

FINANCING YOUR DEALS

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There is an old cliché that says, “money flows to good deals” or “if you find a good deal, the money will come”. As I travel around the country meeting new investors I find that the majority of them never take the first step or look for deals until they know how to get the money. Conventional wisdom tells us to go to a lender and get a loan, or get pre-qualified before you look for an investment opportunity. I believe that most successful investors realize that when you have found a good deal, there are many ways to obtain the money. Here are a few of the ways which we will discuss. We have “hard money”, “private money”, “subject to”, “owner financing”, “wrap around mortgage” “subordinate” and “credit line”.

HARD MONEY

A hard money loan is usually made by private investors on properties that need repairs. They usually will loan 65 to 70% of the properties after repaired value and the property qualifies for the loan and usually not the borrower, therefore the borrowers credit or income verification may not be an issue. The lender is taking a higher risk so the interest rate is higher but it is a good way for a new investor to get started. Lets say you find a “fixer upper” that is worth \$100,000 after it is fixed up. A hard money lender would loan up to \$70,000. based on the property and not the borrowers financial statement. The investor who has no capital, can make offers on distressed properties using these guidelines. Hard money lenders can be found by looking for their ads in magazines like the one your reading now or you can find them by attending your local investors club or association. Over the next few weeks, contact two or three hard money lenders and find out what their criteria is for financing your deals.

PRIVATE MONEY

Although hard money lenders are usually private investors, there is a different type of private money available. There is an unlimited source of private money. Once you have found a good deal and you know how much money you need to do the deal, you could ask anybody to put up the money for a share of the profit. (neighbors, friends, business associates, relatives, etc.) You the investor can make your own terms. For example, you have found a deal with a market value of \$100,000. It needs \$12,000 in repairs, and the owner will sell it for \$50,000. You present the deal to a friend, neighbor, relative, or fellow investor. You say if you provide the \$62,000, I will share the profit with you, or you could offer say 10% interest which is better than they are getting elsewhere. The best part about private money is you can structure the terms with no monthly payments and no up front fees. The principal and interest are paid from the proceeds when the property sells. When you find your deal, gather as much information as possible to show your investor the facts. Get some comps, repair estimates, payoff statements, title search documents, a property inspection, photographs, and a market analysis. By gathering this info it

minimizes the risk.

Get a real estate attorney to draw up the paperwork (according to the state usary law) and make everyone feel comfortable. Always do what you say you will do and you will develop a track record.

OWNER FINANCING

Also known as “seller financing”. This is a great technique for real estate investors. It works with any type of investment property. (single family, multi family, commercial etc.) This is where the seller of the property becomes the bank. The owner needs \$100,000. The seller is willing to owner finance the entire \$100,000 purchase price at 7% interest amortized over 30 years. Lets say the payments are \$700 per month. The owner deeds you the property and you make the payments directly to the seller for the life of the loan. You rent the property for \$850 per month and send the seller \$700 and you have a \$150 per month positive cash flow. There is usually no credit check, no money down, little or no closing cost, points or up front fees, and no red tape. This works best on free and clear properties or with underlying assumable mortgages. The benefit to the seller is a monthly income and they can sell the loan to a note buyer for all cash anytime they need a lump sum.

“SUBJECT TO” FINANCING

This is where you acquire a property by taking over the existing loan instead of getting a new loan. It is called “subject to” because you are taking over the sellers loan subject to the terms and conditions of the loan. If you take title to the property you take responsibility for the payments. You find a distressed property with a loan balance of \$50,000. It needs a lot of work and the seller wants \$60,000. You feel you could fix it up and sell it for \$100,000, but you don’t have \$60,000. You offer to take over the loan “subject to”, and give the seller \$10,000. If you don’t have \$10,000, use the private money technique in this article or the owner finance technique. Get the seller to carry a second mortgage for the \$10,000 until you fix up the property. Then sell or refinance to pay everybody off. Subject to financing is a great tool for sellers and buyers of distressed properties. Owners can sell their properties very quickly, and buyers avoid the red tape of getting loans. It is a life saver for sellers with properties that the payments are burdensome. When doing a subject to transaction, Always spell everything out in plain language, You can get an attorney or title company to do the closing to make sure it’s all done correctly. Always make the payments on time until you sell or refinance.

CREDIT LINE

As an investor you should work on eventually getting a credit line. Talk to your banker and see about setting one up. Over time, you can build a nice credit line and have funds ready for those fantastic deals that come along. I have seen investors start with a small credit line of \$5000 and eventually get it increased up to \$300,000 over time. Also build yourself a database of investors to call upon when you find

that deal.

I could go on all week about the many ways to get financing for your deals. The bottom line is this, Go find the deals weather you have money or not. I got started with absolutely no money or credit, but I had a burning desire and believed I could do it. “money flows to good deals” and “If you find the deal, the money will come”.