosure. Usually you have to submit a cashier's check. You will give the money to the lender or attorney to stop the foreclosure, or your title company or attorney will do this for you. Often, you will be under a time crunch and need to hand carry the check to the attorney's office or to the courthouse before the auction!

Once all this paperwork is completed, copies of the appropriate paperwork will be sent to the appropriate companies and a copy of all of the paperwork will be kept in your files. You will also make sure the seller has a copy of all the paperwork, as well the title company or attorney who is handling the closing.

EXIT STRATEGIES

Now that you are familiar with the steps in the pre-foreclosure process, let's discuss several exit strategies you can employ:

- You can "buy" with a lease option, bringing the loan current and stopping the foreclosure. You will take over the payments until you either sell the property or, if you plan to keep it, refinance the property. You can do this by using money from a credit card, line of credit, or hard money.

- You can bring in a "money" partner who will fund the deal and split the profits.

- You can assign the contract to another investor (wholesale deal).

- If you have a long timeframe until the auction and the owner has signed a lease option contract, you can fix it up and retail it before the timeframe has elapsed.

- Or after fixing it up, you can refinance it (on appraised value) and then lease option the property to your buyer.

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What do you do if you feel this is too tight of a deal or the property is in a marginal area? In this case, sometimes a short sale may work. A short sale is where the bank is willing to take less than what is owed on the property. You will have to get a loan to purchase the property (we will discuss short sales in more detail in a moment).

Perhaps you should just forget doing the deal. There will be times that a seller will beg you to take the property. You know there are risks involved and you are not comfortable with making any guarantees. Or, maybe this particular property is located in an area that is marginal, yet there is a lot of opportunity for doing a lease option and being able to help distressed sellers. What do you do then?

Start with letting them know what you can do:

"One thing that might work is to have you lease option the property to us and we will try to keep you out of foreclosure. We may be able to stop the ship from sinking."

Let them know you make no guarantee:

"Because there is no equity (or little equity) in your home, I cannot guarantee that we can make your payments or stop the foreclosure from happening. I will have you sign a paper stating you understand that we are not promising we will be able to make your payments or keep the home from going into foreclosure. We are in the business of buying and selling homes. This is what we do every day for a living. We have a large database of buyers and may be able to help you. We have helped others in your situation. But because there is not enough equity, I cannot make you any guarantees.

As I said before, if you lease option the property to us, we will try to keep you out of foreclosure. We may be able to stop the ship from sinking. But I cannot guarantee you will not lose your house to foreclosure."

You will change the wording to fit the situation (for example, if the reason is the location of the property). Just be careful with how you word things. You do not want to offend anyone, nor hurt your reputation.

You may find, however, that you are able to help these people even though you are normally not comfortable with taking on this kind of deal. Just be sure you do not promise anything you

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cannot do. If you promise, and there are problems, you will have to make good on your promise regardless of the expense.

Rarely should you do deals where you cannot promise that you can help the seller. But, if you do one and you are successful, you may want to do more. It can feel great if you are able to help someone when there is nowhere else for them to turn.

Forbearance

You may sometimes be negotiating with the seller's lenders for forbearance.

Forbearance is where the lender works with the homeowner to modify the existing loan and avoid foreclosure (e.g., the lender might put the arrears at the backend of the mortgage, creating a longer time period in which to pay off the mortgage). Or the lender may allow the owner to pay a certain amount extra each month to make up the back payments. Sometimes they will put the back payments along with late penalty fees into a new loan. Many times you can use that to your benefit.

Here is an example of what you might say:

"Our company helps many people/families who are behind on their payments and facing foreclosure. What we do is come in, make up their back payments and guarantee we will make their payments on time every month.

Our goal is to get a family/person pre-qualified to buy this house and sell it, or rent to own it and sell it ASAP, and close out your loan. We would like for you to work out a reduced reinstatement/forbearance to lower the amount of money we have to come up with out of pocket to keep the loan current, as we are helping several families. Who do we need to talk with to get the forbearance package?"

As you can see, if the bank will work with you on a forbearance package, you will not have to worry (if the owner is behind in payments) about how you would come up with the money to bring the loan current. Forbearance can "buy" you time.

Some investors will offer forbearance to build rapport with the owner who is defaulting on their loan. They do it because they realize most owners who work out forbearance with the lender will fall behind again, especially if they agreed to pay more each month. If they fell behind with a lower payment, how will

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they be able to keep making a larger payment? Thus, an investor who has already helped the owner will likely be the first person he or she will contact when problems arise again.

Short Sales

A short sale, as mentioned earlier, is where the lender takes less than what is owed on the property as payment in full. The lender is taking a "discount."

Information you will want to know to see if the property is a candidate for a short sale includes whether or not there is little or no equity in the property.

Look at all the mortgages. What kind are they (conventional, FHA, VA)? What is owed on each one? Are there any other liens or judgments? What is the as-is value of the property? Identifying and estimating the amount it will take to pay off the mortgages and liens will be your first step in qualifying the property for a short sale.

Be aware that if the first mortgage is a FHA or VA loan, there may be certain criteria that will affect you being able to do a short sale. For example, with an FHA loan, they will not accept a short sale unless the second mortgage agrees to receive $1,000 to $2,000 as full payment for the second loan.

You will also need to know who the lenders are and how to contact them. You need to know all the owners who are on the deed and their situation. Why are they in default? What kind of financial circumstances caused them to have this hardship? Have they tried to work something out (forbearance)? Have they filed bankruptcy? If they have, what is the status? Are they willing to sell the property and receive no money?

To be able to qualify the property for a short sale, the lender will be looking at the owner who is in default. They will want to know the financial situation of the owner and if they have any assets they can sell to pay off the loan. Typically, the owner has experienced extreme financial hardship and does not have the means to cure the loan, nor the ability to sell the home and pay off the outstanding balance of the loan.

You will also want them to know what condition the property is in. Does it need repairs? If the property needs extensive repairs, sending bids and pictures can support your request for a short sale.

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Even if the property doesn't need a lot of repairs, what is the neighborhood like? Have properties been depreciating in value? How is the economy? What do the surrounding homes look like? These conditions should be factored in if they are negative situations.

Working with the lender

Just like in our pre-foreclosure process, for you to proceed with talking to the lender about a short sale, the first two documents you will need the owner to sign will be the Authorization to Release Information and the Purchase and Sale Contract.

The bank will not release information to you without signed authorization from the owner. Additionally, the bank does not want to see the seller getting any money. The contract needs to show this and that the buyer pays all closing costs.

The next step is to contact the Loss Mitigation Department (or whatever the lender calls it). Different banks may use different terminology for the department that handles properties that are in default (other names may be foreclosure department, short sale department, reinstatement department, etc.), so you will need to find out the right department name at the bank you are dealing with.

When you contact the bank, you will need to talk to the person handling the account and fax them the signed authorization letter. Let this person know you are interested in purchasing John and Tammy Maxwell's house, but because of its condition, you are only able to pay $_______________.

Or you might tell them:

"I am trying to help John and Tammy Maxwell. They are trying to sell their home and I am willing to purchase the home. However, there is a problem. My Realtor ran the comps for the area and they owe more than the home is worth!

I am willing to help John and Tammy get out of foreclosure, but I can't pay more than the house is worth. Would you consider taking less than what is owed? What do I need to do?"

The lender will provide instructions on what you will need to send them. They may even send you a short sale package that lets you know what you need to do. It will probably include the contract, a "net sheet," a hardship letter, and a financial statement for your seller to fill out. Again, the lender wants to

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see the owner is unable to make the payments and that he has no assets to repay the loan. The hardship letter is telling the lender how much financial trouble the owner is in.

You will then fax the lender a copy of the contract along with the comps for the area, and any other documents the lender has requested.

If the property is in disrepair, you will include a long list of repairs needed to make the property marketable, your highest bid, and some pictures showing how bad the house looks.

Otherwise, give as much negative information as you can, such as information about the local economy if things are not going well, in addition to problems with the neighborhood, etc.

Many times you can get the bank to come down considerably on the price owed.

For the seller's sake, you should work to get a commitment from the bank to waive its right to a deficiency judgment. The lender should not have a problem with this as you have already given them a hardship letter from the seller.

Also key in getting the bank to accept a short sale will be the BPO (Broker's Price Opinion). The lender will send a real estate broker to the property to assess the value. The lender wants to know what the property is really worth. If you meet with the broker at the property, you can point out the problems and give him or her a copy of your short sale package with the pictures, comps, list of repairs, etc.

Note that a short sale takes a lot of negotiating and usually takes longer to close. And not every lender will be agreeable to your terms. But if the lender realizes the short sale will save them the money and time it would take them to foreclose on this property, rehab it, and resell it, they may be willing to take a discount.

If you don't want to bother with a short sale with the first lien holder, you can often create a lot of equity if there are junior liens. For example, if the first is foreclosing, it is usually easy to get junior liens to discount their notes. And if the house is foreclosed on, the junior lien is usually eliminated, thus the junior lien holder would rather discount the note and get something rather than nothing.

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Short sale checklist
The following is a checklist of items you will need to get together for a short sale:

- Hardship letter*
- Completed financial statement*
- Signed Purchase Contract
- Current value of property (include appraisal or comps)
- Estimated Net Sheet or Preliminary HUD1 (ask the title company to help you)
- Outstanding/delinquent taxes
- Last two months of pay stubs*
- Last two years of income tax returns*
- Last two months of bank statements*
- Mortgages (include lender's name, account numbers, phone numbers, name of contact, and payoff amount)
- Net demographic info
- Bid for repairs

* This is information about the seller

REVIEW

Now that we know our exit strategies, let's do a quick review of the steps to doing pre-foreclosure deals:

1. Find deals by targeting motivated sellers. Locate distressed sellers through marketing and networking. Check legal publications or the courthouse for sellers in pre-foreclosure.

2. Pre-qualify seller and property. On the phone, gather the information needed by listening and asking questions. Get the comps. If the seller sounds like they want to work with you, make an appointment.

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Meet with the seller and inspect the home and the mortgage paperwork.

3. Negotiate a win-win situation. You can solve the seller's problem by offering debt relief and/or a quick closing so they can move on with their life.

4. Do your due diligence. Contact the lender to verify payoff. Order a preliminary title search. Crunch your numbers to make sure this is still a good deal. Complete your inspections.

5. Complete paperwork. Get your contract and documents signed. Have a notary available for documents that need to be notarized.

6. Close the deal if you are purchasing the property. The title company or attorney will help you close the deal.

7. Now closed, the property is yours. Determine your exit strategy and market the property to find your buyer.

8. Or "buy" the property using a lease option. Record a Memorandum of Option and choose your exit strategy.

As you have learned, pre-foreclosure provides you the opportunity to purchase properties at a discounted price and provide solutions for homeowners in trouble. Houses are being foreclosed on every day all across America. This produces constant leads and gives you an endless supply of properties and opportunities.

As you work to help these homeowners who are struggling through challenging situations, you can make good money. You will also feel the satisfaction of having helped someone move on with his or her life.

There will be times your heart will feel pain as you witness some of the circumstances these people are in. On occasion, there may not be enough equity to give them any money, but you can still help them by taking over the payments and saving their credit. Foreclosure is horrendous on their credit report. It will take years for them to recover.

Short sales can help sellers when they owe more than the house is worth. They are easier to negotiate with the lender when the house is in need of repairs and is in foreclosure, or

Notes

when the loan is delinquent with little or no equity. You create equity by getting the loan(s) discounted.

Sometimes you will not be able to help a homeowner at all. This can be heart-wrenching. But other times, you will be able to help them out of a desperate situation.

There will be times you may want to purchase the house and let them live there and lease option the house back to them. Whatever you do, the recommendation is to NEVER let them stay in the home. You are setting yourself up to fail. As much as you may like the homeowner, if he falls behind in his payments and you try to evict him, you'll be the one in trouble. Who do you think the judge is going to think is the "big, bad wolf?" YOU! You are the one who took advantage of this poor, innocent homeowner at a time of duress. The judge may even rule the owner can have his house back (at your expense), and may even have you pay huge fines. We want you to help people. Just make sure you don't do it at your own expense.

If you are not sure what to do, seek legal advice. Always get title work and title insurance if possible.

The bottom line: Investing in pre-foreclosures can be rewarding, both financially and emotionally. Become a problem solver and create win/win situations!

ASSIGNMENT

The following is a suggested assignment.

This valuable exercise will help familiarize you with how to access information on pre-foreclosures online and help you get more comfortable with searching your own county courthouse records online in the future. The steps provided here were accurate at the time of printing. The exact steps may change since webmasters often update website information, however, the basic information should still be available on the site and able to be found in a similar matter to what you see here.

1. Go to www.netronline.com
2. Click on "Public Records Online" and then choose Colorado ("CO") from the state list

Notes

3. Click on "El Paso" in the county directory

4. Click "Go to Data Online" for the recorder's office

5. When that page opens, look at the navigation bar where it gives the following options:
   - Election
   - Motor Vehicle
   - Recording
   - Clerk to BoCC
   - Home

6. Click on "Recording" (this will pull up the Recording Department for El Paso county)

7. Scroll down and click on "Recorded Documents"

8. You will see:

Deeds	Written documents for the transfer of real estate.
Deeds of Trust	Legal documents, similar to mortgages, in which property is used as security for an obligation owed by a borrower. In the State of Colorado, a third party, the Public Trustee, is appointed as a regulatory official.
DD Form 214	Documents which state an individual's military record.
Subdivision & Condominium Plats	Instruments which show the legal boundaries of lots, blocks, and easements, at the time of recording, within a subdivision.

9. Click on "Public Trustee" (in blue under the topic Deeds of Trust)

10. In the Public Trustee page's top navigation bar, you will see in yellow writing:
    - Public Trustee Home
    - Election and Demand List
    - Weekly Sale List

11. If you clicked on "election and demand list," you would see a listing of properties that are in pre-foreclosure.

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If you clicked on "weekly sale list," you would see the properties that were auctioned that week.

12. Before you click on either one of those topics (or go back if you already have!), scroll down the page and you will see that a wealth of information is provided via links on the left hand side of the page. Topics include Foreclosure Policies and Procedures, Important Notice to Homeowners in Foreclosure (PDF document), Frequently Asked Questions, and more, as well as sample forms. While this information is all about the foreclosure process and timeframes in Colorado and the redemption period applicable to that state, it does represent the type of information you might be able to find on the link for your state.

13. Now see if you can access this information on your county website!

Important Note: Many states have laws regarding "consulting," disclosure, and home equity purchases if the owner is in foreclosure. Consult with your attorney.

SAMPLE AUTHORIZATION TO RELEASE INFORMATION

AUTHORIZATION TO RELEASE INFORMATION

I/We hereby authorize you to release to ______________________________ any and all information that they may require for the purpose of a credit transaction or loan transfer, mortgage payoff balances, lease/purchase, foreclosure information, etc. You may reproduce this document to acquire reference from more than one source. Should a contract between the parties come about as a result of this report, rental, option to purchase lease/purchase, purchase sell agreement, etc., this authorization to issue a credit report shall continue until the expiration date of such agreement. Thank You.

Name: ________________________________ Date of Birth _________________

Social Security # _______________________ Phone (H) ___________________
Phone (W) ___________________

Current Address ____

City ____________ State _____ Zip _____ How long? ___________________

Previous Address ____

Employer ______________________________ How long? ___________________

Driver's License # ____

Signature ______________________________ Date _______________________

Name: ________________________________ Date of Birth _________________

Social Security # _______________________ Phone (H) ___________________
Phone (W) ___________________

Current Address ____

City ____________ State _____ Zip _____ How long? ___________________

Previous Address ____

Employer ______________________________ How long? ___________________

Driver's License # ____

Signature ______________________________ Date _______________________

SAMPLE BILL OF SALE

BILL OF SALE

For the sum of $____________________ (________________Dollar(s))

___________________________ sell to _________________________

the following items, considered personal property:

____

____

____

____

The above items were owned by __________________ and will become

the possessions of __________________ on or before _____________.

These items are in 'as-is' condition and no claims as to their usefulness are offered or expected.

_____________________________	____________________________
Seller	Buyer
_____________________________	____________________________
Seller	Buyer

____

Date of Sale

SAMPLE AFFIDAVIT AND MEMORANDUM OF AGREEMENT

AFFIDAVIT AND MEMORANDUM OF AGREEMENT

STATE OF ____________________________

COUNTY OF __________________________

The undersigned, being duly sworn, deposes and says:

1. An Agreement was entered into on the ______ day of _________ by and between ________________________________ (Buyer) and ______________________________ (Sellers) for the purchase and sale of certain real property, located at ________________________.

2. The closing of the purchase and sale of said real property is to take place on or about the _______ day of __________________, 2006.

3. For further information, please contact __________________ at the following address and telephone: ___________________________.

FURTHER AFFIANT SAYETH NOT.

Sworn to and subscribed before me this ______day of _______________by _____________________________, personally known to me or proven by satisfactory evidence.

____

NOTARY PUBLIC, STATE OF ____________________

My Commission Expires __________________ (SEAL)

SAMPLE CAR MAGNET AD

Your Foreclosure Today!

Save Your Home and/or
Your Credit !!!

Foreclosure Specialists
Call 888-555-1234
www.yourrealestatesolution.net

SAMPLE NEWSPAPER AD

Your Foreclosure Today!

Save Your Home and/or Your Credit !!!

Our team can help!
Call 888-555-1234
www.yourrealestatesolution.net

SAMPLE LETTERS AND FLYERS

YOUR FORECLOSURE!

YOUR HOME IS SCHEDULED TO BE SOLD ON: ____________________

DATE FILED: ___________________________

DOCUMENT #: _________________________

Dear Homeowner:

You may not be aware of this, but your home has been recorded for sale by public foreclosure auction with the _____ County Recorder's office.

I stopped by today to speak with you about the options available to help in this most unfortunate time.

Your mortgage company cannot give you legal advice and may not offer information to help you save your home. However, they must comply with government rules and timelines that pertain to any programs available for your loan.

TIMING IS EVERYTHING!!!

TAKE ACTION NOW TO SAVE YOUR HOME!!!

YOUR PROMPT ATTENTION TO THIS MATTER IS CRITICAL!!!

Take advantage of our experience. We specialize in solving your real estate problems. Foreclosure is not the only alternative available to you. There is always a positive solution.

CALL TODAY FOR A NO COST, NO OBLIGATION CONSULTATION!!
John Jones: 555-555-5555

SAMPLE LETTERS AND FLYERS

(CONTINUED)

STOP YOUR FORECLOSURE!

Dear Homeowner:

Your mortgage company cannot give you legal advice and may not offer to help you save your home. However, they must comply with government rules and timelines that pertain to any programs available for your loan.

TIMING IS EVERYTHING ! ! !

TAKE ACTION NOW TO SAVE YOUR HOME ! ! !

YOUR PROMPT ATTENTION TO THIS MATTER IS CRITICAL ! ! !

Take advantage of our experience. We specialize in solving your real estate problems. Foreclosure is not the only alternative available to you. There is always a positive solution and we can help you find it!

Call or e-mail us today for a no cost, no obligation consultation!

Call John Jones at 555-555-5555,
or e-mail name@mywebaddress.com

SAMPLE LETTERS AND FLYERS

(CONTINUED)

PRE-FORECLOSURE BENEFITS PROGRAM

- **STOP YOUR FORECLOSURE NOW**
- **SELL YOUR HOME – FOR LESS THAN YOU OWE WITHOUT PENALTIES**
- **STAY IN YOUR HOME "FOR FREE" UNTIL IT SELLS**
- **RECEIVE UP TO $1,000 FOR MOVING EXPENSES**
- **ELIMINATE TAX LIABILITIES**
- **ELIMINATE MORTGAGE LIABILITIES**
- **NO FORECLOSURE NOTATION ON YOUR CREDIT REPORT**
- **AVOID PUBLIC FORECLOSURE PROCEEDINGS**
- **CREDIT REPAIR**

FORECLOSURE IS NOT YOUR ONLY OPTION!

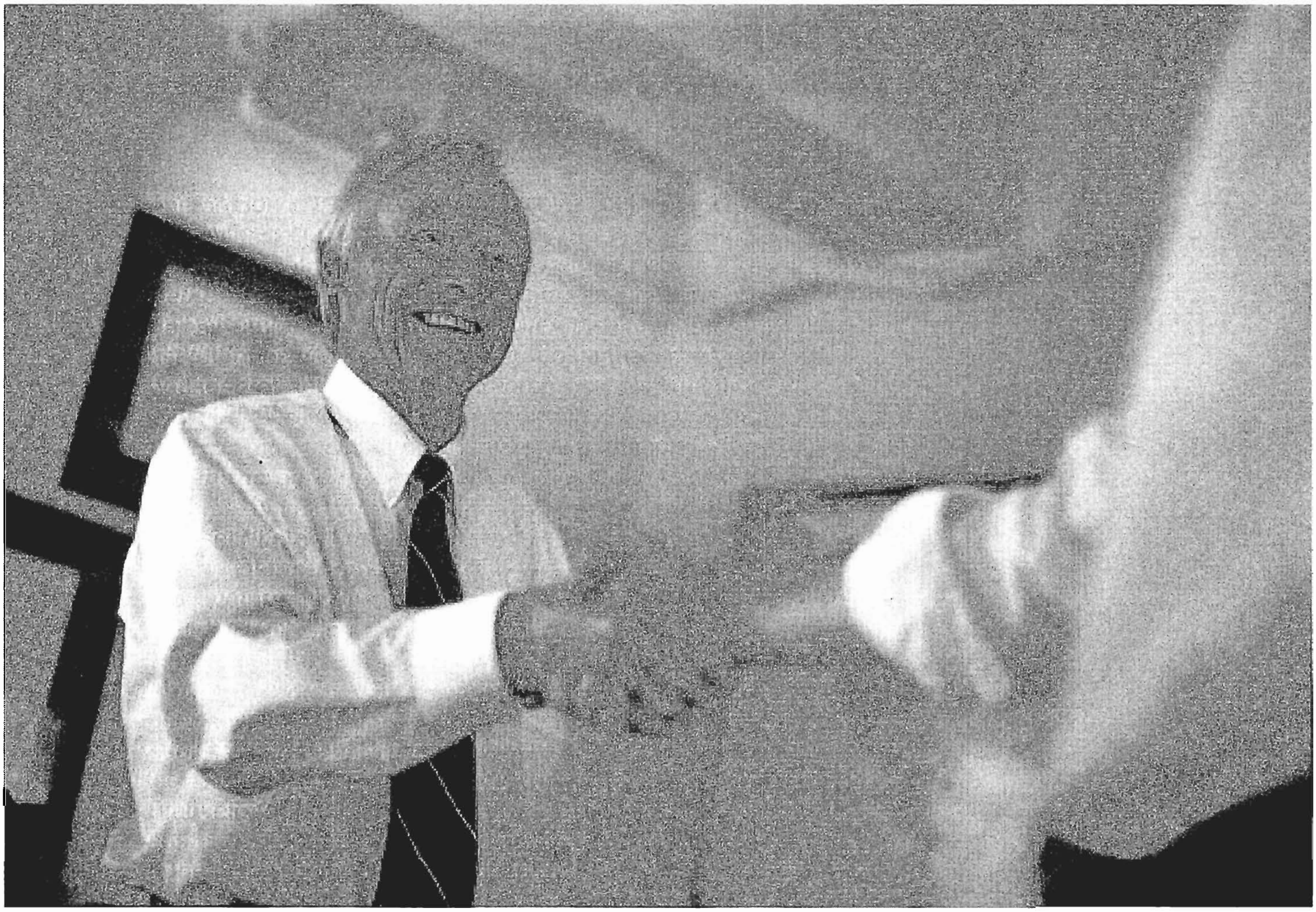
It is possible to work with almost any foreclosure challenge, but time is of the essence. Contact us today to learn about your options!

We have a team of professionals – mortgage lenders, attorneys, debt reduction specialists, and credit repair experts – to provide comprehensive, professional advice regarding your foreclosure status and mortgage. Also part of our team is XYZ Realty Company, one of the most respected real estate brokerage firms in the area.

It takes a well-versed and qualified professional to handle these matters. We can help. We offer tangible solutions.

**CALL TODAY FOR A NO COST,
NO OBLIGATION CONSULTATION!!**

John Jones – 555-555-555



Chapter

8

Negotiating With Confidence

Notes

Chapter 8
Negotiating With Confidence

Have you ever felt like the "cat got your tongue?" Or maybe instead, you felt like you had mothballs stuck in your mouth. You know what you want to say, but it's hard to say it. Or maybe you feel intimidated when you talk with the seller.

To be a successful investor, you need to be able to negotiate. How do you get over the fear of not knowing what to say or how to say it? As with anything, practice makes perfect.

Very few people are skilled at negotiating when they first start out. If you happen to be one of the few who are, great! But if you happen to be like most beginning investors, this section will help you gain the skills necessary to help you become a great negotiator. It really isn't that hard once you understand a few simple concepts.

PRACTICE TALKING TO GET OVER FEARS

First, you need to practice talking with people. When you wanted to learn how to ride a bike, did you study how to do it? No. Instead, you probably just hopped on the seat and tried to ride the bicycle. You may have fallen a few times, but you got back up and tried again. You may have had someone help you at first, and then as you started pedaling, that person let go of the bike. You were exhilarated! You could ride a bike!

The same is true with getting over your fear of talking with sellers. Start by calling For Sale By Owners. As you call, ask them to tell you about the house they have for sale. Let them talk, while you *listen*! Then ask some questions.

If calling FSBOs is frightening, remember what we said before: try to imagine the worst thing possible that could happen. Probably the worst thing would be you feeling like you stuck your foot in your mouth as you were talking to the seller. Then what? You don't get the deal? If you had never made the call, you wouldn't be getting the deal anyway. So what did you lose? Absolutely nothing! If the seller is truly motivated, he won't care if you fumble over a few words. The more you keep calling and talking to people, the easier it will become.

Notes

LISTEN TO THE SELLER

Second, negotiation begins with listening. Your motivated seller does not care how well you articulate what you can do. You can know how to buy wholesale or do a rehab. You may also know how to help people in pre-foreclosure and understand the mechanics of lease options. But if the seller doesn't like you or have confidence in what you can do, you will have a hard time getting the deal. The seller just wants to know you can help him or her. If you haven't listened, you will not be able to know the needs of the seller. Ask questions to understand what will or won't work for the seller.

Remember, as you become a problem solver, you will have sellers wanting to work with you. When the seller trusts you and believes in you, it will not be hard getting the deal closed.

COMMUNICATION AND SALESMANSHIP

As you practice talking to people and listening to them, you are fine-tuning your communication skills and salesmanship.

Communication is vital to being able to negotiate. We have said several times that real estate is a people business. That's because no matter what you do in real estate, you will be dealing with people. Good communication skills involve actively listening to what is being said. You don't worry about what you plan to say next, but rather you focus on what the other person is really saying, both in words and in body language.

A common technique used to let the person know you are truly hearing what they are saying is to paraphrase what they told you. You respond, *"If I understand you correctly, you are saying..."* and then repeat in your own words what they have just said. When they have confirmed you are correct, then you can reflect on the implications of what has been said.

Sometimes there will be sensitive issues the seller may not feel comfortable discussing. When the topic or question arises, give the seller time by being quiet. The silence can seem like a long time, but wait for the seller to answer or finish what they are trying to say. You want the seller to feel safe and comfortable with you. Do not judge them, but respect their feelings, whether you agree with them or not.

At the same time, it is essential you state your position and what you want. Before you start negotiating, you should have

Notes

already analyzed the property and have a limit to what you are willing to pay or know the terms you need to make the deal good for you. Whatever you do, don't go beyond your limit. You will need to be careful to not let emotions get in the way, but you can try to create a win/win situation where you both feel satisfied with the transaction.

So what does salesmanship have to do with investing in real estate? When you are able to buy right, you have succeeded in "selling" the owner as to the price and/or terms of the deal.

Selling skills have a lot to do with relationship skills. A fundamental principle of selling is that people make decisions based on their feelings rather than the facts. This is why it is so critical you listen to what the seller is telling you. As you understand the seller's needs (some of which may only be "perceived" by the seller) and solve the problem(s), you should be able to close the deal.

Certain basic selling techniques will help you in negotiating with a seller. First, identify who the decision maker is. This is the person you will want to talk to. That doesn't mean ignoring another person in the room; it just means knowing you are not wasting your time when the person who will be making the decision isn't even there. Second, know what your competition is doing. How are the other investors handling foreclosures, rehabs, and other investments? Third, you need to recognize objections can mean opportunity. Often, people just need more information. You will need to educate the seller about your proposal and how this will benefit him or her.

THE ANATOMY OF A PRESENTATION

The five elements of an effective sales presentation are:

1. The Introduction
2. The Blast
3. The Probe
4. The Information
5. The Close

Let's see how using these five elements of a presentation in real estate investing will help you negotiate with the seller.

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The Introduction
When you are meeting with the seller, be friendly and shake their hand. Introduce yourself. Get their name. Make them feel at ease. Get them talking about themselves.

The Blast
In sales, the blast is to grab the client's attention. It is short, but gets their interest. In real estate, you want the seller's attention. Often a comment or a question will engage their interest and participation in the conversation.

The Probe
You want to gather information. Not only do you want to know facts about the property, but you are also looking for what motivates the seller.

You are trying to discover the needs of the seller. These needs may not always be logical needs, but rather may be emotional. As you listen and ask questions, you will be better able to negotiate a win/win situation.

Remember, you take control of the conversation by asking questions. Your questions can reflect your genuine interest in the seller's needs and not only help you understand what the seller is feeling, but also help the seller realize their situation.

There are two kinds of questions: open-ended questions and close-ended questions. The open-ended questions start with words like "what," "why," "where," "when," and "how." They invite the seller to explain his or her feelings. This is critical in revealing the seller's needs to you and, at the same time, helping the seller recognize those needs. The close-ended questions usually have short answers like yes or no and can move the conversation in the direction you want it to go.

The Information
Now that you have gathered information from the seller, it's your turn to let them know what you can do for them.

In sales, whenever a concept is presented, it is presented with a related statement of a benefit. Sellers are moved by their feelings and the two major feelings motivated sellers usually relate to are getting rid of their pain or looking forward to moving on with their lives. Once you have explained the benefit, you can ask a simple close-ended question to allow the seller to acknowledge the benefit.

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For example, a benefit you might present is:

"Joe, I can bring your loan current, stop the foreclosure, and save your credit."

The question you might use to help the seller acknowledge the benefit could be:

"If I stop the foreclosure and save your credit, would that help you?"

If the seller acknowledges the benefit, then they believe it will benefit them.

The Close

The close is when you present your offer. In real estate, it is getting the seller to make a commitment and sign the contract. You ask for what you want when you make your offer. Often, you can make two offers for the seller to choose from, either one making a great deal for you.

With time, you will become an expert at negotiating. And once you have closed a deal or two, you will be less intimidated. You will be able to bring things up as a matter of conversation. If the seller asks a question and you don't know the answer, you will answer with confidence:

"That's a great question. I don't know the answer to that right now, but I will get back to you."

Of course, sometimes you will have a "non-negotiable" seller. The seller is simply not motivated. As you learn more and gain more confidence on the phone, you will be able to eliminate "non-negotiable" sellers quickly. But don't take it to heart if you make a mistake and miss one. Occasionally, even to an experienced investor, the seller will appear to be motivated over the phone. After meeting with the seller, you may find they are simply not as "motivated" as they once appeared to be.

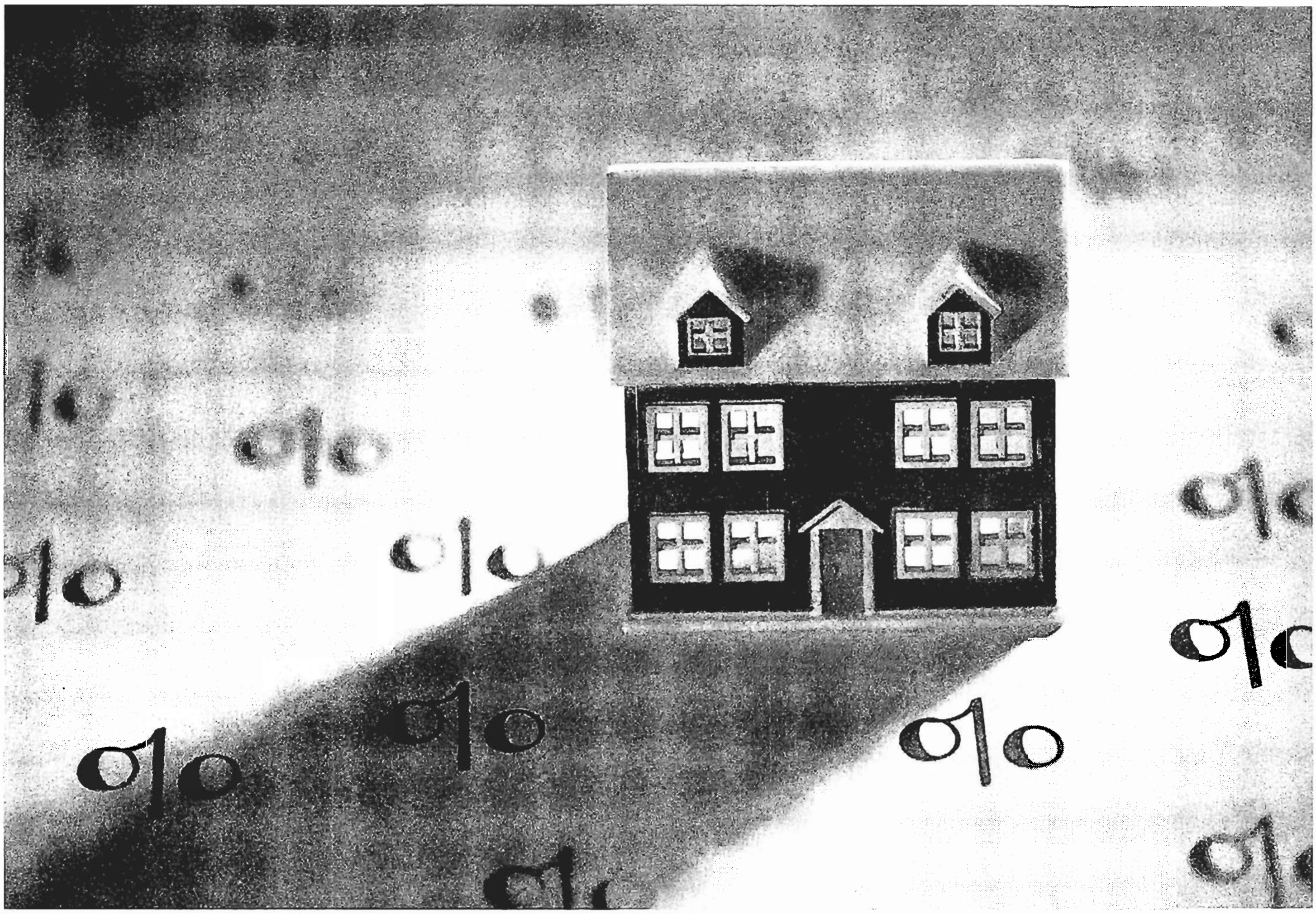
Don't waste time on a seller who is not motivated. Move on to the next deal.

Notes

REVIEW

- To be a successful investor, you need to be able to negotiate
- Practice makes perfect – Practice talking with people to get over your fears
    - Start by calling For Sale By Owners
    - Ask them to tell you about their house and their circumstances
- Negotiation begins with listening
    - If you haven't listened, you will not be able to know the needs of the seller
    - Ask questions to understand what will or won't work for the seller
- Communication is vital to being able to negotiate
    - Good communication skills involve actively listening to what is being said
    - Focus on what the other person is really saying, both in words and in body language
    - Paraphrase what they told you – *"If I understand you correctly, you are saying..."*
- Know the terms you need to make the deal good for you
    - Don't go beyond your limit
    - Don't let emotions get in the way
- Basic selling techniques will help you in negotiations
    - Identify who the decision maker is
    - Know what your competition is doing
    - Recognize objections can mean opportunities

Do not get hung up on the mechanics of the presentation. The most important thing is to listen to the seller and practice talking to sellers and investors. In time, you will feel the exhilaration of being successful at negotiating. You may even discover one of the things you enjoy most about real estate investing is the negotiation!



Chapter

9

Evaluating Properties and Deals

Notes

Chapter 9
Evaluating Properties and Deals

As you look at properties to determine which one you might want to purchase, you will need to analyze the information you have about the property. It is essential for you to establish what your exit strategy will be and if this is going to be a profitable enough venture for you to pursue.

Exit strategies can vary depending on the deal. But there are two main strategies that can be broken down into multiple categories: Either you will keep the property or you will sell it.

THE KEEPER THEORY

The idea behind the keeper theory is that you buy, buy, buy, and never sell. Then when you have enough equity, you refinance and pull out the equity. Because it is loan money, you are not taxed on it at that time. The keeper theory is a good strategy, but should not be your entire portfolio.

THE NON-KEEPER THEORY

The idea behind the non-keeper theory is buy sell, buy sell. This is the opposite of the keeper theory. Buying and selling is a good strategy, but should not be your only strategy because you will not be able to build any passive income, as you would with your "keepers."

INDEPENDENT THINKING THEORY

Someone who subscribes to independent thinking theory uses a game plan for investing that works for their individual goals by diversifying their portfolio. You, too, can create a game plan that can be applied to your individual situation by being creative and keeping your thinking independent. For example, if you need immediate cash in your pocket, you will look at a buy and sell strategy, incorporating a variety of techniques such as wholesale and rehab. If you are looking for passive income, you will make sure the property has a positive cash flow.

EVALUATING THE KEEPERS – INCOME PROPERTIES

If you plan to keep the property and rent it out, you will not only be looking at the Fair Market Value, but you will also be

Notes

calculating if the property has a positive cash flow. In some areas of the country, you can purchase a property below FMV and have a negative cash flow. In other areas, you can actually pay more than FMV and have a positive cash flow. Therefore, it is important you analyze properties appropriately.

Calculating Cash Flow

Your net profit is the amount of money you have after all the expenses are paid. To figure your net profit and cash flow, you will need to get an APOD (Annual Property Operating Data) from the seller. An APOD is simply a spreadsheet with the gross annual income and a breakdown of all the expenses (including taxes, insurance, and vacancy factor).

The mortgage is not part of the expenses. The seller doesn't know how much money you will borrow. Subtract the expenses from the gross annual income. What is left is the Net Operating Income (NOI).

Example:

Gross Annual Income:	$30,000
Annual Expenses:	$8,000
$30,000 minus $8,000 equals:	$22,000 NOI

NOI is not your profit. We haven't factored in a mortgage yet.

Next, you would divide the NOI by twelve to see what your monthly NOI would be. Then you would plug in the mortgage based on 100% financing, whether you plan to put money down or not. You want to cash flow regardless of whether or not you use money out of your pocket.

If you find you are not able to cash flow, then lower the loan amount, which means you will lower the price you are willing to pay for the property.

Keep doing this until the property has a positive cash flow of at least $100 per unit. Now you know the most you would offer on this deal to receive positive cash flow.

Example:

Asking Price:	$275,000
Monthly NOI ($22,000 divided by 12):	$1,833.33
Mortgage on $275K loan at 7% interest:	$1,829.58

Notes

Ouch! This does not cash flow. Let's lower the purchase price to $250,000:

Monthly NOI	$1,833.33
Mortgage on $250K loan at 7% interest:	$1,663.26
$1,833.33 minus $1,663.26 equals:	$170.07 positive cash flow/net profit

This would work if the property is one unit, but if there are two units on this property, you don't have at least $100 positive cash flow per unit, so you would need to lower the purchase price again. Let's make the purchase price $245,000:

Monthly NOI	$1,833.33
Mortgage on $250K loan at 7% interest:	$1,629.99
$1,833.33 minus $1,629.99 equals:	$203.34 positive cash flow/net profit

Your offer on this property would be $245,000 and you would have a positive cash flow of over $100 per unit.

Besides cash flow, there are other factors investors use to determine if they want to purchase the property, such as the capitalization rate (cap rate), the GRM (gross rent multiplier), the ROI (return on investment), and appreciation.

Capitalization Rate

The cap rate is figured by taking the annual NOI and dividing it by the FMV or purchase price. Remember, the NOI is all the income minus expenses before debt service (the mortgage).

Example:

Annual NOI:	$8,319
Purchase Price:	$72,000
$8,319 divided by $72,000 equals:	12% cap rate

The higher the cap rate, the better the deal. The cap rate is used for large multi-unit buildings or commercial property. It is seldom used for properties under ten units.

Gross Rent Multiplier

The GRM is used on smaller unit properties. We figure the GRM by taking the gross annual income and dividing it into the FMV or purchase price.

Notes

Example:

Gross Annual Income:	$12,000
Purchase Price:	$72,000
$72,000 divided by $12,000 equals:	GRM of 6

Because the GRM does not take into consideration the expenses, use it as a benchmark to determine if you want to look at the property. Find out what the GRM is for your area by contacting a real estate broker who specializes in multi-units and ask what the GRM range is for the area. You want the GRM of a property you are looking at to be lower than the average GRM for your area.

Return on Cash Invested

Another formula investors use to determine profitability is to look at a cash-on-cash return, referred to as a return on investment. To figure the ROI, you take the net profit (gross income minus all the expenses, including debt service) divided by the cash invested in the deal.

Example:

Annual Net Profit:	$8,319
Cash Invested:	$10,000
$8,319 divided by $10,000 equals:	83% ROI

If you had borrowed the down payment and therefore have no money of your own in the deal, your return on investment would be infinite!

Appreciation

There are two kinds of appreciation: natural appreciation and forced appreciation.

Natural appreciation occurs as market value increases. During moderate growth periods, you may see natural appreciation rise between 5 to 10%. Low growth cycles can be under 2%, while high growth phases can produce appreciation rates of 10% or higher annually, with some areas growing 20 to 40%.

Forced appreciation is created by rehabbing the property and/or raising the rents. You will find larger profits are made by forcing the appreciation (unless you live in an area where properties are appreciating rapidly).

Notes

You can ask real estate agents or appraisers how much properties are appreciating in your area and what types of improvements would greatly increase the value of the property. Understanding how appreciation can turn into profit upon the sale or refinance of the property will help in your evaluation.

Example:

Purchase Price:	$90,000
Improvements:	$5,000
New Appraised Value:	$132,000
$132,000 minus $90,000 equals:	$42,000 forced appreciation

Natural appreciation of 8% would create $10,560 additional equity in the property after one year ($132,000 X 1.08 = $142,560 value). As you can see, there was a larger profit from forced appreciation ($42,000) compared to natural appreciation ($10,560). You can use both to your advantage if you keep the property. If you want immediate profit, you would use the forced appreciation.

Average Cost Per Unit, Square Footage, Bedrooms

If you are looking at multi-units, you should know what the average price per unit is in your area. It isn't always easy to calculate, as larger units and more bedrooms will affect the price. Some investors will also try to calculate the average price per square foot and the price per bedroom. That may help you have a better idea about what you might expect to pay. Ultimately, the most important factor will be cash flow if you are keeping the property.

EVALUATING THE NON-KEEPERS – BUY AND SELL

When you buy and sell, you have more than one option. As you learned in Chapter 4, you can wholesale the property by getting it under contract and closing with a double closing or by assigning the contract.

Another strategy is buy, fix, and sell (rehabbing a property). This is where you purchase a property, fix it up, and resell it. You can make a greater profit, but it takes longer to realize the profit than if you wholesale the property. The buy, fix, and sell technique and how to spot the right properties to target for rehabs is what we will be discussing in this section.

Notes

Determining Market Value

Your first step in analyzing properties you will buy, rehab, and then sell is to decide what the house is worth fixed up.

In Chapter 1, we discussed how to determine property values using the comps. It may be worthwhile for you to go back and review the information in that chapter. Deciding the realistic value of a property is one of the most critical aspects in determining if the deal is profitable. An error can mean the difference between financial success or disaster in your real estate investing.

You will also want to target an area where people want to live. You want to pick an area that will attract buyers. You should also be looking for cosmetically distressed properties, not major rehab (unless you are wholesaling).

If the property is listed with a Realtor, you can ask the Realtor these questions:

- Can you tell me about the property?
- How long has it been on the market?
- How long, on average, does it take to sell a home in this area?
- Why do you feel the house has not sold?
- At what price do you feel the house will sell?
- What is the condition of the home?
- Does it need any work?
- Has there been a price reduction?
- Why are they selling?
- Are the owners motivated?
- Do they live in the home?
- (If the property is vacant) How long has it been vacant?

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- What are similar houses in the area selling for?
- If a home in good condition was put on the market ten percent below market, how long would it take to sell?
- Can you tell me about the general market conditions?
- Are there any recent developments that will influence the value of properties?

If the property is FSBO, go back to Chapter 1 for a list of questions to ask the homeowner.

If you have determined from your initial questions with the Realtor or FSBO that the property needs work, you may want to ask about what repairs might need to be done:

- How old is the heating system?
- Does the electrical need to be upgraded?
- Is the plumbing in good condition?
- In what condition are the doors and windows?
- Does the kitchen need updating?
- How is the bathroom(s)?
- How old is the roof? What is the condition of the roof?
- How are the floor coverings?
- How much money will it take to repair the home?

Physically Inspect the Property

Once you have determined there is potential profit, you need to physically inspect the property and determine the realistic condition of the home. Be sure to take a clipboard with you to write on as you conduct a thorough inspection of the home.

We have included a Rehab Checklist at the end of this chapter for more ideas on what to look for in your inspection and to help you record your findings.

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Exterior

Begin your evaluation on the outside of the property. Start with the landscaping. Look for any potential problems. Watch for trees too close to the foundation. Check to make sure tree branches are not hanging over the roof.

How does the lawn look? Does it have good drainage? Is the property fenced? Check for cracks or erosion in the driveway. If there is a pool, inspect the liner and the foundation. The pool should be fenced. Check the condition of the plumbing, filter, and electrical outlets.

Now evaluate the exterior of the home. Start with the foundation. Check for deterioration that would allow moisture to seep in. Look for settlement that distorts the frame of the house. Are there large cracks or separation? If there is structural damage, an engineer should inspect the house.

Now look at the exterior walls and siding. Houses will have many different forms of siding. Look for cracks and loose mortar in a brick wall. Inspect stucco walls for cracks and bulges. Make sure siding is snugly secured and is level. Does the wood need to be painted? Look for rotted wood. Be careful of asbestos siding. If it needs to be removed, it must be completed by a certified asbestos removal company.

Now look at exterior additions to the house such as a garage, porch or deck. Look at the exterior of the garage for any cracks or problems with the slab floor. Do the rafters show problems with water leakage or settlement? Is there rotted wood? Open and close the garage door. Examine the porch for decay. You can use a screwdriver to poke at the base of posts and railings for rot. Jump on the floor to determine sturdiness. Check a patio for cracks and drainage. Examine decks for signs of warping or rot. Does the deck or patio need to be painted?

Walk around the house to examine the roof. A pitched roof will be less likely to leak than a flat roof. Check the flashings. Look for patched and damaged sections or sagging. Does the roof have more than one layer of shingles? The roof will be more expensive to repair if it does.

Interior

Now move into the interior of the home. Go from room to room looking at each wall, the ceiling, and the floor. Start with the door and windows. Look at their condition and open and close them. Inspect the areas around the doors and window frames.

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Look for water stains. Check the condition of the walls and look at the switch plates and plugs. Turn the lights on and off. Examine the light fixtures. Check for water stains on the ceiling. In what condition is the flooring? If the carpet needs replacing, determine if the floor underneath is plywood or hardwood. If there is hardwood under the carpet, you may only need to refinish the hardwood instead of replace the carpet.

Kitchens and bathrooms will need to be examined in the same way as each room, but you will be turning on faucets and flushing toilets to determine water pressure. Look under the sinks for water stains or leakage. Check for rot. Examine the cabinets, opening and closing each door or drawer. Inspect the sinks, tub, and toilet. Check the countertops or tile for wear and cracks. Check the fixtures to make sure they are not loose. Make sure there is a GFI (ground fault interrupter) outlet where needed. Turn on all the appliances that are included in the purchase of the property. Inspect the inside of the refrigerator, oven, and freezer.

Check the attic and basement or crawl space. Make sure there is ample insulation in the attic. Check the rafters for any sign of water damage. If the home has a basement, check for cracks, bulges, or separation. Are there signs of moisture/dampness? Musty odors usually indicate moisture coming in. Look for water stains. If there is a sump pump, test it. If the basement is finished, look at the base of the wall for water stains.

Plumbing, electrical, and heating

You should have already been turning on faucets to check water pressure. Also look at the drainage to make sure the water drains properly. Look for any leaks as you flush water through the system. If the property has been vacant through the winter and the plumbing was not winterized, you can expect damage from frozen water lines.

In an older house, you will often find the electrical system will need to be updated. There will be a fuse box instead of a circuit breaker panel. Count the number of outlets and switches in the home. In older homes, you will likely find only one to two outlets per room. If ceramic knobs hold the wiring together, then expect to rewire the entire house. Anticipate installing a circuit breaker panel box with a main shutoff breaker and upgrade the electrical system to a minimum of 100 amps. Check to see what the local codes are for your area. If there is a circuit breaker panel box, make sure the circuits are not overloaded. Air conditioners, refrigerators, washing machines, and dryers

Notes

should each have separate outlets. Check how many outlets are in each room. There should be at least one outlet on each wall, and more if it is a large wall. As mentioned earlier, kitchens and bathrooms should have GFI outlets.

Heating systems are steam, hot water, or forced air. Steam heat is produced in a boiler that is fired by gas, oil, or electricity. Hot water heat is created by a boiler or a hot water heater. Look for water stains or corrosion on the outer cover of the boiler. If there is water on the floor, there may be an internal crack or leak in the boiler. Look for maintenance tags to see when the boiler was last serviced. Turn on the boiler to see if it is in good working condition. If the boiler is fired by oil, check the oil burner to see if it is old and look for cracks in the heat exchanger.

With forced air systems, look to see if the furnace is centrally located in the home. This creates an efficient system where there is less heat loss as a result of shorter ductwork. When inspecting air conditioning units, you should look for signs of rust or deterioration on the condenser and check to see that it is securely mounted to the base.

Sewer, septic, and wells

In areas not serviced by a sewer system, a septic tank is used to collect the sewage. Find out the date the tank was last cleaned and the capacity of the tank. Replacement can be very expensive. If the house is on a well system, you need to check the water pressure and have the water tested.

HOW TO GET THE MOST FOR YOUR MONEY

When you rehab a property, it is essential to know where to spend the money with your improvements to the property.

The kitchen and bathroom are what sell the home and increase the value the most. This is where you will get the highest return on your money.

Additionally, making sure there is curb appeal will add to the salability of the home. And painting the inside of the home is almost automatic. It gives the home a fresh look.

You will also most likely need to replace or refinish the flooring. And electrical and plumbing must meet code. If you are working in more than one city, sometimes the code will vary between cities. Always pull permits for work that requires a permit.

Notes

Kitchen
Look at the cabinets. Make sure they are in good shape, both inside and outside. Paint, stain, or replace them as needed. Replace the faucets and sinks, if needed, and make sure the countertops are free of nicks and scratches. You'll also want to check for suitable lighting and replace the fixtures as needed.

You will want the appliances to be clean and in working order. Be sure you are at least including a stove and refrigerator. If the appliances need updating, replace them. Check out places where you can buy used appliances.

You will probably need to replace the flooring, unless it is hardwood (which can be sanded and refinished). If the home is in a higher priced area, you will want tile or hardwood floors instead of linoleum.

Bathroom(s)
Look at the bathtub. If it is chipped or permanently stained, you need to address it. Since it can cost a lot to remove the tub, if it does need repairing, consider having it resurfaced rather than replacing it.

Make sure there are no missing tiles and that the tiles are even. Caulk where necessary, as caulking gives a nice finished look. Update the vanities, sinks and faucets with inexpensive ones.

Toilets must be clean. If you can't get rid of the corrosion, replace the toilet. And always buy a new toilet seat. It gives the bathroom an instant sanitized look and makes everything in the bathroom seem cleaner. As with the kitchen, check the cabinets, both inside and outside. Paint, stain, or replace as needed.

Curb appeal
Purchase a nice front door. This gives the home a nice facelift. You want a solid door that is both safe and attractive. Clean up the yard and do a little landscaping. Plant some flowers, trim the trees, and pressure wash the driveways and sidewalks. Make sure the windows are clean and have good screens. Paint or side the house as needed. Adding curb appeal invites your buyers to want to see the home.

CRUNCHING THE NUMBERS

Now that you know what to look for when evaluating a property and what types of rehab projects will bring the most money, you are ready to calculate what you are willing to pay for this

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property. First, you need to determine what you can sell this property for fixed up. Some investors will take the after-repair value and reduce it ten percent so they can make a quick sale. But if you live in an area where properties sell quickly, you may want to ask full market value.

From the amount you are planning to sell the property for, subtract the repairs. If you are unsure of the costs to fix up the property, get some bids.

Whether you plan to do part or all of the work, you still need to subtract both labor and material. Your time is worth money. If you find you don't have time to do the repairs, make sure you have budgeted to pay someone else to do them.

Many students start out doing all the work or part of it themselves. Be careful that it doesn't cost you more to do the work yourself! Holding costs can add up if you have limited time to repair the property, thereby costing you more in the long run. As you continue doing the business, you will find your time is extremely valuable and you will come to understand the importance of hiring contractors and subcontractors to do the repairs.

Next, you need to figure the closing costs, both as a buyer and as a seller. We are not suggesting that you never ask the seller to pay the closing costs. ALWAYS ask the seller to pay your closing costs (except when purchasing foreclosures, as the owner doesn't have money). But if the seller says no, you have calculated that as a cost in determining the most you will offer. If the seller says yes, now you have put more money in your pocket! If you are not sure how much closing costs are, you can ask your title company or attorney what they charge. Ask them what the percentage would typically be for you as a buyer and as a seller.

Now you need to figure in the holding costs. To do this, you will need to first determine how long it is going to take to fix up the property and once it is fixed up, how long it will take you to sell the property. For repairs, whatever length of time you come up with, or you have been given as an estimate in the bids you received, double it. Most of the time, the property will take longer to repair than expected.

Next, estimate how long it will take to sell the property. You can use comps to determine the typical timeframe it takes for a house in that area to sell.

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Once you have calculated how long it is going to take to fix up the property and sell it, then you will combine both timeframes to decide how much your holding costs will be.

For example, if you had a bid that it would take four weeks to repair the property, and it takes three months to sell a property once you put it on the market, your holding time would be five months (four weeks repair time doubled equals two months plus three months to sell = five months holding time).

Now that you have figured out your holding time, you are ready to calculate your holding costs. Whatever number you have come up with for a purchase price, you will subtract that many weeks or months of property taxes, insurance, utilities, outside maintenance, and mortgage payments.

Next, you need to decide how you plan to sell the property. If it is FSBO, you will have advertising costs. If you use a Realtor, you will have to subtract a Realtor fee. If you think you will start out as a FSBO and if you can't sell it within a certain timeframe, you will then list it with a Realtor, subtract both advertising costs and a Realtor fee. If you end up not using the Realtor, you have just put more money in your pocket!

How much profit do you want? We would recommend that you make a MINIMUM profit of $10,000. If you want more, great! Many of our students have made considerably more. Just be sure you make at least $10,000.

The formula would be FMV minus repairs (both labor and material), closing costs, holding costs, selling costs, and your profit. This equals the most you would offer on this property.

Here is an example of how you would crunch the numbers:

Market Value	= $100,000
Repairs	- $4,500
Closing Costs (as a buyer and a seller)	- $5,000
Holding Costs	- $6,166
Selling Costs	- $6,000
Your Profit	- $10,000
Most you would offer	$68,334

Notes

REVIEW

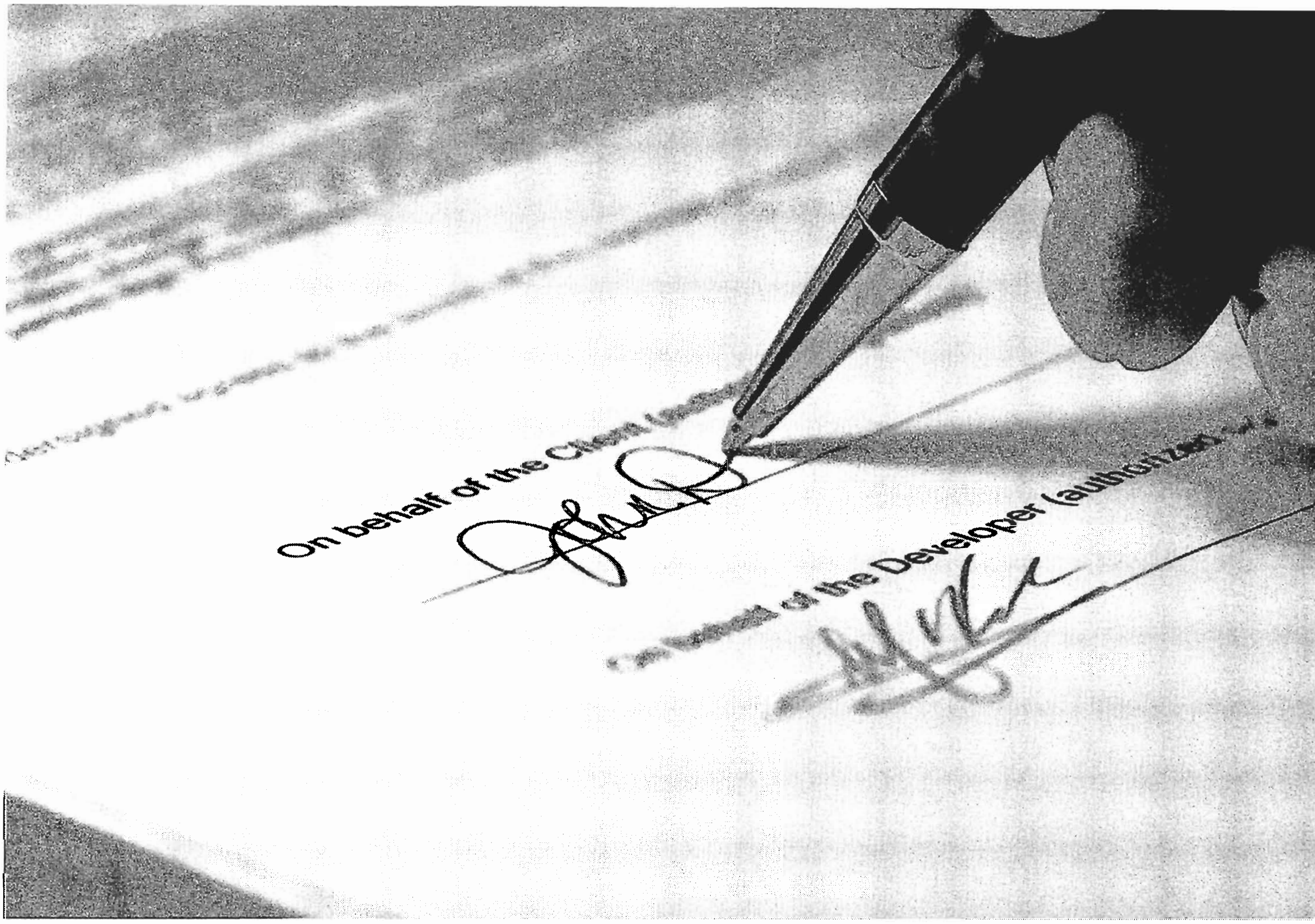
Rehabbing properties for profit can bring amazing results as long as you have carefully evaluated the property, factored in your costs and the time involved in repairs, and considered the return you need for the deal to be a winner.

Some investors make rehabbing their full time job and get a great deal of enjoyment out of fixing properties up, improving overall neighborhood appeal, and using forced appreciation to create huge profits.

REHAB CHECKLIST

1. Exterior fully painted – no noticeable peeling of paint ☐ Good ☐ Poor
2. No rotted wood on soffit, fascia, or body of the house ☐ Good ☐ Poor
3. No ripped or missing screens on porch and windows ☐ Good ☐ Poor
4. Exterior door frames – look for rotted wood on trim ☐ Good ☐ Poor
5. Exterior doors – should have thresholds; no room at bottom for bugs or water to get in ☐ Good ☐ Poor
6. Landscape in good condition ☐ Good ☐ Poor
7. Trash and debris removed ☐ Good ☐ Poor
8. All exterior lights and globes with protective cover in place ☐ Good ☐ Poor
9. No missing doorbells or loose wires ☐ Good ☐ Poor
10. All wires must be covered with weatherproof conduit ☐ Good ☐ Poor
11. No missing shingles or leaks in roof ☐ Good ☐ Poor
12. Exterior water spigots – look for leaks; should have a handle and work properly ☐ Good ☐ Poor
13. Pools checked by pool contractor ☐ Good ☐ Poor
14. Interior walls fully painted with no holes in the drywall ☐ Good ☐ Poor
15. No evidence of water stains on the ceilings or walls ☐ Good ☐ Poor
16. All plate and switch covers on ☐ Good ☐ Poor
17. No open wires on all plugs and switches ☐ Good ☐ Poor
18. All lights and fans installed with no loose wires ☐ Good ☐ Poor
19. All ceiling fans work and no missing lights or wires ☐ Good ☐ Poor
20. Check windows and doors – must open, close, and lock; no broken glass ☐ Good ☐ Poor
21. Check doors – no missing doors, holes in doors, or frayed bottoms ☐ Good ☐ Poor
22. All doors that may hit a wall should have doorstops ☐ Good ☐ Poor
23. Check all door knobs – lock works; installed properly ☐ Good ☐ Poor
24. All closet doors (bi-fold or slider) should slide smoothly, stay on track ☐ Good ☐ Poor
25. All closets should have shelves and clothing rods ☐ Good ☐ Poor
26. Check to make sure there are no missing baseboards ☐ Good ☐ Poor

27. Carpet and vinyl should lay smooth	☐ Good	☐ Poor
28. Use a tester to check all light switches and plugs	☐ Good	☐ Poor
29. Check all kitchen cabinets – inside and outside; should close and have handles	☐ Good	☐ Poor
30. All appliances should work properly	☐ Good	☐ Poor
31. Make sure garbage disposal works	☐ Good	☐ Poor
32. Sinks and toilets – look for leaks, trouble with flushing; check water pressure	☐ Good	☐ Poor
33. Check for GFI outlets in kitchen, bathroom, and laundry room	☐ Good	☐ Poor
34. Check caulking in kitchen, bathroom, and on baseboards	☐ Good	☐ Poor
35. Look for rust or worn areas in sinks	☐ Good	☐ Poor
36. Check countertops for cracks or broken pieces	☐ Good	☐ Poor
37. Make sure there is hot water	☐ Good	☐ Poor
38. Check all bathroom cabinets and vanities, inside and outside	☐ Good	☐ Poor
39. Check bathtub's surface for nicks and stains	☐ Good	☐ Poor
40. Check for mirrors, medicine cabinets, towel bars, and toilet paper holders	☐ Good	☐ Poor
41. Check showers and tubs for water pressure, drainage; check tiles, caulking, mold	☐ Good	☐ Poor
42. Check washer and dryer hookups	☐ Good	☐ Poor
43. Check AC and furnace; turn on and place hand over vent	☐ Good	☐ Poor
44. AC doors must be vented and all holes covered with vents (no open holes)	☐ Good	☐ Poor
45. Breaker box should have a cover door	☐ Good	☐ Poor
46. Check attic for insulation and look for roof leakage	☐ Good	☐ Poor



Chapter 10

Making An Offer: The Contract

Notes

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Making An Offer: The Contract

As an investor, the critical factor in getting a deal is to make an offer. You can read books, listen to tapes, and attend several training workshops or investment club meetings. But if you don't make offers, you will never make money in real estate.

By now you should have learned how to analyze properties, where to find deals, and how to negotiate deals. But regardless of how much knowledge and understanding of real estate investing you may have, if you are not making offers, you will not be doing any deals.

The simple fact is the more offers you make, the more you increase the likelihood of getting an offer accepted. And that means more deals for you. You should set a goal of at least five offers per week. Many students make 30 to 40 offers per week. But regardless of whether you are making five offers per week or 40, you need to be consistently making offers.

Any offer you make should be one that works for you. Don't worry if you are offering considerably less than the seller is asking. The offer needs to be one that will make money for you, whether you are planning on keeping the property or going for quick cash.

In some areas of the country, it is essential to quickly tie up the property. If you take time to fully analyze the property, you could lose the deal to another investor. If you live in an area where properties sell within a few days of being on the market, you can tie up the property, using contingencies in your addendum to allow you time to do your due diligence.

Always remember that if you use protection clauses in your contracts, you and your lawyer can establish ways to limit your risks and back out of the deal if you find you don't want to buy the property. An example of an escape clause is, "This offer is subject to buyer's partner's approval."

For most beginners in real estate investing, making that first offer is quite frightening. If you are feeling nervous about making an offer, then we would suggest your first offer be at least 30 percent below market value. Put in an escape clause

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and if for some reason your offer is accepted, you should have a great deal! Worst-case scenario is you realize this is not a property you want and you back out of the deal. After making two or three offers, your confidence will increase and you will find you can make several offers per week easily.

THE OFFER VS. THE CONTRACT

The contract is usually written as an offer with the buyer's signature. The contract does not become binding unless the seller accepts the offer and signs the contract. If the seller does not agree to the exact terms of the offer, then there is no binding contract. The seller actually has three choices when an offer is made:

1. The seller can agree to all of the terms of the offer and sign the contract. The offer would now be a binding contract.

2. The seller can agree to some of the terms of the offer, but not all of the terms. The seller would then make a counteroffer, stating what terms he or she does not agree with. At this point, there is no binding contract. **Important note**: If the buyer does not agree to the terms the seller has put in the counteroffer and the buyer makes a counteroffer himself, the seller is free to negotiate with any potential buyer. Many beginner investors assume because they are countering the seller's counteroffer, the seller is locked into dealing with them. In reality, the contract will become binding only if the buyer accepts the seller's counteroffer. If the buyer counters, the seller is no longer bound to the contract.

3. The seller can reject the offer.

BASIC REQUIREMENTS OF A CONTRACT

A real estate purchase contract is a bilateral contract where the seller agrees to sell and the buyer agrees to buy. There are certain key elements in creating a valid and binding contract.

The contract must be in writing
All contracts must be in writing to be enforceable. A handshake or verbal agreement is not enough. If a buyer makes an offer and the seller verbally accepts the offer and then backs out, there is no binding contract.

Notes

There needs to be mutual assent/consent
All parties must agree to the contract.

Who are the individuals involved?
Who is the buyer and who is the seller? The contract must identify the parties.

Signatures
To be a valid contract, it must be signed by both buyer and seller. All parties on the title must sign the contract and date it. Be sure to check the title so you know who will need to sign the contract. If one of the parties on title fails to sign the contract, the contract will not be enforceable. The party signing the contract must be of legal age and sound mind.

Location of the property
Identify the property. If the property has an address, write it down. It wouldn't hurt to also put the parcel identification number in the contract. If it is raw ground, you may want to include the legal description of the property in addition to the PIN number.

Consideration
The amount of the consideration is not important, but to be a valid contract, there must be consideration. This is what makes the contract a legal, binding contract. Usually the consideration is money, but it can be whatever the buyer and seller agree to. When you are the buyer, you will want to pay as little as possible. It is not uncommon for the consideration to be ten dollars. When you are the seller, you will want a larger deposit than what you will be willing to pay as a buyer.

The addendum
If you use a Realtor, they may insist you use their standard contract, but you can use the addendum to address your needs. The addendum gives you the flexibility of adding clauses, terms, and conditions to your contract. It is where you may put the specifics of what you have negotiated with the seller and where you can put clauses to protect you as a buyer.

Remember, the addendum is powerful. It can override anything that may be in the contract. If there is something in the contract that is contrary to what you want, address that item in the addendum. A standard phrase in an addendum is: "The terms and conditions of this addendum shall prevail in the event of a conflict with the terms and conditions of the attached Agreement of Sale."

Notes

Sample Clauses and Contingencies

1. Sale is subject to Buyer's partner's approval.
2. Sale is subject to inspection acceptable to Buyer prior to closing.
3. Seller to pay Buyer's closing costs.
4. Buyer reserves the right to show the property to prospective occupants prior to closing; Seller agrees to permit access upon reasonable notice at any time.
5. All escrow deposits to be transferred to Buyer at no charge. Escrow shortages to be made up by Seller at closing.
6. Sale is subject to Buyer obtaining suitable financing and Buyer's approval of all terms.
7. Sale is subject to Buyer inspecting the property, all leases and tenants, and Buyer's approval of the same. All new tenants must be approved by Buyer in writing.
8. Seller will deliver property to Buyer at closing with the same occupancy and rent roll at the time of contract. If there are added vacancies, Seller will make up lost rent.
9. Property will be in broom-clean condition at closing and Seller guarantees that all mechanics like air conditioners, appliances, hot water heaters, heating units, electric and plumbing fixtures, etc. will be in good working order.

CONTRACT FOR PURCHASE AND SALE

The contract you would use as a buyer is the Contract for Purchase and Sale. A sample is included in this chapter along with an explanation of how to fill in each of the blanks. There is also a blank version at the end of the chapter.

POINTS TO CONSIDER

- Make the offer that works for both you and the seller
- If your offer is turned down, don't take it personally

Notes

- Use partner, inspection, and finance clauses in your addendum

- When you need to make an offer before you have had sufficient time to inspect the property, tie it up with a contract (with appropriate protection clauses) and then see if it works for you

- Don't be afraid to ask for what you want

- Leave room for negotiating on the price

- Don't be afraid if more than one offer is accepted – with your protection clauses in the addendum (consult with your attorney), you can limit your risk by establishing ways to back out if you are not comfortable with working several properties at one time (with time, your comfort level will increase)

- You will not make any money if you do not make offers!

***** Please note that we cannot give you legal advice and that it is highly recommended that you have your attorney review all contracts. *****

HOW TO FILL OUT A CONTRACT FOR PURCHASE AND SALE

The following is a sample contract for purchase and sale, however it shows numbers on each blank space. We have provided a corresponding key immediately following this sample which indicates how to fill out the contract for purchase and sale (a list by number that indicates what kind of information to place in each space marked below). Following the key is the same sample contract for purchase and sale you see on the next few pages, only it is a copy with no numbers in the blank spaces.

CONTRACT FOR PURCHASE AND SALE

PARTIES: ________**1**_________, as Seller, and _______**2**_________, as Buyer, hereby agree that the Seller shall sell and Buyer shall buy the following legally described property.

I. DESCRIPTION:

(a) Legal description of real estate: ___________**3**____________

(b) Street address, if any, of the Property being conveyed is:
________________________**4**________________________

(c) Personal property including all buildings and improvements on the property and all right, title, and interest of Seller in and to adjacent streets, roads, alleys and rights-of-way, and:
__________________**5**________________________.

II. PURCHASE PRICE $______**6**_____________

PAYMENT:

(a) Cash Deposit(s) to be held in escrow by _______**7**_______ in the amount of $_____**8**________ and promissory note to be held in same escrow as additional earnest Buyer's default in the amount of $_____**9**________.

(b) Subject to assumption of mortgage in favor of ______**10**______ bearing interest at __**11**___% per annum and payable as to principal and interest $__**12**___ per month, having an approximate present principal balance of $_____**13**______.

(c) Purchase money mortgage and note bearing interest at ____**14**___% on terms set forth herein below, in the principal amount of $_______**15**________.

(d) Other: ____________________**16**______________________________________

(e) Balance to close, (U.S. Cash, certified or cashier's check) subject to adjustments and prorations:
$_____**17**_______.
TOTAL $_______**6**___________.

(f) All funds held in escrow shall be placed in an interest bearing account at the direction of Buyer, with interest accruing to the benefit of Buyer and either applied toward the purchase price at closing or returned to Buyer in the event and for any reason the transaction does not close.

III. FINANCING: If the purchase price or any part thereof is to be financed by a third party loan, this Contract for Purchase and Sale is conditioned upon the Buyer obtaining a firm commitment for said loan within sixty days from the date hereof, at an interest rate not to exceed __**18**__%; for ___**19**__ years; and in the principal amount of $____**20**________. Buyer agrees to make application for, and to use reasonable diligence to obtain said loan. Should Buyer fail to obtain same or to waive Buyer's rights hereunder within said time, Buyer may cancel Contract and receive escrow money.

IV. TITLE EVIDENCE: Within twenty days from the date of Contract, Seller shall, at his expense, deliver to Buyer or his attorney, in accordance with Paragraph XI, a title insurance commitment with fee owner's title policy premium to be paid by Seller at closing.

V. TIME FOR ACCEPTANCE AND EFFECTIVE DATE: If this offer is not executed by both of the parties hereto on or before _____**21**________, the aforesaid deposit(s) shall be, at the option of the Buyer, returned to him and this offer shall thereafter be null and void. The date of Contract shall be the date when the last one of the Seller and Buyer has signed this offer.

VI. CLOSING DATE: This transaction shall be closed and the deed and other closing papers delivered on or before ______**22**_________, unless extended by other provisions of Contract, or by written agreement of the Parties.

VII. RESTRICTIONS, EASEMENTS, LIMITATIONS: The Buyer shall take title subject only to: Zoning, restrictions, prohibitions, and other requirements imposed by governmental authority; Restrictions and matters appearing on the plat or otherwise common to the subdivision; Public utility easements of record; Taxes for year of closing and subsequent years, assumed mortgages, and purchase money mortgages, if any; other: ________________23__________________ provided, however, that none of the foregoing shall prevent use of the property for the purpose of ________________24________________.

VIII. OCCUPANCY: Seller represents that there are no parties in occupancy other than Seller, but if Property is intended to be rented or occupied beyond closing, the fact and terms thereof shall be stated herein, and the tenant(s) shall be disclosed pursuant to Paragraph XVII. Seller agrees to deliver occupancy of Property at time of closing unless otherwise specified below.

IX. ASSIGNABILITY: Buyer may assign this Contract and be released of all liability.

X. TYPEWRITTEN OR HANDWRITTEN PROVISIONS: Typewritten or handwritten provisions inserted herein or attached hereto as Addenda shall control all printed provisions in conflict therewith.

XI. EVIDENCE OF TITLE: Within twenty days from the date hereof, Seller, at Seller's sole cost and expense, shall cause a title insurance company mutually acceptable to the Parties to issue and deliver to Buyer an ALTA Form B title commitment accompanied by one copy of all documents affecting the Property, and which constitute exceptions to the Title Commitment. Buyer shall give Seller written notice on or before twenty days from the date of receipt of the Title Commitment, if the condition of title as set forth in such Title Commitment and survey is not satisfactory in Buyer's sole discretion. In the event that the condition of title is not acceptable, Buyer shall state which exceptions to the Title Commitment are unacceptable. Seller shall, at its sole cost and expense, promptly undertake and use its best efforts to eliminate or modify all unacceptable matters to the reasonable satisfaction of Buyer. In the event Seller is unable with the exercise of due diligence to satisfy said objections within thirty days after said notice, Buyer may, at its option: (i) extend the time period for Seller to satisfy said objections, (ii) accept title subject to the objections raised by Buyer, without an adjustment in the purchase price, in which event said objections shall be deemed to be waived for all purposes, or (iii) rescind this Agreement, whereupon the deposit described herein shall be returned to Buyer and this Agreement shall be of no further force and effect.

XII. EXISTING MORTGAGES TO BE ASSUMED: Seller shall furnish to Buyer within twenty days from execution hereof a statement from all mortgagee(s) setting forth principal balance, method of payment, interest rate, and whether the mortgage(s) is in good standing. If a mortgage requires approval of the Buyer by the mortgagee in order to avoid default, or for assumption by the Buyer of said mortgage, and:

(a) the mortgagee does not approve the Buyer, the Buyer may rescind the contract, or
(b) the mortgagee requires an increase in the interest rate or charges a fee for any reason in excess of $500.00, the Buyer may rescind the Contract unless Seller elects to pay such increase or excess. Seller and Buyer each shall pay 50% of any such fee. Buyer shall use reasonable diligence to obtain approval. The amount of any escrow deposits held by mortgagee shall be credited to Seller.

XIII. PURCHASE MONEY MORTGAGES: The purchase money note and mortgage, if any, shall provide for a thirty day grace period in the event of default if it is a first mortgage and a fifteen day grace period in the event of default if a second mortgage; shall provide for right of prepayment in whole or in part without penalty; shall be assumable; and shall not provide for acceleration or interest adjustment in event of resale of the Property. Said mortgage shall require the owner of the encumbered Property to keep all prior liens and encumbrances in good standing.

XIV. CURRENT SURVEY: Within fifteen days from the date hereof, Seller, at Seller's sole cost and expense, shall furnish a current survey of the Property prepared and certified by a duly registered Land Surveyor. The survey as to the Property shall:

(a) Set forth an accurate legal description; and
(b) Locate all existing easements and rights-of-way (setting forth the book and page number of the recorded instruments creating the same), alleys, streets; and
(c) Show any encroachments; and
(d) Show all existing improvements (such as buildings, power lines, fences, etc.); and
(e) Show all dedicated public streets provided access and whether such access is paved to the property line; and
(f) Show the location of any easements necessary for the furnishing of off-site improvements; and
(g) Be certified to the Seller, the Buyer, the Title Company and any lender that may be involved in the transaction. In the event the survey or the recertification thereof shows any encroachments of any improvements upon, from, or onto the Property, or on or between any building set-back line, a property line, or any easement, except those acceptable to Buyer, in Buyer's sole discretion, said encroachment shall be treated in the same manner as a title defect under the procedure set forth of notice thereof.

XV. TERMITES: The Buyer, within time allowed for delivery of evidence of title and examination thereof, or no later than ten days prior to closing, whichever date occurs last, may have the improvements inspected at Buyer's expense by a certified pest control operator to determine whether there is any visible active termite infestation or visible existing damage from termite infestation in the improvements. If Buyer is informed of either or both of the foregoing, Buyer will have ten days from date of notice thereof within which to have all damages, whether visible or not, inspected and estimated by a licensed building or general contractor. Seller shall pay valid costs for treatment and repair of all damage up to 1 1/2% of Purchase Price. Should such costs exceed that amount, Buyer shall have the option of canceling Contract within five days after receipt of contractor's repair estimate by giving written notice to Seller, or Buyer may elect to proceed with the transaction, in which event Buyer shall receive a credit at closing of an amount equal to 1 1/2% of said Purchase Price. Termites shall be deemed to include all wood destroying organisms.

XVI. INGRESS AND EGRESS: Seller warrants that there is ingress and egress to the Property sufficient for the intended use as described in Paragraph VII hereof the title to which is in accordance with Paragraph XI above.

XVII. LEASES: Seller shall, not less than fifteen days prior to closing, furnish to Buyer copies of all written leases and estoppel letters from each tenant (if any) specifying the nature and duration of said tenant's occupancy, rental rates and advanced rent, and security deposits paid by tenant. In the event Seller is unable to obtain such letter from each tenant, the same information shall be furnished by Seller to Buyer within said time period in the form of a Seller's affidavit, and Buyer may thereafter contact tenants to confirm such information. Seller shall deliver and assign all original leases to Buyer at closing.

XVIII. LIENS: Seller shall, both as to the Property and personally being sold hereunder, furnish to Buyer at time of closing an affidavit attesting to the absence, unless otherwise provided for herein, of any financing statements, claims of lien, or potential lienors known to Seller and further attesting that there have been no improvements to the Property for ninety days immediately preceding date of closing. If the property has been improved within said time, Seller shall deliver releases or waivers of all mechanic's liens, executed by general contractors, subcontractors, suppliers, and material men, in addition to Seller's lien affidavit setting forth the names of all such general contractors, subcontractors, suppliers, and material men and further reciting that, in fact, all bills for work to the Property which could serve as a basis for a mechanic's lien have been paid or will be paid at closing.

XIX. PLACE OF CLOSING: Closing shall be held in the county wherein the Property is located, at the office of the attorney or other closing agent designated by Buyer; provided, however, that if a portion of the purchase price is to be derived from an institutional mortgagee, the requirements of said mortgagee as to time of day, place, and procedures for closing, and for disbursement of mortgage process, shall control, anything in this contract to the contrary notwithstanding.

XX. TIME: Time is of the essence of this Contract. Any reference herein to time periods of less than six days shall in the computation thereof, exclude Saturdays, Sundays, and legal holidays, and any time period provided for herein which shall end on a Saturday, Sunday, or legal holiday shall extend to 5:00 p.m. of the next business day.

XXI. DOCUMENTS FOR CLOSING: Seller shall furnish deed, closing statement, mechanic's lien affidavit, assignments of leases, and any corrective instruments that may be required in connection with perfecting the title. Buyer shall furnish mortgage, mortgage note, security agreement, and financing statement.

XXII. EXPENSES: State documentary stamps which are required to be affixed to the instrument of conveyance, intangible tax on and recording of purchase money mortgage to Seller, and cost of recording any corrective instruments shall be paid by Seller. Documentary stamps to be affixed to the note or notes secured by the purchase money mortgage, cost of recording the deed, and financing statements shall be paid by Buyer.

XXIII. PRORATION OF TAXES: Taxes for the year of the closing shall be prorated to the date of closing. If the closing shall occur before the tax rate is fixed for the then current year, the apportionment of taxes shall be upon the basis of the tax rate of the preceding year applied to the latest assessed valuation. Subsequent to the closing, when the tax rate is fixed for the year in which the closing occurs, Seller and Buyer agree to adjust the prorating of taxes and, if necessary, to refund or pay, as the case may be, an amount necessary to effect such adjustments. This provision shall survive closing.

XXIV. PERSONAL PROPERTY INSPECTION, REPAIR: Seller warrants that all major appliances, heating, cooling, electrical, plumbing systems, and machinery are in working condition as of six days prior to closing. Buyer may, at his expense, have inspections made of said items by licensed persons dealing in the repair and maintenance thereof, and shall report in writing to Seller such items as found not in working condition prior to taking of possession thereof, or six days prior to closing, whichever is first. Unless Buyer reports failures within said period, he shall be deemed to have waived Seller's warranty as to failures not reported. Valid reported failures shall be corrected at Seller's cost with funds therefore escrowed at closing. Seller agrees to provide access for inspection upon reasonable notice.

XXV. RISK OF LOSS: If the improvements are damaged by fire or other casualty prior to closing, and the costs of restoring same does not exceed 3% of the assessed valuation of the improvements so damaged, cost of restoration shall be an obligation of the Seller and closing shall proceed pursuant to the terms of Contract with costs therefore escrowed at closing. In the event the cost of repair or restoration exceeds 3% of the assessed valuation of the improvements so damaged, Buyer shall have the option of either taking the Property as is, together with either the said 3% or any insurance proceeds payable by virtue of such loss or damage, or of canceling the Contract and receiving of deposit(s) made hereunder.

XXVI. MAINTENANCE: Notwithstanding the provisions of Paragraph XXIV, between Effective Date and Closing Date, all personal property on the premises and real property, including lawn, shrubbery, and pool, if any, shall be maintained by Seller in the condition they existed as of Effective Date, ordinary wear and tear excepted, and Buyer or Buyer's designee will be permitted access for inspection prior to closing in order to confirm compliance with this standard.

XXVII. PROCEEDS OF SALE AND CLOSING PROCEDURE: The deed shall be recorded upon clearance of funds and evidence of title continued at Buyer's expense, to show title in Buyer, without any encumbrances or change which would render Seller's title unmarketable from the date of the last evidence, and the cash proceeds of sale shall be held in escrow by Seller's attorney or by such other escrow agent as may be mutually agreed upon for a period of not longer than five days from and after closing date. If Seller's title is rendered unmarketable, Buyer shall within said five day period, notify Seller in writing of the defect and Seller shall have thirty days from date of receipt of such notification to cure said defect. In the event Seller fails to timely cure said defect, all monies paid hereunder shall, upon written demand therefore and within five days thereafter, be returned to Buyer and, simultaneously with such repayment, Buyer shall vacate the Property and reconvey same to the Seller by special warranty deed. In the event Buyer fails to make timely demand for refund, he shall take title as is, waiving all rights against Seller as to such intervening defect except as may be available to Buyer by virtue of warranties, if any, contained in deed.

XXVIII. ESCROW: Any escrow agent receiving funds is authorized and agrees by acceptance thereof to promptly deposit and to hold same in escrow and to disburse same subject to clearance thereof in accordance with terms and conditions of Contract. Failure of clearance of funds shall not excuse performance by the Buyer.

XXIX. ATTORNEY FEES AND COSTS: In connection with any litigation including appellate proceedings arising out of this Contract, the prevailing party shall be entitled to recover reasonable attorney's fees and costs.

XXX. DEFAULT BY SELLER: In the event that Seller should fail to consummate the transaction contemplated herein for any reason, except Buyer's default: (i) Buyer may enforce specific performance of this Agreement in a court of competent jurisdiction and in such action shall have the right to recover damages suffered by Buyer by reason of the delay in the acquisition of the Property, or (ii) may bring suit for damages for breach of this Agreement, in which event, the deposit made hereunder shall be forthwith returned to Buyer, or (iii) declare a default, demand, and receive the return of the deposit. All rights, powers, options or remedies afforded to Buyer either hereunder or by law shall be cumulative and not alternative and the exercise of one right, power, option, or remedy shall not bar other rights, powers, options, or remedies allowed herein or by law.

XXXI. DEFAULT BY BUYER: In the event Buyer should fail to consummate the transaction contemplated herein for any reason, except default by Seller or the failure of Seller to satisfy any of the conditions to Buyer's obligations, as set forth herein, Seller shall be entitled to retain the earnest money deposit, such sum being agreed upon as liquidated damages for the failure of Buyer to perform the duties and obligations imposed upon it by the terms and provisions of this Agreement and because of the difficulty, inconvenience, and uncertainty of ascertaining actual damages, and no other damages, rights, or remedies shall in any case be collectible, enforceable, or available to Seller other than as provided in this Section, and Seller agrees to accept and take said deposit as Seller's total damages and relief hereunder in such event.

XXXII. MEMORANDUM OF CONTRACT RECORDABLE, PERSONS BOUND, AND NOTICE: Upon the expiration of the inspection period described in paragraph XXXVI, if Buyer has elected to proceed with purchase of the property, the parties shall cause to be recorded, at Buyer's option and expense, in the public records of the county in which the property is located, an executed Memorandum of Contract as attached hereto. This Contract shall bind and inure to the benefit of the Parties hereto and their successors in interest. Whenever the context permits, singular shall include plural and one gender shall include all. Notice given by or to the attorney for either party shall be as effective as if given by or to said party.

XXXIII. PRORATIONS AND INSURANCE: Taxes, assessments, rent, interest, insurance, and other expenses and revenue of the Property shall be prorated as of date of closing. Buyer shall have the option of taking over any existing policies of insurance on the Property, if assumable, in which event premiums shall be prorated. The cash at closing shall be increased or decreased as may be required by said prorations. All references in Contract to prorations as of date of closing will be deemed date of occupancy if occupancy occurs prior to closing, unless otherwise provided for herein.

XXXIV. CONVEYANCE: Seller shall convey title to the Property by statutory warranty deed subject only to matters contained in Paragraph VII hereof and those otherwise accepted by Buyer. Personal property shall, at the request of Buyer, be conveyed by an absolute bill of sale with warranty of title, subject to such liens as may be otherwise provided for herein.

XXXV. UTILITIES: Seller shall, at no expense to Seller, actively work with Buyer to assist Buyer in obtaining electricity, water, sewage, storm drainage, and other utility services for development of the Property.

XXXVI. ENGINEERING PLANS AND STUDIES: Upon the execution hereof, Seller shall furnish to Buyer all engineering plans, drawings, surveys, artist's renderings, and economic and financial studies which Seller has, if any, relating to the Property, and all such information may be used by Buyer in such manner as it desires; provided that in the event Buyer fails to purchase the Property for any reason other than Seller's default, all such information shall be returned to Seller together with any information that Buyer may have compiled with respect to the Property.

XXXVII. INSPECTION OF PROPERTY: Buyer shall have sixty (60) days from the date hereof to determine the elevation, grade, and topography of the Property and to conduct engineering and soil boring tests as the Buyer deems necessary in order to determine the usability of the Property. Buyer may in its sole and absolute discretion, give notice of termination of this Agreement at any time prior to the expiration of the sixty day inspection period, and upon such termination, all deposits held in escrow shall be returned to Buyer.

XXXVIII. PENDING LITIGATION: Seller warrants and represents that there are no legal actions, suits, or other legal or administrative proceedings, including cases, pending or threatened, or similar proceedings affecting the Property or any portion thereof, nor has Seller knowledge that any such action is presently contemplated which might or does affect the conveyance contemplated hereunder.

XXXIX. SURVIVAL OF REPRESENTATIONS AND WARRANTIES: The representations and warranties set forth in this Contract shall be continuing and shall be true and correct on and as of the closing date with the same force and effect as if made at that time, and all of such representations and warranties shall survive the closing and shall not be affected by any investigation, verification, or approval by any party hereto or by anyone on behalf of any party hereto.

XL. ACQUIRING APPROVALS: The obligation of Buyer to close is conditioned upon Buyer having acquired all the necessary approvals and permits to use the property for __________**25**___________.

XLI. OTHER AGREEMENTS: No prior or present agreements or representations shall be binding upon any of the Parties hereto unless incorporated in this Contract. No modification or change in this Contract shall be valid or binding upon the Parties unless in writing, executed by the Parties to be bound thereby.

XLII. SPECIAL CLAUSES: _**26**_

______________________	______________________
Buyer	Seller
______________________	______________________
Buyer	Seller
______________________	______________________
Date	Date

Deposit(s) under II (a) received; if check, subject to clearance, and terms hereof are accepted. By:
____ (Escrow Agent)

BROKERAGE FEE: Seller agrees to pay the registered real estate Broker named below, at time of closing, from the disbursements of the proceeds of sale, compensation in the total amount of ________ of gross purchase price of ______________ for his services in effecting the sale by finding a Buyer, ready, willing, and able to purchase pursuant to the foregoing Contract. In the event Buyer fails to perform and deposit(s) is retained, 50% thereof, but not exceeding the Broker's fee above computed, shall be paid to the Broker as full consideration for Broker's services including costs expended by Broker, and the balance shall be paid to Seller. If the transaction shall not be closed because of refusal or failure of Seller to perform, the Seller shall pay said fee in full to Broker on demand. Seller agrees to indemnify, defend, and hold Buyer harmless from and against all claims or demands with respect to any brokerage fees or agent's commissions or other compensation asserted by any person or entity in connection with this agreement or the transaction contemplated herein.

______________________	______________________
Broker(s)	Date
______________________	______________________
Seller(s)	Date

HOW TO FILL OUT A CONTRACT FOR PURCHASE AND SALE

(CONTINUED)

The following offers a guideline for filling out the Contract for Purchase and Sale (see corresponding numbers within the blanks in the sample purchase contract on the previous pages). A blank Contract for Purchase and Sale follows as well. Please note that we cannot give you legal advice and that it is highly recommended that you have your attorney review all contracts.

1. Seller's name
Be sure to include all owners of the property. If the property is held by a husband and wife, you would put the husband's full name and the wife's full name (example: Joe Seller and Mary Seller).

2. Buyer's name
The individual(s) or entity(s) purchasing the property. Always put "and/or assigns" after your name.

3. Legal description
This is the legal description as recorded in the county courthouse. Sometimes the legal description is quite lengthy and if you made a small error or omission, the contract could become invalid. It is usually best to put "To be supplied at closing by XYZ Title Company (or attorney)."

4. Street address
Put the exact street address, street, city, state, and zip code. If you have the tax identification number, you may want to add that also.

5. Items included
Anything you want to ask for that is not affixed to the property, such as the refrigerator, stove, garage door opener, washing machine, and lawnmower.

6. Purchase price
This is the price you are offering to purchase the property for.

7. Cash deposit(s) to be held in escrow
This is the deposit or "earnest money." Put the name of the company or person that will hold the deposit in escrow here. These funds can be held by the seller or Realtor, but you should insist on the deposit being held by your title company or attorney.

8. Amount of cash deposit
This is the amount of the cash you will deposit. You will want to make this as small as possible, preferably no more than $100 unless there are extenuating circumstances.

9. Promissory note
You may want to delete this phrase (from II. a): "and promissory note to be held in same escrow as additional earnest Buyer's default in the amount of $___________." If you need a larger deposit, use this phrase as an alternative to giving more cash down. Your title company or attorney can hold the promissory note in escrow.

10. Subject to assumption of mortgage in favor of
If you plan to assume the mortgage, indicate the lender's name in the space provided. If you do not plan to assume the mortgage, then put in N/A.

11. Interest rate
Put the interest rate of the loan to be assumed or N/A if you are not assuming the loan.

12. Principal and interest
This is the amount of the monthly payment that includes the principal and interest. You should be able to get this information from the seller. If you are not assuming the loan, put N/A.

13. Approximate present principal balance
The approximate balance left owed on the mortgage you are assuming. You can get this from the seller. The exact balance will not be necessary, as it will change prior to closing. If you are not assuming the mortgage, put N/A.

14. Purchase money mortgage
This can be financing held by the seller or obtained from a lender. In this space, put the interest rate of the new mortgage.

15. Principal amount of
This is the amount you are financing through the new mortgage.

16. Other
This is where you would list other forms of payments, such as trade of services or goods, or any other creative financing.

17. Balance to close
If you need to bring cash to the closing, you would put that here. If you have negotiated well with the seller, or have creative financing, the amount to close could be zero.

Total (item 6 under Purchase Price)
This is the total of section a, b, c, & d of the Payment section. This dollar amount should be the same as the Purchase Price.

Financing section (items 18, 19, and 20)
This is if any of the payment is to be financed by a third party. If the financing is not met within the timeframe and/or the interest goes higher than is listed in 18, the contract is null and void if you as the buyer cancel the contract within the specified timeframe. If you are paying cash or/and assuming the mortgage, you would put N/A in 18 to 20.

18. Interest rate
Put the maximum interest rate you would accept.

19. Years
The timeframe the loan is to be amortized (example: 30 years).

20. Principal amount
This is the amount of the new loan.

21. Time for Acceptance and Effective Date
You need to set a specific period of time that the offer is valid. After that date, it becomes null and void. You want the seller to make a decision. Otherwise the seller may wait to see if they get a better offer. Usually 24 hours is sufficient time for the seller to come to a decision unless there are extenuating circumstances, such as a spouse/owner being out of town. You would put a date and time, such as "July 31, 2005 at 5:00 p.m." If the seller needs more time, he/she will indicate that to you and you can extend the timeframe if you desire to.

22. Closing date
Put in the day, month, and year. Be sure to check your calendar to make sure the closing date does not fall on a Saturday or Sunday. It typically takes 30 to 60 days to close on a property. Check with your lender to make sure you give yourself plenty of time. Depending on the property, it may take a longer time. When purchasing rental property, you should plan on closing on the 3rd, 4th or 5th day of the month since most landlords collect rent on the 1st and you will get the deposits and prorated rents at closing.

23. Restrictions
If there are any restrictions on the property, they would be listed in this section as "other." Usually there are no restrictions, but if there are any, this is where you would put them.

24. For the purpose of
Here, you would put the purpose of the property, such as residential, legal duplex, etc.

25. Acquiring approvals
This is where you specify the exact use of the property. It may be residential, rental, or some other use. You may want to change the zoning and if you were unable to obtain the zoning change, you could get out of the contract.

26. Special clauses
This is where you would put "See attached addendum." You will always want to attach an addendum to protect yourself.

The balance of this contract has terms that protect the buyer. Become familiar with the contract. If you are using a Realtor, you will probably use their contract. Remember that the most important thing is to attach a separate addendum to the contract that has provisions to protect you as the buyer.

NOTE: In the last paragraph, where it talks about a brokerage fee, this is only applicable if you are using a Realtor. If you are not using a Realtor, you can delete this paragraph, or put N/A in the blanks or cross it out with your initials and the seller's initials.

SAMPLE CONTRACT FOR PURCHASE AND SALE

PARTIES: __________________, as Seller, and _________________, as Buyer, hereby agree that the Seller shall sell and Buyer shall buy the following legally described property.

I. DESCRIPTION:

(a) Legal description of real estate: ________________________

(b) Street address, if any, of the Property being conveyed is:
____

(c) Personal property including all buildings and improvements on the property and all right, title, and interest of Seller in and to adjacent streets, roads, alleys, and rights-of-way, and:
____.

II. PURCHASE PRICE $___________________

PAYMENT:

(a) Cash Deposit(s) to be held in escrow by _____________ in the amount of $___________ and promissory note to be held in same escrow as additional earnest Buyer's default in the amount of $_____________.

(b) Subject to assumption of mortgage in favor of ___________ bearing interest at _____% per annum and payable as to principal and interest $_____ per month, having an approximate present principal balance of $___________.

(c) Purchase money mortgage and note bearing interest at _______% on terms set forth herein below, in the principal amount of $_______________.

(d) Other: ____

(e) Balance to close, (U.S. Cash, certified or cashier's check) subject to adjustments and prorations: $___________.
TOTAL $_______________.

(f) All funds held in escrow shall be placed in an interest bearing account at the direction of Buyer, with interest accruing to the benefit of Buyer and either applied toward the purchase price at closing or returned to Buyer in the event and for any reason the transaction does not close.

III. FINANCING: If the purchase price or any part thereof is to be financed by a third party loan, this Contract for Purchase and Sale is conditioned upon the Buyer obtaining a firm commitment for said loan within sixty days from the date hereof, at an interest rate not to exceed ____%; for ____ years; and in the principal amount of $__________. Buyer agrees to make application for, and to use reasonable diligence to obtain said loan. Should Buyer fail to obtain same or to waive Buyer's rights hereunder within said time, Buyer may cancel Contract and receive escrow money.

IV. TITLE EVIDENCE: Within twenty days from the date of Contract, Seller shall, at his expense, deliver to Buyer or his attorney, in accordance with Paragraph XI, a title insurance commitment with fee owner's title policy premium to be paid by Seller at closing.

V. TIME FOR ACCEPTANCE AND EFFECTIVE DATE: If this offer is not executed by both of the parties hereto on or before _________, the aforesaid deposit(s) shall be, at the option of the Buyer, returned to him and this offer shall thereafter be null and void. The date of Contract shall be the date when the last one of the Seller and Buyer has signed this offer.

VI. CLOSING DATE: This transaction shall be closed and the deed and other closing papers delivered on or before ________, unless extended by other provisions of Contract, or by written agreement of the Parties.

VII. RESTRICTIONS, EASEMENTS, LIMITATIONS: The Buyer shall take title subject only to: Zoning, restrictions, prohibitions, and other requirements imposed by governmental authority; Restrictions and matters appearing on the plat or otherwise common to the subdivision; Public utility easements of record; Taxes for year of closing and subsequent years, assumed mortgages, and purchase money mortgages, if any; other: ___________________________ provided, however, that none of the foregoing shall prevent use of the property for the purpose of _______________________.

VIII. OCCUPANCY: Seller represents that there are no parties in occupancy other than Seller, but if Property is intended to be rented or occupied beyond closing, the fact and terms thereof shall be stated herein, and the tenant(s) shall be disclosed pursuant to Paragraph XVII. Seller agrees to deliver occupancy of Property at time of closing unless otherwise specified below.

IX. ASSIGNABILITY: Buyer may assign this Contract and be released of all liability.

X. TYPEWRITTEN OR HANDWRITTEN PROVISIONS: Typewritten or handwritten provisions inserted herein or attached hereto as Addenda shall control all printed provisions in conflict therewith.

XI. EVIDENCE OF TITLE: Within twenty days from the date hereof, Seller, at Seller's sole cost and expense, shall cause a title insurance company mutually acceptable to the Parties to issue and deliver to Buyer an ALTA Form B title commitment accompanied by one copy of all documents affecting the Property, and which constitute exceptions to the Title Commitment. Buyer shall give Seller written notice on or before twenty days from the date of receipt of the Title Commitment, if the condition of title as set forth in such Title Commitment and survey is not satisfactory in Buyer's sole discretion. In the event that the condition of title is not acceptable, Buyer shall state which exceptions to the Title Commitment are unacceptable. Seller shall, at its sole cost and expense, promptly undertake and use its best efforts to eliminate or modify all unacceptable matters to the reasonable satisfaction of Buyer. In the event Seller is unable with the exercise of due diligence to satisfy said objections within thirty days after said notice, Buyer may, at its option: (i) extend the time period for Seller to satisfy said objections, (ii) accept title subject to the objections raised by Buyer, without an adjustment in the purchase price, in which event said objections shall be deemed to be waived for all purposes, or (iii) rescind this Agreement, whereupon the deposit described herein shall be returned to Buyer and this Agreement shall be of no further force and effect.

XII. EXISTING MORTGAGES TO BE ASSUMED: Seller shall furnish to Buyer within twenty days from execution hereof a statement from all mortgagee(s) setting forth principal balance, method of payment, interest rate, and whether the mortgage(s) is in good standing. If a mortgage requires approval of the Buyer by the mortgagee in order to avoid default, or for assumption by the Buyer of said mortgage, and:

(a) the mortgagee does not approve the Buyer, the Buyer may rescind the contract, or
(b) the mortgagee requires an increase in the interest rate or charges a fee for any reason in excess of $500.00, the Buyer may rescind the Contract unless Seller elects to pay such increase or excess. Seller and Buyer each shall pay 50% of any such fee. Buyer shall use reasonable diligence to obtain approval. The amount of any escrow deposits held by mortgagee shall be credited to Seller.

XIII. PURCHASE MONEY MORTGAGES: The purchase money note and mortgage, if any, shall provide for a thirty day grace period in the event of default if it is a first mortgage and a fifteen day grace period in the event of default if a second mortgage; shall provide for right of prepayment in whole or in part without penalty; shall be assumable; and shall not provide for acceleration or interest adjustment in event of resale of the Property. Said mortgage shall require the owner of the encumbered Property to keep all prior liens and encumbrances in good standing.

XIV. CURRENT SURVEY: Within fifteen days from the date hereof, Seller, at Seller's sole cost and expense, shall furnish a current survey of the Property prepared and certified by a duly registered Land Surveyor. The survey as to the Property shall:

(a) Set forth an accurate legal description; and
(b) Locate all existing easements and rights-of-way (setting forth the book and page number of the recorded instruments creating the same), alleys, streets; and
(c) Show any encroachments; and
(d) Show all existing improvements (such as buildings, power lines, fences, etc.); and
(e) Show all dedicated public streets provided access and whether such access is paved to the property line; and
(f) Show the location of any easements necessary for the furnishing of off-site improvements; and
(g) Be certified to the Seller, the Buyer, the Title Company and any lender that may be involved in the transaction. In the event the survey or the recertification thereof shows any encroachments of any improvements upon, from, or onto the Property, or on or between any building set-back line, a property line, or any easement, except those acceptable to Buyer, in Buyer's sole discretion, said encroachment shall be treated in the same manner as a title defect under the procedure set forth of notice thereof.

XV. TERMITES: The Buyer, within time allowed for delivery of evidence of title and examination thereof, or no later than ten days prior to closing, whichever date occurs last, may have the improvements inspected at Buyer's expense by a certified pest control operator to determine whether there is any visible active termite infestation or visible existing damage from termite infestation in the improvements. If Buyer is informed of either or both of the foregoing, Buyer will have ten days from date of notice thereof within which to have all damages, whether visible or not, inspected and estimated by a licensed building or general contractor. Seller shall pay valid costs for treatment and repair of all damage up to 1 1/2% of Purchase Price. Should such costs exceed that amount, Buyer shall have the option of canceling Contract within five days after receipt of contractor's repair estimate by giving written notice to Seller, or Buyer may elect to proceed with the transaction, in which event Buyer shall receive a credit at closing of an amount equal to 1 1/2% of said Purchase Price. Termites shall be deemed to include all wood destroying organisms.

XVI. INGRESS AND EGRESS: Seller warrants that there is ingress and egress to the Property sufficient for the intended use as described in Paragraph VII hereof the title to which is in accordance with Paragraph XI above.

XVII. LEASES: Seller shall, not less than fifteen days prior to closing, furnish to Buyer copies of all written leases and estoppel letters from each tenant (if any) specifying the nature and duration of said tenant's occupancy, rental rates and advanced rent, and security deposits paid by tenant. In the event Seller is unable to obtain such letter from each tenant, the same information shall be furnished by Seller to Buyer within said time period in the form of a Seller's affidavit, and Buyer may thereafter contact tenants to confirm such information. Seller shall deliver and assign all original leases to Buyer at closing.

XVIII. LIENS: Seller shall, both as to the Property and personally being sold hereunder, furnish to Buyer at time of closing an affidavit attesting to the absence, unless otherwise provided for herein, of any financing statements, claims of lien or potential lienors known to Seller and further attesting that there have been no improvements to the Property for ninety days immediately preceding date of closing. If the property has been improved within said time, Seller shall deliver releases or waivers of all mechanic's liens, executed by general contractors, subcontractors, suppliers, and material men, in addition to Seller's lien affidavit setting forth the names of all such general contractors, subcontractors, suppliers, and material men and further reciting that, in fact, all bills for work to the Property which could serve as a basis for a mechanic's lien have been paid or will be paid at closing.

XIX. PLACE OF CLOSING: Closing shall be held in the county wherein the Property is located, at the office of the attorney or other closing agent designated by Buyer; provided, however, that if a portion of the purchase price is to be derived from an institutional mortgagee, the requirements of said mortgagee as to time of day, place and procedures for closing, and for disbursement of mortgage process, shall control, anything in this contract to the contrary notwithstanding.

XX. TIME: Time is of the essence of this Contract. Any reference herein to time periods of less than six days shall in the computation thereof, exclude Saturdays, Sundays, and legal holidays, and any time period provided for herein which shall end on a Saturday, Sunday, or legal holiday shall extend to 5:00 p.m. of the next business day.

XXI. DOCUMENTS FOR CLOSING: Seller shall furnish deed, closing statement, mechanic's lien affidavit, assignments of leases, and any corrective instruments that may be required in connection with perfecting the title. Buyer shall furnish mortgage, mortgage note, security agreement, and financing statement.

XXII. EXPENSES: State documentary stamps which are required to be affixed to the instrument of conveyance, intangible tax on and recording of purchase money mortgage to Seller, and cost of recording any corrective instruments shall be paid by Seller. Documentary stamps to be affixed to the note or notes secured by the purchase money mortgage, cost of recording the deed, and financing statements shall be paid by Buyer.

XXIII. PRORATION OF TAXES: Taxes for the year of the closing shall be prorated to the date of closing. If the closing shall occur before the tax rate is fixed for the then current year, the apportionment of taxes shall be upon the basis of the tax rate of the preceding year applied to the latest assessed valuation. Subsequent to the closing, when the tax rate is fixed for the year in which the closing occurs, Seller and Buyer agree to adjust the prorating of taxes and, if necessary, to refund or pay, as the case may be, an amount necessary to effect such adjustments. This provision shall survive closing.

XXIV. PERSONAL PROPERTY INSPECTION, REPAIR: Seller warrants that all major appliances, heating, cooling, electrical, plumbing systems, and machinery are in working condition as of six days prior to closing. Buyer may, at his expense, have inspections made of said items by licensed persons dealing in the repair and maintenance thereof, and shall report in writing to Seller such items as found not in working condition prior to taking of possession thereof, or six days prior to closing, whichever is first. Unless Buyer reports failures within said period, he shall be deemed to have waived Seller's warranty as to failures not reported. Valid reported failures shall be corrected at Seller's cost with funds therefore escrowed at closing. Seller agrees to provide access for inspection upon reasonable notice.

XXV. RISK OF LOSS: If the improvements are damaged by fire or other casualty prior to closing, and the costs of restoring same does not exceed 3% of the assessed valuation of the improvements so damaged, cost of restoration shall be an obligation of the Seller and closing shall proceed pursuant to the terms of Contract with costs therefore escrowed at closing. In the event the cost of repair or restoration exceeds 3% of the assessed valuation of the improvements so damaged, Buyer shall have the option of either taking the Property as is, together with either the said 3% or any insurance proceeds payable by virtue of such loss or damage, or of canceling the Contract and receiving of deposit(s) made hereunder.

XXVI. MAINTENANCE: Notwithstanding the provisions of Paragraph XXIV, between Effective Date and Closing Date, all personal property on the premises and real property, including lawn, shrubbery, and pool, if any, shall be maintained by Seller in the condition they existed as of Effective Date, ordinary wear and tear excepted, and Buyer or Buyer's designee will be permitted access for inspection prior to closing in order to confirm compliance with this standard.

XXVII. PROCEEDS OF SALE AND CLOSING PROCEDURE: The deed shall be recorded upon clearance of funds and evidence of title continued at Buyer's expense, to show title in Buyer, without any encumbrances or change which would render Seller's title unmarketable from the date of the last evidence, and the cash proceeds of sale shall be held in escrow by Seller's attorney or by such other escrow agent as may be mutually agreed upon for a period of not longer than five days from and after closing date. If Seller's title is rendered unmarketable, Buyer shall within said five day period, notify Seller in writing of the defect and Seller shall have thirty days from date of receipt of such notification to cure said defect. In the event Seller fails to timely cure said defect, all monies paid hereunder shall, upon written demand therefore and within five days thereafter, be returned to Buyer and, simultaneously with such repayment, Buyer shall vacate the Property and reconvey same to the Seller by special warranty deed. In the event Buyer fails to make timely demand for refund, he shall take title as is, waiving all rights against Seller as to such intervening defect except as may be available to Buyer by virtue of warranties, if any, contained in deed.

XXVIII. ESCROW: Any escrow agent receiving funds is authorized and agrees by acceptance thereof to promptly deposit and to hold same in escrow and to disburse same subject to clearance thereof in accordance with terms and conditions of Contract. Failure of clearance of funds shall not excuse performance by the Buyer.

XXIX. ATTORNEY FEES AND COSTS: In connection with any litigation including appellate proceedings arising out of this Contract, the prevailing party shall be entitled to recover reasonable attorney's fees and costs.

XXX. DEFAULT BY SELLER: In the event that Seller should fail to consummate the transaction contemplated herein for any reason, except Buyer's default: (i) Buyer may enforce specific performance of this Agreement in a court of competent jurisdiction and in such action shall have the right to recover damages suffered by Buyer by reason of the delay in the acquisition of the Property, or (ii) may bring suit for damages for breach of this Agreement, in which event, the deposit made hereunder shall be forthwith returned to Buyer, or (iii) declare a default, demand and receive the return of the deposit. All rights, powers, options, or remedies afforded to Buyer either hereunder or by law shall be cumulative and not alternative and the exercise of one right, power, option, or remedy shall not bar other rights, powers, options or remedies allowed herein or by law.

XXXI. DEFAULT BY BUYER: In the event Buyer should fail to consummate the transaction contemplated herein for any reason, except default by Seller or the failure of Seller to satisfy any of the conditions to Buyer's obligations, as set forth herein, Seller shall be entitled to retain the earnest money deposit, such sum being agreed upon as liquidated damages for the failure of Buyer to perform the duties and obligations imposed upon it by the terms and provisions of this Agreement and because of the difficulty, inconvenience, and uncertainty of ascertaining actual damages, and no other damages, rights or remedies shall in any case be collectible, enforceable, or available to Seller other than as provided in this Section, and Seller agrees to accept and take said deposit as Seller's total damages and relief hereunder in such event.

XXXII. MEMORANDUM OF CONTRACT RECORDABLE, PERSONS BOUND, AND NOTICE: Upon the expiration of the inspection period described in paragraph XXXVI, if Buyer has elected to proceed with purchase of the property, the parties shall cause to be recorded, at Buyer's option and expense, in the public records of the county in which the property is located, an executed Memorandum of Contract as attached hereto. This Contract shall bind and inure to the benefit of the Parties hereto and their successors in interest. Whenever the context permits, singular shall include plural and one gender shall include all. Notice given by or to the attorney for either party shall be as effective as if given by or to said party.

XXXIII. PRORATIONS AND INSURANCE: Taxes, assessments, rent, interest, insurance, and other expenses and revenue of the Property shall be prorated as of date of closing. Buyer shall have the option of taking over any existing policies of insurance on the Property, if assumable, in which event premiums shall be prorated. The cash at closing shall be increased or decreased as may be required by said prorations. All references in Contract to prorations as of date of closing will be deemed date of occupancy if occupancy occurs prior to closing, unless otherwise provided for herein.

XXXIV. CONVEYANCE: Seller shall convey title to the Property by statutory warranty deed subject only to matters contained in Paragraph VII hereof and those otherwise accepted by Buyer. Personal property shall, at the request of Buyer, be conveyed by an absolute bill of sale with warranty of title, subject to such liens as may be otherwise provided for herein.

XXXV. UTILITIES: Seller shall, at no expense to Seller, actively work with Buyer to assist Buyer in obtaining electricity, water, sewage, storm drainage, and other utility services for development of the Property.

XXXVI. ENGINEERING PLANS AND STUDIES: Upon the execution hereof, Seller shall furnish to Buyer all engineering plans, drawings, surveys, artist's renderings, and economic and financial studies which Seller has, if any, relating to the Property, and all such information may be used by Buyer in such manner as it desires; provided that in the event Buyer fails to purchase the Property for any reason other than Seller's default, all such information shall be returned to Seller together with any information that Buyer may have compiled with respect to the Property.

XXXVII. INSPECTION OF PROPERTY: Buyer shall have sixty (60) days from the date hereof to determine the elevation, grade, and topography of the Property and to conduct engineering and soil boring tests as the Buyer deems necessary in order to determine the usability of the Property. Buyer may in its sole and absolute discretion, give notice of termination of this Agreement at any time prior to the expiration of the sixty day inspection period, and upon such termination, all deposits held in escrow shall be returned to Buyer.

XXXVIII. PENDING LITIGATION: Seller warrants and represents that there are no legal actions, suits, or other legal or administrative proceedings, including cases, pending or threatened, or similar proceedings affecting the Property or any portion thereof, nor has Seller knowledge that any such action is presently contemplated which might or does affect the conveyance contemplated hereunder.

XXXIX. SURVIVAL OF REPRESENTATIONS AND WARRANTIES: The representations and warranties set forth in this Contract shall be continuing and shall be true and correct on and as of the closing date with the same force and effect as if made at that time, and all of such representations and warranties shall survive the closing and shall not be affected by any investigation, verification, or approval by any party hereto or by anyone on behalf of any party hereto.

XL. ACQUIRING APPROVALS: The obligation of Buyer to close is conditioned upon Buyer having acquired all the necessary approvals and permits to use the property for ____________________.

XLI. OTHER AGREEMENTS: No prior or present agreements or representations shall be binding upon any of the Parties hereto unless incorporated in this Contract. No modification or change in this Contract shall be valid or binding upon the Parties unless in writing, executed by the Parties to be bound thereby.

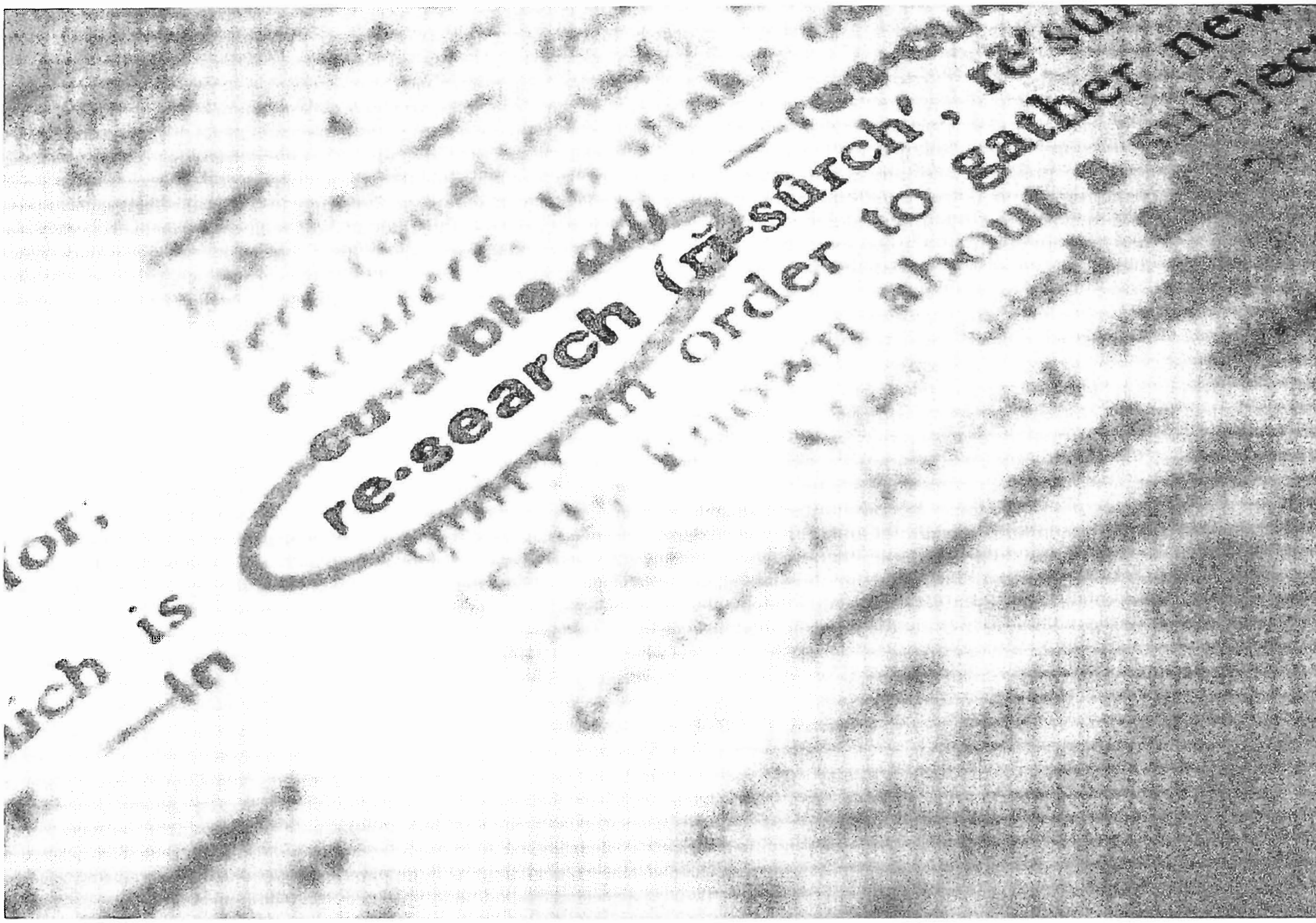
XLII. SPECIAL CLAUSES:

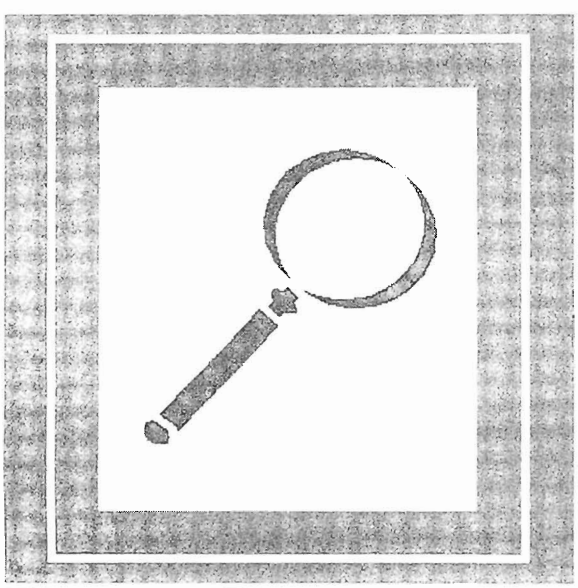
____________________________	____________________________
Buyer	Seller
____________________________	____________________________
Buyer	Seller
____________________________	____________________________
Date	Date

Deposit(s) under II (a) received; if check, subject to clearance, and terms hereof are accepted. By:
____ (Escrow Agent)

BROKERAGE FEE: Seller agrees to pay the registered real estate Broker named below, at time of closing, from the disbursements of the proceeds of sale, compensation in the total amount of ________ of gross purchase price of _______________ for his services in effecting the sale by finding a Buyer, ready, willing, and able to purchase pursuant to the foregoing Contract. In the event Buyer fails to perform and deposit(s) is retained, 50% thereof, but not exceeding the Broker's fee above computed, shall be paid to the Broker as full consideration for Broker's services including costs expended by Broker, and the balance shall be paid to Seller. If the transaction shall not be closed because of refusal or failure of Seller to perform, the Seller shall pay said fee in full to Broker on demand. Seller agrees to indemnify, defend, and hold Buyer harmless from and against all claims or demands with respect to any brokerage fees or agent's commissions or other compensation asserted by any person or entity in connection with this agreement or the transaction contemplated herein.

____________________________	____________________________
Broker(s)	Date
____________________________	____________________________
Seller(s)	Date





Glossary: General Real Estate Terms

Glossary
General Real Estate Terms

Abandon – To choose not to exercise or sell an option before it expires; to voluntarily relinquish the rights of property ownership.

Abstract (of Title) – A historical summary of all the recorded transactions that affect the title to the property. An attorney or a title company will review an abstract of title to determine if there are any problems affecting the title to the property. All such problems must be cleared before the buyer can be issued a clear and insurable title.

Acceleration Clause – A provision in a loan contract that allows the lender to demand full and immediate repayment of the entire loan balance if the contract is breached or conditions for repayment occur.

Addendum – Clauses that are added to the end of a contract which supersede what is written in the contract.

Adjustable Rate Mortgage (ARM) – Also known as a variable rate mortgage. A mortgage with an interest rate that may change, usually in response to changes in the Treasury bill rate or the prime rate.

Adjustment Period – This is the length of time for which the interest rate is fixed on an adjustable rate mortgage. Therefore, if the adjustment period is six months, then the interest rate will remain fixed for six months, after which time it will adjust.

Agent – Generally, someone who acts on behalf of another for a fee. In real estate, the term refers to a person with a real estate license who works under the authority of a real estate broker.

Agreement of Sale – A written, signed agreement between the seller and the purchaser in which the purchaser agrees to buy certain real estate and the seller agrees to sell upon terms of the agreement. Also known as contract of purchase, purchase agreement, offer and acceptance, earnest money contract, or sales agreement.

Amortization – A gradual paying off of a debt by regular periodic installments which pay principal and interest over a specified period of time.

Annual Percentage Rate (APR) – The effective rate of interest for a loan per year. This rate is typically higher than the note rate because it takes into account closing costs. This is one way to compare loan programs offered by different lenders. Caution: the APR is sometimes computed differently by different lenders and can be misleading.

Appraisal – An opinion or estimate of the value of a property at a given date.

Appreciation – Increase in value of a property.

Arm's Length Transaction – Typically, a transaction between two related or affiliated parties that is conducted as if they were unrelated, so that there is no question of a conflict of interest.

Arrears – The amount of debt that is overdue or unpaid. A payment that is made past its due date.

Assessment – A local tax levied against a property for a specific purpose such as for streetlights.

Asset – Anything of value that can be converted into cash or used to pay a debt.

Assign – To transfer interest.

Assignee – Individual to whom a title, claim, property, interest, or right has been transferred.

Assignment Clause – A sales contract with an assignment clause allows the buyer to transfer the interest in the property (i.e., the right to buy it at the given rates and terms) to another party.

Assignor – The one who transfers a title, claim, property, interest, or right to another person.

Assumable Mortgage – A mortgage loan that allows a new homebuyer to take over the obligation of making loan payments with no change in the terms of the loan. The lender has to be notified and agree to the assumption. The lender may require the buyer to qualify for the loan and may charge an assumption fee. The seller should obtain a written release from the lender stating clearly that he/she is no longer liable to make mortgage payments.

Assumption – Assuming a mortgage is taking over the repaying of the debt from the seller.

Balloon (payment) Mortgage – Usually a short-term, fixed-rate loan which involves small payments for a certain period of time and one large payment for the remaining amount of the principal at a time specified in the contract. Example: A balloon mortgage for $25,000 has interest only payments for 5 years at 12% ($250 per month), with the full principal of $25,000 due and payable after 5 years.

Bankruptcy – The financial inability to pay one's debts when due. The debtor surrenders his assets to the bankruptcy court. An individual typically files for Chapter 7 (all debts wiped out) or Chapter 13 (establishes a payment plan to pay off debts). A bankruptcy stays on an individual's credit report for seven years.

Beneficiary – The person who receives or is eligible to receive the benefits resulting from certain acts. For example, if you set up a land trust for a property you own, you are the beneficiary.

Bid – An offer of a specific amount of money in exchange for products and services, as in an auction.

Bi-weekly Mortgage – A mortgage that requires half the normal monthly payment every two weeks. Over the course of the year, 26 half-payments are made, which is equivalent to 13 full mortgage payments. As a result of this extra payment, the loan amortizes much faster than a loan with normal monthly payments.

Blanket Mortgage – Mortgage covering more than one piece of property (e.g., a developer subdivides a tract of land into lots and obtains a blanket mortgage on the whole tract).

Book Value – The value of an asset as shown in the financial records of an individual or corporation. Book value may differ substantially from market price.

Borrower (Mortgagor) – One who applies for a loan secured by real estate and is responsible for repaying the loan (mortgage).

Broker – An individual or firm that acts as an intermediary between a buyer and seller, usually charging a commission.

Buy-Back Agreement – An agreement specifying conditions under which the seller agrees to repurchase the property, usually for a stated price and within a stated time limit.

Buy Down – Obtaining a lower interest rate (buying down the rate) by paying additional points to the lender. The lower rate may apply for the full duration of the loan or for just the first few years. A buy down may be used to qualify a borrower who would otherwise not qualify. This is because a buy down results in lower payments, which are easier to qualify for. Example: A very popular buy down is the 2-1 buy down. If the interest rate on the note is 9%, the buy down results in the rate being 7% (9%-2%) for the first year, 8% (9%-1%) for the second year, and 9% thereafter.

Buyer's Broker – An agent hired by a buyer to locate a property for purchase. The broker represents the buyer and negotiates with the seller's broker for the best possible deal for the buyer.

Buyer's Market – Market conditions that favor buyers (e.g., there are more sellers than buyers in the market). As a result, buyers have ample choice of properties and may negotiate lower prices. A buyer's market may be caused by an economic slump or overbuilding.

Capital – Money used to generate income.

Capital Gains – Profit earned from the sale of real estate or the amount by which an asset's selling price exceeds its initial purchase price. A seller may defer taxes on the capital gain of his/her primary residence by buying a higher priced residence within two years.

Cap Rate – Rate used to determine the present value of property with future earnings.

Caps (interest) – Consumer safeguards that limit the amount the interest rate on an adjustable rate mortgage may change per year and/or over the life of the loan (see also Interest Cap).

Caps (payment) – Consumer safeguards that limit the amount monthly payments on an adjustable rate mortgage may change.

Cash Flow – The amount of cash derived over a certain period of time from an income-producing property. Cash receipts minus cash payments over a given period of time. The cash flow should be large enough to pay the expenses of the income-producing property (mortgage payment, maintenance, utilities, etc.).

Caveat Emptor – A legal term meaning "let the buyer beware." The buyer must examine the property and buy at his/her own risk. Example: A property may be offered in an "as-is" condition with no expressed or implied guarantee of quality or condition.

Certificate of Occupancy – Document issued by a local governmental agency that states a property meets the local building standards for occupancy and is in compliance with public health and building codes. This document is normally required by a lender prior to closing the loan.

Certificate of Title – An opinion rendered by an attorney as to the status of title to a property, according to the public records. This certificate does not hold the same level of protection as title insurance.

Chain of Title – Chronological order of conveyance of a parcel of land from the original owner to the present owner. An abstractor can research title to property going back to the date the property was granted to the United States.

Chattel – Personal, tangible, moveable property. The same as personal property. Not real estate.

Clear Title – A marketable title, free of liens and legal questions as to the ownership of the property. Most lenders require a clear title prior to closing.

Closing – 1) The act of transferring ownership of a property from seller to buyer in accordance with a sales contract; 2) the time when a closing takes place; 3) the process of signing the documents to transfer property.

Closing Costs – Expenses incurred by the buyer and seller in a real estate or mortgage transaction over and above the price of the property. There are two types of costs: recurring and non-recurring. Non-recurring costs are one-time transactional costs, which include: discount and origination points; lender fees – underwriting, processing, document preparations, flood certificate, tax service, wire transfer, courier, etc.; title insurance fees; escrow; attorney or closing agent fees; recording fees; inspection and appraisal fees; and real estate brokerage commissions. Recurring fees are costs associated with owning the property and they recur month after month. These costs may include hazard insurance, interest, property taxes, mortgage insurance (PMI), and association fees. A pro-rated amount of these fees may have to be paid at closing, including: pre-paid interest – interest charges from the date of closing to the end of the month; property taxes if due; and hazard insurance, fire insurance, or homeowner's insurance (has to be paid for one year). Mortgage insurance (PMI) may be required if the loan amount is more than 80% of the value of the property. In the past, a whole year of PMI had to be paid up front, however, in recent years, many PMI companies only require 1-2 months up front. Mortgage insurance premiums are normally paid every month with the loan payment. An impound account may need money to be set up for future payments.

Closing Statement – The settlement statement that discloses all of the financial information of the transaction for the buyer and seller including all costs.

Cloud on Title – An outstanding claim or encumbrance that, if valid, would affect or impair the owner's title. Compared with clear title.

Collateral – Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default.

Commission – The fee charged by a broker or agent when selling real estate.

Comparative Market Analysis (CMA) – A comparison of sales prices of similar properties in a given area for the purpose of determining the fair market value of a property. Also referred to as "comps."

Conditional Commitment – A written document provided by a lender agreeing to make a loan provided certain conditions are met by the borrower prior to closing.

Consideration – Anything of value given to induce another to enter into a contract. Earnest money deposit on a sales contract is consideration.

Construction Loan – A short term loan to pay for the construction of buildings or homes. They typically provide periodic disbursements to the builder as each stage of the building is completed. When construction is completed, a "take-out" or permanent loan is used to pay off the construction loan.

Contingency – Conditions that must be satisfied before the buyer can close the purchase of a property. Contingencies are generally outlined in the purchase contract between the buyer and seller. Example: The buyer has 14 days to remove the property contingency under the sales contract. In this case, the buyer has 14 days to inspect the property and request the seller to perform repairs. If the buyer is not satisfied with the condition of the property or if the buyer and the seller cannot agree on repairs, the buyer may back out of the contract with no penalty. After 14 days, the buyer no longer has the right to back out with no penalty as a result of a problem with the condition of the property.

Contract – A binding agreement between competent parties to do or not do certain things for consideration. To have a valid contract for the sale of real estate there must be:

1) an offer, 2) an acceptance, 3) competent parties, 4) consideration, 5) legal purpose, 6) written documentation, 7) description of the property, and 8) signatures by principals or their attorney-in-fact.

Contract of Sale – Same as the Agreement of Sale.

Contract Sale or Deed – A real estate installment selling arrangement where the buyer may occupy the property, but the seller retains the title until the agreed upon sales price has been paid. Also known as an installment land contract.

Contract to Purchase – An agreement of sale detailing the transaction and submitted by the buyer to the seller.

Conventional Loan – Any mortgage loan other than a VA or FHA loan. A conventional loan may be conforming or non-conforming.

Convertible ARM – Some variable rate loans come with options to convert them to a fixed rate loan based on a pre-determined formula, during a given time period. For example, the 1-year T-bill adjustable may be converted to a fixed during the first five years on the adjustment date. This means you could convert during the 13th, 25th, 37th, 49th, and 61st months of the loan.

Conveyance – The transfer of title of real property from one party to another.

Co-op – A multi-unit housing complex where the residents own stock in the building instead of individual units.

Corporation – An association of one or more shareholders having its own legal entity separate from the individual shareholders.

Covenant – A written agreement or restriction on the use of land or promising certain acts. Homeowner's associations often enforce restrictive covenants governing architectural controls and maintenance responsibilities. However, land could be subject to restrictive covenants even if there is no homeowner's association.

Credit Report – A report detailing a borrower's credit history, including payment history on revolving accounts (e.g., credit cards), installment accounts (e.g., car loan), late payments, bankruptcies, and recent inquiries. It can be obtained by prospective lenders with the borrower's permission to determine his or her creditworthiness. A credit report also includes information found from public records, including tax liens and judgments.

Debt-to-Income Ratio – The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her net effective income (FHA/VA loans) or gross monthly income (conventional loans).

Deed – A written document by which title to real property is transferred from one owner to another. The deed should contain an accurate description of the property being conveyed, should be signed and witnessed according to the laws of the state where the property is located, and should be delivered to the buyer at closing.

Deed of Trust – Used in many states instead of a mortgage to secure the payment of a note. In a deed of trust, there are three parties – the borrower, the trustee, and the lender (or beneficiary). The deed to a property is held by a trustee instead of the borrower.

Deed Restriction – A clause in a deed that limits the use of land. Example: A deed might require that a road cannot be built on the land.

Default – Failure to meet legal obligations in a contract such as the failure to make the monthly mortgage payment.

Defective Title – Any recorded instrument that would prevent a grantor/seller from giving a clear title. Example: The seller has a contractor lien on the property that was filed when he/she failed to pay the contractor for the kitchen remodel. The seller may obtain clear title by paying the contractor and removing the lien.

Delinquency – Failure to make payments on time. This can lead to foreclosure.

Depreciation – Decline in the value of a house due to wear and tear, obsolescence, adverse changes in the neighborhood, or any other reason.

Disclosure – Statement of fact(s) concerning the condition of the property for sale and the surrounding area. In most states, the buyer is protected by disclosure laws requiring sellers to divulge certain information about the property (e.g., if the property is in a special studies zone).

Discount Points – Fees paid to a lender to reduce the interest rate.

Documentary Tax Stamps – Stamps affixed to a deed showing the amount of transfer tax paid.

Down Payment – The part of the purchase price paid in cash up front, reducing the amount of the loan or mortgage. Example: John buys a house for $100,000 and obtains a loan for $80,000. His down payment is $20,000.

Due on Sale Clause – A clause in the deed of trust or mortgage that states that the entire loan is due upon the sale of the property.

Earnest Money – A deposit made by a buyer of real estate towards the down payment to evidence good faith. This money is typically held by the real estate broker or the escrow company.

Easement – The right to use the land of another for a specific purpose. Easements may be temporary or permanent. Example: The utility company may need an easement to run electric lines.

Eminent Domain – The right of the government or a public utility to acquire private property for public use by condemnation, with proper compensation to the owner.

Encumbrance – A legal right or interest in land that affects a good or clear title and diminishes the land's value. It can take numerous forms such as zoning ordinances, easement rights, claims, mortgages, liens, charges, a pending legal action, unpaid taxes, or restrictive covenants. An encumbrance does not legally prevent transfer of the property to another. A title search is all that is usually done to reveal the existence of such encumbrances, and it is up to the buyer to determine whether he wants to purchase with the encumbrance or what can be done to remove it.

Equal Credit Opportunity Act (ECOA) – A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity – The property value minus what you still owe (e.g., the mortgage balance and any other loans/liens against the property).

Escheat – The reversion of property to the state in the event that the owner dies without leaving a will and has no legal heirs.

Escrow – An account held by the lender into which a homeowner pays money for taxes and insurance.

Eviction – The lawful removal of an occupant and her/his belongings from a property.

Fannie Mae/Federal National Mortgage Association (FNMA) – Purchases loans from lenders, then sells them as FNMA mortgage backed securities on Wall Street.

Farmer's Home Administration (FmHA) – An agency within the U.S. Department of Agriculture that makes and insures loans for rural housing and farms.

Federal Deposit Insurance Corporation (FDIC) – Government agency that supervises and insures accounts.

Federal Housing Administration (FHA) – A government agency within HUD that administers and insures mortgage loans for private lending agencies.

Fee Simple (Fee Absolute or Fee Simple Absolute) – Absolute ownership of real property. Owner is entitled to the entire property with unrestricted power of disposition during the owner's life and upon his death, the property descends to the owner's designated heirs.

FHA Loan – This program provides mortgage insurance to protect lenders against the risk of default on loans to qualified buyers. A loan insured by the FHA is open to all qualified home purchasers. The FHA does not make loans to borrowers, it does not process loans, and it does not build or insure houses. While there are limits to the size of FHA loans, they are generous enough to handle moderately-priced homes almost anywhere in the country.

FICO Score – The FICO score is a three-digit number, ranging from 300 to 850, that is assigned to your credit based on a formula developed by Fair, Isaac & Company. Credit scores are reported by three major credit bureaus, Equifax, Experian, and TransUnion. Scores are not the same on each bureau's report because each bureau places a slightly different value on different items. It is in your best interest to know your FICO score because it is a key factor in determining if you get a mortgage, whether you can refinance your home at a favorable rate, or whether or not you can get a new credit card. Your FICO score can also determine whether or not you can finance a new car, buy insurance, or even get a job.

Fiduciary – A person in a position of trust or responsibility with the legal authority and duty to make decisions regarding financial matters on behalf of the other party. Example: A real estate broker is a fiduciary for his/her clients.

Finance Charge – Interest charged by a lender.

Fixed Rate Mortgage (FRM) – The mortgage interest rate will remain the same throughout the term of the mortgage for the original borrower.

Forbearance – A lender's postponement of foreclosure in order to give the borrower time and an opportunity to make up for overdue payments.

Foreclosure (Repossession) – A legal sale of property forced by the lender when the borrower defaults on the mortgage loan.

Freddie Mac/Federal Home Loan Mortgage Corporation (FHLMC) – Purchases loans from the Federal Reserve and the Federal Home Loan Bank Systems, then sells them as FHLMC mortgage backed securities on Wall Street.

Free and Clear – A property that has no liens (see also Clear Title).

FSBO (For Sale By Owner) – A property for sale that is not listed with a real estate broker and therefore will not be listed on the Multiple Listing Service (MLS).

Grace Period – The time period between the due date of a mortgage payment and the date when late charges are assessed. For example, payments due on the first of the month may have a 14 day grace period, meaning that fees will be charged if payment is not received by the fifteenth.

Graduated Payment Mortgage (GPM) – A mortgage that has lower payments initially (with potential negative amortization) that increase each year until the loan is fully amortized. Intended for young people with low current income but greater anticipated future income.

Grantee – That party in the deed who is the buyer or recipient.

Grantor – That party who is the seller or the giver.

Hard Moneylender – Lenders who use private money to make loans with borrowers who have trouble getting loans via conventional methods. There is usually a very high interest rate associated with hard moneylenders.

Home-Improvement Loan – A loan used to finance home improvements. It may or may not require a mortgage or collateral.

Homeowner's Association – An association of homeowners that oversees the common areas of the development and its rules and regulations.

Homestead – Status provided to a homeowner's principal residence in some states that protects the home against judgments up to specified amounts.

Homestead Exemption – Available in some states – this causes the assessed value of a principal residence to be reduced by the amount of the exemption for the purposes of calculating property tax.

Home Warranty Plan – Private insurance insuring a buyer against defects (usually in plumbing, electrical, appliances, and heating systems). It is typically purchased at the time of closing and can cover both new and used homes.

Housing and Urban Development (HUD) – A U.S. government agency established to implement certain federal housing and community development programs.

Improvements – Additions to raw land such as buildings, streets, etc. that add value to the land.

Income Approach – A method used by an appraiser to estimate the value of rental property based on the income it generates over the life of the structure, discounted to determine its present value.

Income Property – Real estate that generates rental income.

Ingress and Egress – The right to go in and out over a piece of property but not the right to park on it (see also Easement).

Inspection – An examination of a property or building to determine condition or quality for a particular purpose such as an assessment of structural or termite damage. Also used to confirm that the property meets the standards of the contract.

Installment Sale – See Land Contract.

Interest Cap – A limit on the amount that the interest rate for an adjustable rate mortgage can change, regardless of how much the index changes. Most ARMs have a cap on both the amount it can increase or decrease at any periodic adjustment interval and a life-long cap that limits the amount the interest rate can vary over the life of the loan. The two interest caps are sometimes called a "periodic cap" and a "life cap."

Interest Rate – The percentage rate on a principal amount charged by a lender for the use of a sum of money.

Investor – One who makes investments.

Jumbo Loan – Loan size that is larger than the limit established by Fannie Mae or Freddie Mac.

Junior Lien – When a property is foreclosed, lenders are repaid in a particular order, established by the loan documents. The lender with the first claim to repayment is said to hold the first mortgage and a lender whose repayment order is after the first claimant is said to hold a junior, or subordinate lien.

Junior Mortgage – All mortgages/liens subordinate to the first mortgage. In the case of a foreclosure, a senior mortgage will be paid prior to a junior mortgage.

Land Contract – A real estate installment selling arrangement whereby the buyer may use and occupy land, but ownership of the property is not transferred until all the payments have been made.

Landlord – The owner of real property who rents or leases to another party.

Land Trust – Used to maintain the property owner's anonymity. Only the Trustee is named in public records; you, the Beneficiary, are not named.

Lease – An agreement giving the right to occupy property for a specific period of time for a specific amount.

Lease Option – An agreement giving the renter the option to purchase the property.

Lease with Option to Purchase – A lease under which the lessee has the right to purchase the property. The option may run for a portion of or for the full length of the lease.

Lessee – A person who leases a property from its owner; tenant.

Lessor – A person who rents property to another under a lease; landlord.

Lien – A claim against the property for the payment of a debt, judgment, mortgage, or taxes. A lien must be satisfied when the property is sold. Example: Unpaid contractors may file a mechanic's lien.

Lis Pendens – "Lawsuit Pending."

Loan Application – A document required by a lender prior to loan approval. The application includes detailed information about the borrower(s), his/her/their finances, and the property.

Loan Origination Fee or Points – A one-time fee charged by a lender or broker connected with originating a loan. This is different from discount points, which are used to buy down the rate of interest.

Loan-to-Value Ratio (LTV) – The relationship of the loan amount to the price (or value) of the property.

Manufactured Home – Homes built in a factory-controlled environment that meet strict HUD codes. They are brought to the property site and are assembled there.

Margin – A fixed number added to the index to compute the rate on an adjustable rate mortgage.

Market Value – The highest price a buyer would pay and the lowest price a seller would accept on a property. Market value may be different from the price a property could actually be sold for at a given time.

Mortgage – A written legal agreement that creates a lien against a property as security for the payment of a debt; a loan to pay for real estate that usually includes interest rates and a payment schedule.

Mortgage Banker – Specializes in originating, selling, and servicing loans. They generally sell their loans to investors, but may continue to service them.

Mortgage Broker – An individual or company which brings borrowers and lenders together for the purpose of loan origination, but which does not originate or service the mortgages. They are paid a fee by the borrower or the seller at the closing.

Mortgagee – The lender.

Mortgagor – The borrower.

Motivated Buyer – Any buyer with a strong circumstance or reason to buy.

Motivated Seller – Any seller with a strong circumstance or reason to sell.

Multiple Listing Service (MLS) – A group of brokers joined together in a marketing organization for the purpose of pooling their respective listings. In exchange for a potentially larger audience of buyers, the brokers agree to share commissions. The listings are pooled by using a computerized network.

Negative Amortization – An increase in principal balance that occurs when the monthly payments do not cover all of the interest cost. The interest cost that is not covered by the payment is added to the unpaid principal balance.

Net Operating Income (NOI) – The amount of income you have left after you deduct operating expenses (but before deducting interest and taxes). NOI does not include debt service (mortgage payment).

Non–Assumption Clause – Statement in a mortgage contract forbidding the assumption of the mortgage without the prior approval of the lender.

Noncompliance – Failure to comply or obey.

Non–Conforming Loan – A loan that does not meet Freddie Mac or Fannie Mae standards.

Notary Public – One authorized to take acknowledgments of certain types of documents such as deeds, contracts, and mortgages.

Note – A legal document that obligates a borrower to repay a mortgage loan at a specified interest rate during a specified period of time or on demand.

Notice of Default – A formal notice to a borrower declaring that a default has occurred and legal action may be taken.

Offer – An expression of willingness to purchase a property at a specified price.

Offeree – One who receives the offer. When the buyer makes an offer to the seller, the seller is an offeree.

Offeror – One who makes the offer. When the buyer makes an offer to the seller, the buyer is an offeror.

Option – The right to buy a property at a specific price within a specific time period.

Optionee – One who receives or purchases an option.

Optionor – One who gives or sells an option.

Option to Purchase – An agreement giving the right to buy a property at a specific price within a specific time period.

Oral Contract – A verbal agreement. Verbal agreements for the sale or use of real estate are normally unenforceable.

Origination Fee – A fee charged by a lender for processing a loan application, expressed as a percentage of the mortgage amount.

Owner Occupant – A tenant of a residence who also owns the property.

Owner of Record – The individual named on a deed that has been recorded at the county recorder's office.

Paper – A mortgage, deed of trust, or land contract provided in lieu of cash.

PITI – Abbreviation for principal, interest, taxes, and insurance, which may be combined in a single monthly mortgage payment.

Plat – A plan or map of a specific land area.

Plat Book – A public record containing maps of land, showing the division of the land into streets, blocks, and lots and indicating the measurements of the individual parcels.

Points – Fees paid to lenders at the beginning of a loan. 1 point = 1% of the loan amount. On a $100,000 loan, 1 point is $1,000. Points may be further classified into origination points or discount points.

Portfolio Loan – A loan held (not sold) by banks as an investment.

Power of Attorney – A written document authorizing another to act on his or her behalf; called an "Attorney in Fact." One does not need to be a licensed attorney to act as an attorney in fact, but power of attorney forms are powerful legal documents that should be used only under advice of a licensed attorney at law.

Prepaid Interest – Interest paid before it is earned. Prepaid interest is the interest charged to borrowers at closing to pay for the cost of borrowing for a balance of the month. For example, if a loan closes on the 19th of the month and the first payment is due on the 1st of the following month, the lender will charge 12 days of prepaid interest.

Prepayment – Full or partial payment of the principal before the due date. This might occur if the borrower makes extra payments, sells the property, or refinances the existing loan.

Prime Rate – The lowest commercial interest rate charged by a bank on short term loans to their most creditworthy customers.

Principal – The outstanding balance on a loan.

Private Mortgage Insurance (PMI) – Mortgage insurance provided by non–government insurers that protects a lender against loss if the borrower defaults. In the event the borrower doesn't have a 20 percent down payment, lenders will allow a smaller down payment – as low as 2 percent in some cases. With the smaller down payment loans, however, borrowers are usually required to carry private mortgage insurance. Private mortgage insurance payments are normally made annually or monthly.

Probate – Court process to establish the validity of the will of a deceased person. Also, the process by which an executor (if there is a will) or a court-appointed administrator (if there is not a will) manages and distributes a decedent's property.

Pro Forma – Projected financial statements based on assumptions.

Promissory Note – A signed legal document that acknowledges the existence of a debt and the promise to repay it.

Prorate – To divide proportionately, so as to determine actual amounts owed by the buyer and seller at closing. For example, if property taxes for a month are $300 and the seller owned the property for the first 10 days while the borrower owned the property for the remaining 20 days, the property taxes owed would be prorated so that the seller would pay $100 ($300 x 10/30) and the buyer would pay $200 ($300 x 20/30).

Public Sale – An auction of property open to the general public. A public sale generally requires notice (advertising) and must be held in a place accessible to the general public.

Purchase – To buy or to obtain property in exchange for money.

Purchase Agreement – See Agreement of Sale.

Purchase Money Mortgage – A mortgage used to finance the purchase of a property.

Qualifying – The process of determining whether a buyer is financially able to assume a mortgage by checking credit history, present and previous employment, and any other sources that may help determine the buyer's financial capability.

Quiet Title (Action) – A court action to establish ownership of property.

Quitclaim Deed – A deed that transfers whatever interest or title the maker of the deed may have in the particular parcel of land. A quitclaim deed is often given to clear the title when the grantor's interest in a property is questionable. By accepting such a deed, the buyer assumes all the risk. Such a deed makes no warranties as to the title, but simply transfers to the buyer whatever interest the grantor has.

Real Estate Broker – A licensed individual who arranges the buying and selling of real estate for a fee. A broker usually owns his own real estate company or is in a management position.

Real Property – Land including trees, minerals, and any permanent fixtures attached to it.

Realtor – A real estate professional who is a member of the National Association of Realtors.

Recording – The act of entering into a book of public records instruments affecting title to the real property. A lender requires that a deed of trust or a mortgage be recorded to evidence the debt against the property.

Recording Fees – Money paid to the lender for recording a home sale with the local authorities, thereby making it part of the public records.

Red–Lining – Illegal practice of discriminating based on geographic location when providing loans or insurance coverage.

Refinance – Obtaining a new mortgage loan on a property already owned, often to replace existing loans on the property.

Refinancing – Repaying an existing loan from the proceeds of a new loan on the same property.

Restrictive Covenants – Private restrictions limiting the use of real property. Restrictive covenants are created by deed and may "run with the land," binding all subsequent purchasers of the land, or may be "personal" and binding only between the original seller and buyer.

Right of First Refusal – The right to purchase a property under terms and conditions made by another purchaser and accepted by the seller. For example, if the Smiths make an offer of $120,000 on a property and the seller accepts the offer subject to the Wilsons' right of first refusal, the Wilsons have the right to buy the property for $120,000.

Rollover Loan – A loan that is amortized over a long period of time (e.g., 30 years), but the interest rate is fixed for a short period (e.g., 5 years). The loan may be extended or rolled over, at the end of the shorter term, based on the terms of the loan.

Sales Agreement or Sales Contract – See Agreement of Sale.

Second Mortgage – A subordinated lien, created by a mortgage loan, over the amount of a first mortgage. Second mortgages generally carry a higher rate than a first mortgage since they represent a higher risk for an investor. Mortgages are generally recorded in the order of the date they are placed.

Section 1031 – The section of the IRS code that deals with tax-free exchanges of certain property. General rules for tax-free exchanges are the properties must be exchanged, similar, and used for business or as an investment.

Section 8 Housing – Privately owned rental units participating in the low-income rental assistance program. Landlords receive subsidies on behalf of qualified low-income tenants, allowing the tenants to pay a limited proportion of their incomes toward the rent.

Seller Financing – The seller of the property agrees to hold a mortgage and accept monthly payments instead of receiving their money in one lump sum.

Sheriff's Deed – A deed given at the sheriff's sale in the foreclosure of a mortgage.

Single Family Housing (SFR) – A general term originally used to distinguish a house designed for use by one family from an apartment house. More recently, used to distinguish a house with no common area from a planned development or condominium (e.g., townhouses, detached units).

Special Warranty Deed – The grantor does not warrant against title defects arising from conditions that existed before he/she owned the property. The seller warrants that he/she has done nothing to impair title.

Subordination – A loan in a lower priority. Example: A second mortgage is subordinate to a first.

Substitution of Liability – When assuming a mortgage, you are now liable for the loan.

Survey – Map made by a licensed surveyor who measures land and charts its boundaries, improvements, and relationship to the property surrounding it.

Sweat Equity – Value added to property due to improvements made by the owner.

Tax Lien – Lien for nonpayment of taxes.

Tax Sale – Public sale of a property at an auction by a government authority as a result of non-payment of taxes.

Tenancy at Will – A tenancy arrangement in which one party (the tenant) occupies real estate with the permission of the owner, for an unspecified period of time. The tenant may decide to leave the property at any time or must leave at the landlord's will.

Tenancy for Years – Created by a lease for a fixed term such as six months, two years, etc.

Tenancy in Common – Ownership of a property by two or more persons, each of whom has an undivided interest, without the right of survivorship. Upon the death of one of the owners, the ownership share of the deceased is inherited by the beneficiary designated on the owner's will.

Time is of the Essence – Legal phrase in a contract requiring all references to specific dates and times noted in the contract be interpreted exactly.

Title – A legal document establishing evidence of ownership.

Title Insurance – An insurance policy that protects the insured against loss arising from a property ownership dispute. Title insurance policies are typically obtained for the buyer and the lender.

Title Report – A document indicating the current state of title. The report includes information on the current ownership, outstanding deeds of trust or mortgages, liens, easements, covenants, restrictions, and any defects.

Title Search – An examination of the public records to determine the ownership and encumbrances affecting the property.

Tract – A parcel of land, generally held for subdividing.

Trust Deed – See Deed of Trust.

Trustee – A party who is given legal responsibility via a deed of trust to hold property in the best interest of or "for the benefit of" another. The trustee is one placed in a position of responsibility for another, a responsibility enforceable in a court of law.

Underwriting – The decision whether to make a loan to a potential homebuyer based on credit, income, employment history, assets, etc.

Unencumbered Property – Real estate with free and clear title.

Unimproved Property – Land that has received no development.

VA Loan – Home loan guaranteed by the U.S. Veterans Administration, enabling a veteran to buy a home with no money down.

Valuation – An estimation of value of a property, as determined by various factors.

Variable Rate Mortgage – See Adjustable Rate Mortgage.

Waiver – The voluntary renunciation, abandonment, or surrender of some claim, right, or privilege.

Warranty Deed – A deed that guarantees the title from the seller to the buyer.

Wraparound Mortgage – The seller creates a new mortgage for the buyer that includes the remaining amount on the current mortgage AND the remaining purchase price amount. The new mortgage "wraps around" the current mortgage. The seller is still responsible for the first mortgage. The buyer will essentially pay both mortgages (one held by the bank and one held by the seller) using one monthly payment given to the seller.

Zoning – Areas may be zoned to specify use of a property, e.g., residential, commercial, agricultural. These zoning ordinances are normally enforced by the city or the county.