GET FUNDED

YOUR ROAD MAP TO AN UNLIMITED AMOUNT OF CAPITAL
TO FUND ALL YOUR REAL ESTATE INVESTMENTS

HARD MONEY • PRIVATE MONEY • PARTNERS • REAL ESTATE CROWDFUNDING

THE "FUND-AMENTALS" OF REAL ESTATE INVESTMENTS

STRAIGHT FORWARD LESSONS, POWERFUL CHECKLISTS, INSIGHTS + FUNDING APPS

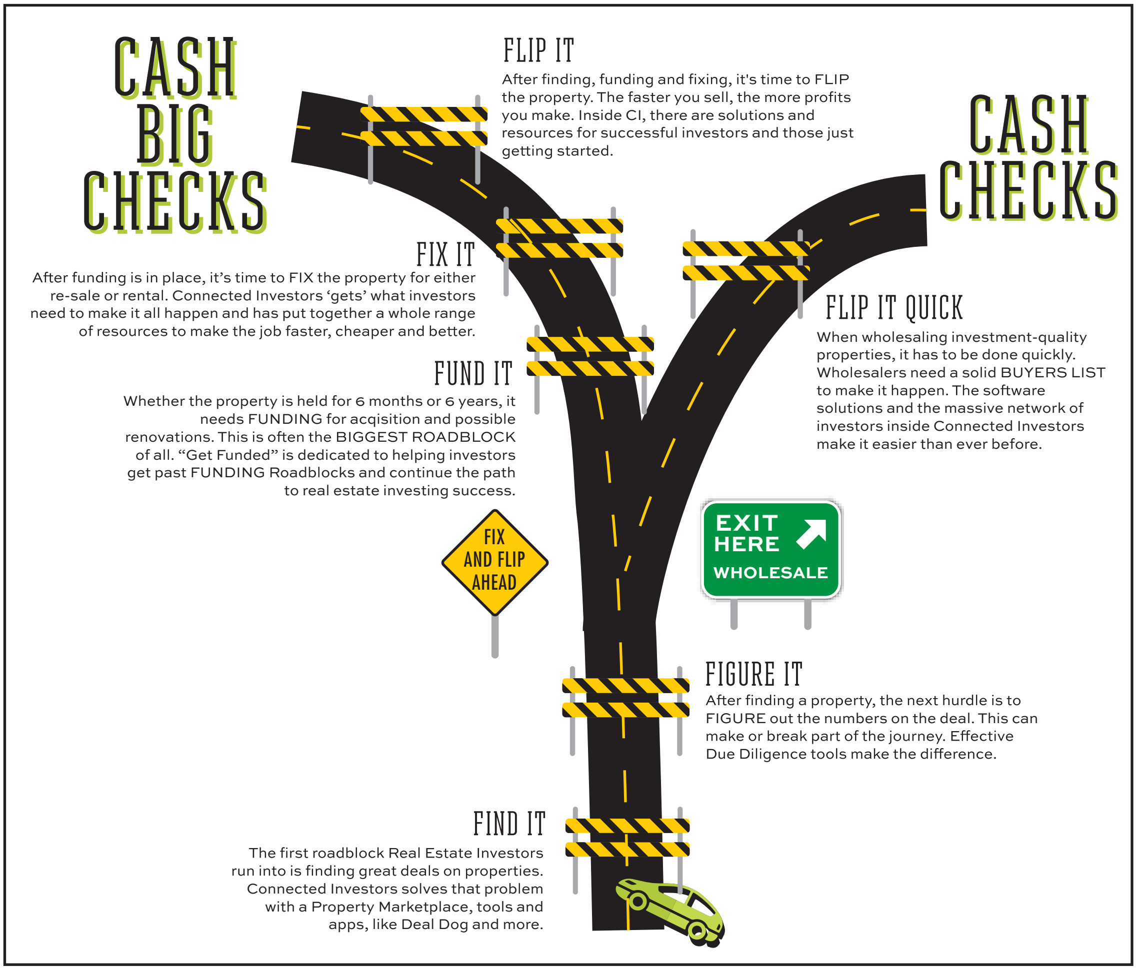
BY CONNECTEDINVESTORS.COM
THE WORLD'S LARGEST NETWORK OF REAL ESTATE INVESTORS

INTRODUCTION

THE PROBLEM WITH REAL ESTATE INVESTING

Real estate investors know that every real estate buy or sale has a fairly predictable pattern of events. That's not to say that the unpredictable doesn't happen, it's helpful to know what those patterns are and to be prepared for the eventual roadblocks that happen on the way to closing. It goes something like this:

AVOID REAL ESTATE INVESTING ROADBLOCKS



TO SEE A SHORT VIDEO ON HOW CONNECTED INVESTORS WORKS TO HELP INVESTORS BREAK THROUGH THE ROADBLOCKS ON THE WAY TO INVESTING SUCCESS, VISIT NEW.CONNECTEDINVESTORS.COM/ROADWAY.

This publication is dedicated to guiding real estate investors through the many roadblocks to getting a property effectively funded. Whether buying and holding or fixing and flipping, the underlying funding can make or break a deal.

Consider this guidebook as your roadmap to FUNDING your deal the right way, so you can have a long and prosperous investing journey.

VISIT CIX.COM/BOOK FOR ALL RESOURCES MENTIONED

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CHAPTER 1

AN INTRODUCTION TO REAL ESTATE INVESTOR LOANS

Is Asset-Based Lending What You Need?

Asset-based lending is expanding rapidly and real estate investors are now able to tap into this nearly unlimited supply of funding for their real estate deals. Funding can be secured through local lenders, and even more convenient to today's investor, it can be done online with the click of a few buttons!

As someone involved in real estate, it is very important to understand what asset-based lending is and how to find asset-based real estate lenders. Asset-based lending is a broad term that usually describes lending that is specifically used for business purposes. At its very core, asset-based lending is a loan that is secured by some sort of asset as collateral. Here's how Wikipedia describes it:

INFORMATION

ASSET-BASED LENDING IS ANY KIND OF LENDING SECURED BY AN ASSET. THIS MEANS, IF THE LOAN IS NOT REPAID, THE ASSET (YOUR INVESTMENT PROPERTY) IS TAKEN AS COLLATERAL FOR THE UNPAID DEBT. IN THIS SENSE, A MORTGAGE IS AN EXAMPLE OF AN ASSE-TBASED LOAN. MORE COMMONLY HOWEVER, THE PHRASE IS USED TO DESCRIBE LENDING TO BUSINESS AND LARGE CORPORATIONS USING ASSETS NOT NORMALLY USED IN OTHER LOANS. TYPICALLY, THOSE LOANS ARE TIED TO INVENTORY, ACCOUNTS RECEIVABLE, MACHINERY AND EQUIPMENT.

So, when something of value is pledged as collateral, it's an asset-based loan. But we're not talking about a traditional homeowner's or business loans like Wiki describes it. We're talking about asset-based lending for REAL ESTATE INVESTING and it has its own set of rules, purposes, sources, and pluses and minuses. The most common types of asset-based loans for real estate investing are hard money loans and private money loans.

Hard money is readily available to investors and is typically offered by companies or private investors and it comes with strict guidelines for everything from project plans to draws for paying contractors to repayment terms (usually very short).

Private money loans are issued by individuals and can be much more flexible but you have to know who to ask. It can take months, even years to develop a network of private money lenders to work with. Whether you use hard or private money, building a strong working relationship is the key to being able to go back to more projects.

Real estate investors find asset-based lending attractive because loans are based on the property or project, rather than the personal credit history or cash position of the borrower. Instead, lenders look at the numbers, the exit strategy and anticipated return for the investor. They look at the as-is value of the property and the after repaired value of the property a fix and flip. They look for safety in the numbers of the deal rather than debt-to-income ratios and credit scores of the borrower. We cover this in great detail in other sections.

These loans work great for real estate investors since many are self employed, some have existing mortgages that exclude them from traditional bank financing that limits the number of loans. And for those new to investing - it offers funding options that a traditional lender might not. So unlike the homeowner who has to prove income, existing debts and a whole lot more, an investor looking for asset-based funding needs to document the viability of his or her property and it's intended use and anticipated outcome.

> "THERE'S BEEN AN *explosion* OF ASSET-BASED LENDERS IN RECENT YEARS BECAUSE THERE'S *a huge demand for investor financing.*"

There's been an explosion of asset-based lenders in recent years because there's a huge demand for investor financing. You know what they say - money follows opportunity, and lenders woke up the fact that real estate investors have been cut out of the traditional lending model and there has been pent-up demand existed for funding real estate deals.

There's a yin and yang to everything, so here's what to be aware of when considering using asset-based loans including hard money and private money loans.

THE GOOD, BAD, UGLY, AND FACTS OF WORKING WITH ASSET-BASED LENDERS:

GOOD: Getting funded is easier than working with a bank.

BAD: 99% of asset-based lenders will require you put at least 5% down.

UGLY: It's a lot more expensive than a bank.

FACT: FUNDING CAN BE ACQUIRED QUICKLY.

FACT: The borrower needs to document the project thoroughly.

FACT: Repayment terms are short, typically 6 - 60 months.

FACT: Loans must be in 1st position against the property.

FACT: Loans are only giving to investors buying property at deep discounts.

FACT: asset-based lenders understand real estate investor.

There are the basics of asset-based loans for real estate investing. We'll get into more specifics about when and how to use hard money loans, private money loans and several other alternatives for funding real estate deals.

TAKEAWAYS

What's the main difference between a HARD MONEY loan and a PRIVATE MONEY loan?

What do hard and private money lenders have in common?

CHAPTER 2

AN INTRODUCTION TO HARD MONEY LOANS

Can Hard Money Lenders be a Good Source of Funding for You?

Hard money has been called easy money with hard terms - it may be fairly easy to borrow, but the lender's terms are hard - and almost always include relatively high interest, even higher "origination" fees, a short payback period, and high monthly payments. Not all lenders are created equal however, and you'll see wide variation in all of the terms, and the qualifying criteria to secure the loan. Hard money is always secured by collateral - and for the real estate investor, that collateral is the subject property.

INFORMATION

THERE ARE TWO KINDS OF HARD MONEY LENDERS. HARD MONEY BROKERS POOL THE FUNDS OF PRIVATE MONEY LENDERS AND LOAN THE FUNDS TO BORROWERS AND ALSO MANAGE THE SERVICING OF THE LOAN. THEN, THERE ARE PRIVATE MONEY LENDERS WHO LOAN DIRECT TO BORROWERS WITHOUT A HARD MONEY BROKER ACTING AS A MIDDLEMAN. BOTH OFTEN USE SIMILAR TERMS AND CRITERIA FOR LENDING - BUT AGAIN...NOT ALL ARE CREATED EQUAL, AND IT'S UP TO YOU TO DETERMINE THE BEST LENDER FOR YOUR NEEDS.

There are pros and cons to using hard money for your real estate investing, but the bottom line is, well...the bottom line. If the property and the project and support the cost of the funds, then hard money borrowing can offer investors the opportunity to participate in deals they might not have otherwise. As they say, "Part of something is better than all of nothing."

Another plus with hard money loans - they are easier to access than traditional financing, and can often be closed in a matter of days - not weeks and months as with a typical mortgage. Hard money loans aren't based on the borrower but rather, the property and the exit strategy. Banks may lend at much lower rates, but their criteria are much more stringent. Banks evaluate you, the borrower, as their primary qualification. Hard money lenders evaluate the investment property as the primary qualification. This allows them to move more quickly and requires much less documentation. Typically, the after repaired value of the property is used to evaluate your loan, something banks don't typically consider.

WHO USES HARD MONEY LOANS?

- New real estate investors who can't demonstrate enough income or cash reserves for a bank to qualify them
- Investors with poor credit, undocumented income or a short work history
- Experienced investors with more than four mortgages in their name
- Investors buying properties that need significant repairs
- Buyers who need renovation funding, not just purchase funds
- Investors who don't have the cash required to close with a conventional loan
- Real estate investors who are highly leveraged elsewhere
- Buyers of properties that won't appraise as-is for an acceptable value
- Buyers dealing with distressed sales that must close in days, not weeks
- Buyers of rental properties that are under-rented, in need of repair or otherwise problematic
- Property owners with high equity who need quick access to cash for any reason

As you evaluate your deal and consider whether or not to use hard money, you have to consider a few key factors.

1. What's your intended exit strategy? If that doesn't work, what's your Plan B?

2. Does the property and exit strategy support the higher cost of hard money?

3. Can you document your exit plan, project plan and capacity to profit?

4. Can you meet the deadlines imposed by the terms of the loan?

IN THE RESOURCE GUIDE, WE'VE INCLUDED A CHECKLIST AND OTHER RESOURCES TO HELP YOU PREPARE TO GET YOUR PROPERTY OR PROJECT FUNDED USING A HARD MONEY LENDER.

On the surface, it may seem like hard money isn't the best deal - but hard money can get you in the game when you may have been shut out otherwise. It meets the needs of a lot of different investors and borrowers despite the higher costs and shorter terms - the simple fact is that hard money has funded many successful fix and flips and other types of real estate related projects.

Reliable access to funding can make or break even the best deal on real estate. Real estate investors often rely on non-traditional sources of funding for their short and long term projects for a couple of really good reasons: Traditional lenders are too slow to close and time is of the essence in investment deals. This makes asset-based lenders such as hard money lenders a good and viable option.

TAKEAWAYS

What are the big advantages of Hard Money loans?

1. ______________________________

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2. ______________________________

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3. ______________________________

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When would you consider using a Hard Money Loan?

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CHAPTER 3

WHAT YOU NEED TO KNOW ABOUT PRIVATE MONEY LENDERS

Can Private Money Lenders be the Answer for You?

As a real estate investor, you spend a lot of time researching target markets, generating leads, and finding the best deals that have the highest ROI. Of course, you also have to fund those deals, and private money lenders are sometimes the best source to turn to when you want to buy an investment property.

Whether you are fixing and flipping properties or your plan is to fix and hold them, you can't achieve your goal without the right funding - and to get the right funding you must understand who private lenders are, how to find them, and what they want in return for lending you the cash to complete your investments. When you understand these factors, you'll be able to weigh the pros and cons and decide if you should go to a private money lender to fund your next property.

WHO THEY ARE

First of all, private money lenders are not banks. They may be individuals, or they may be companies, but in either case, they are willing to lend money to investors for real estate purchases that are not as easily funded through traditional banks and mortgage lenders. Attempting to fund an investment with a traditional mortgage can be more difficult than qualifying for a mortgage to buy your primary residence - even if you have great credit and assets. Traditional lenders have their niche - the 'owner-occupant' homeowner - and getting a loan for any other purpose can be a big challenge.

As a result, there is tremendous demand out there for money for real estate investments. Private money lenders fulfill that demand by lending money through real estate-secured, "asset-based" loans. When you borrow from a private money lender - much like a traditional lender - you agree on a set interest rate and time that you will pay your loan back. But with private money lenders, the rates are generally higher and loan periods shorter. The loan is secured by the property and if you don't make your payments on time, the property can be foreclosed, the lender takes possession and takes action to recoup - much like a traditional lender would.

> "THERE'S A TREMENDOUS *demand* OUT THERE FOR MONEY FOR REAL ESTATE INVESTMENTS. *Private money lenders* FULFILL THAT DEMAND BY LENDING MONEY THROUGH REAL ESTATE-SECURED, "ASSET-BASED" LOANS."

Just like a hard money lender, a private money lender will focus more on the value of your property and its potential for returns, rather than qualifying you based on your income and/or net worth. There are basically two types of private money lenders.

ASSET-BASED LENDING COMPANIES (INCLUDING HARD MONEY LENDERS)

We covered the basics of hard money in Chapter 2. But it's important to know that with the growth of real estate investing comes the need for more and better funding. Lending Tree revolutionized the way people can get loans for homes

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CONNECTED INVESTORS, IN PARTNERSHIP WITH LENDING TREE DEVELOPED WWW.CIX.COM. IT WORKS MUCH LIKE THE LENDING TREE MODEL - ASSET-BASED LENDERS COMPETE TO FUND THE INVESTMENT PROPERTY.

PRIVATE MONEY LENDERS (INDIVIDUALS)

Unlike hard money lenders, who focus almost solely on the collateral worth of your property and will typically charge a much higher interest rate, private money lending is very much a relationship-based business with fewer hard and fast rules. Unless you're working through a company that pools the funds of private money lenders, you'll work with an individual with funds available to loan.

It pays for investors to network and build relationships with potential private money lenders - when you are tapped into a personal network, you can close more deals because you have more access to capital.

When you work with private money lenders and show them that you can be trusted to pay their loans and also bring them good returns for their money, you can expect that they'll want to do deal after deal.

For them, it's safe, easy returns. And for you, it's assurance that when a deal is in front of you, you can get the funding to close it. Many investors use the same private money lenders over and over - because they've developed that kind of win-win relationship. The investor gets the deal funded and makes money and the lender earns interest - from a loan secured by hard assets... the property.

> "THE LOCAL BANK OR THE "TOO BIG TO FAIL" BANK IS *no longer willing* TO LOAN YOU INVESTMENT CAPITAL IN A POST-BUBBLE MARKET. THIS PUTS HARD AND PRIVATE MONEY SOURCES AT *the front of the line* FOR REAL ESTATE INVESTORS SEEKING FUNDING."

Of course, to use private money lenders to finance your investments, you'll need to know how to find them. Unlike banks and hard money lenders, private money lenders don't advertise, but they may be closer to you than you think.

HOW TO FIND THEM

Private money lenders are those individuals who have the funds available to finance a real estate investment - and more importantly - who would be willing to secure a loan on your property with the title or deed to your investment property in exchange for returns.

Many investors find private money lenders among their family, friends, and/or colleagues. More and more individuals are disappointed with traditional investments - and are looking for alternatives.

When considering who to approach, you may want to take two important things into consideration:

1. Is this person knowledgeable about real estate?
   When working with individuals who already know and understand real estate, you put yourself ahead of the game. It's certainly fine to work with novices in real estate - just expect to have to do more educating and even hand holding throughout the process of funding and repaying the loan.

2. Does this person have personal knowledge of me, my business and my track record?
   Again, those who already know you will be much easier to approach, but don't limit yourself to that network. It's pretty easy to "show your work" to a potential new private lender. Pull together some photos, some numbers and a summary of a few select projects.

> "MOST PRIVATE MONEY LENDERS HAVE *no interest* IN BEING A REAL ESTATE INVESTOR - THEY WANT TO BE A PRIVATE MONEY LENDER WHO *earns nice returns* FOR THE RISK INVOLVED IN FUNDING YOUR PROPERTY."

WHAT LENDERS WANT

Maybe we should start with what they don't want; private money lenders don't want hassles, they don't want to foreclose, they don't want to own the property and they don't want difficulties in earning their returns. Most private money lenders have no interest in being a real estate investor - they want to be a private money lender who earns nice returns for the risk involved in funding your property.

That's the big picture of what they want - here's the "rubber-hits-the-road" things your private lender will want to have from you:

- The Contract: Most lenders want to see the contract you've executed to purchase the property.
- Photographs: If you're purchasing a fixer-upper, be ready to provide photos.
- A Summary: Put together a simple summary for your lender. Include the purchase price, the renovation costs, and the ARV (after repaired value) supported by comparables.

- Some lenders, especially if you are new to working with them, would appreciate a list of your “team.” Who’s your closing attorney? Your insurance agent? Your contractors?

Put yourself in the position of your lender and ask yourself, “If I were loaning someone $100,000, what would I need from them to make the decision to do so?” That can tell you everything you need to have ready. And, just ask them! Experienced private money lenders already know what they need - and you’ll probably find that novice lenders want even more information.

RELATIONSHIPS ARE IMPORTANT

Private money loans are more relationship-based than hard money loans - but make no mistake...many investors have strong relationships with their hard money lenders and do repeat business because the both relationship and the numbers work.

No matter who it is, your lender wants you to succeed in your investment. For them, your property and project may be the fastest, safest and most efficient way for them to make a profit by loaning you the funds. To ensure that they’re making the right choice in loaning you money, they’ll want to know about you, your current investment, and your track record with real estate investments and/or other lenders and investors. Never be shy about sharing your successes!

Money follows opportunity - and the more your potential lenders know about you and your investing niche, the more likely they’ll be to finance your investment. That’s why it pays to network and build relationships with private lenders. If you’ve chosen a good investment and you have a solid plan for it, it’s a mutually beneficial deal that both parties will likely want to repeat in the future.

THE BENEFITS OF PRIVATE MONEY

All of that sounds like a great deal, as long as you can find a lender who meshes well with you and your investment(s) and who will charge you a fair rate on your loan. As you approach funding your deals, consider all the benefits of private money.

Pro – Ease of Qualification

First of all, when you work with a private money lender, you really only have to provide information that demonstrates that you’ve found a good investment that will pay off and create a win-win for everyone. Unlike attempting to get a loan using a traditional mortgage lender, there are far fewer hoops to jump through.

While private money lenders typically don’t charge interest rates quite as high as hard money lenders, the rates are still higher than you’d get from a bank... but it’s kind of a moot point. Most investors can’t get approved for a loan with the bank.

The math on your interest rates is kind of simple. If the property and the numbers support it, accessing the funding is worth it. You’ve heard the adage, “Part of something is better than all of nothing.” Private lending allows you to get involved when you otherwise might not.

Pro – Geared Toward Investors

Private money lenders understand that you're purchasing, refinancing, and/or rehabbing a property based on its after repaired value, not its current value. More often than not, they lend you all of the money you need to achieve your goals with your investment than you would get with a traditional loan.

Pro – Get Money Fast

This is huge. We know that purchasing investment real estate is very competitive. Time is of the essence and he who has the cash, wins! The so-called "approval" process is much shorter with private money lenders than it is with banks and mortgage lenders and even some hard money lenders. If you've landed a deal and have a property under contract, it's possible to get it funded within days instead of weeks or months. When you go with a private money lender, "time is of the essence" is less a burden and more of an easy call to action.

Private money lenders offer a lot of opportunities and advantages to real estate investors. While you may have to pay a higher interest rate, you can get funding quickly, rehab and resell your property, and see a return on your investment much faster than you could with most other financing options. You have the opportunity to build relationships, create win-wins and then do it all over again.

TAKEAWAYS

Describe your ideal Private Money Lender

List potential lenders already in your network. List those with real estate experience and list those without.

CHAPTER 4

HOW TO TAKE THE MYSTERY OUT OF PRIVATE MONEY

Is it really possible to borrow from private individuals?

One of the biggest hang-ups new and even experienced investors is centered on getting capital for their investments. We can't control the banks and their (un)willingness to lend on investment deals, but what we can do is tap into the billions in capital out there that's underutilized and getting measly returns.

So to get you past this, we're going to try to take the mystery out of using other people's money (OPM) to fund your buy-fix-sell deals. Too often when considering private money loans, investors who've never worked with a private money lender will get that blank stare that then spirals down into all sorts of objections -

- I don't know anyone with that kind of money...
- I don't know how to approach someone if I did...
- I have no idea what to offer a private money lender…
- I haven't got a clue how to structure a deal like that...
- I don't know what paperwork to do…

All of these "I don't knows" are rooted in a simple lack of experience and let's be honest - fear.

So, let's set aside the fear of the unknowns and take some mystery out of borrowing from a private money lender - and hopefully give you the confidence to finally ask for private funding.

There are two primary things you must address when considering a private money loan.

You must understand how the money works for both you and your lender. We'll cover some basic terms for you to use when working up a privately funded real estate deal.

You must understand the competition. By that we don't mean competition from other real estate investors, buyers or sellers - we're talking about the competition for your lender's dollars. Can you beat the prevailing returns he or she is getting in their current investment vehicle? If so, you can capture the attention (and the business) of more than one private money lender.

> "THERE'S NOTHING *inherently scary* AOUT BORROWING FROM A PRIVATE LENDER ANY MORE THAN THERE IS FROM AN INSTITUTION. THE BIG DIFFERENCE IS THE INSTITUTION TELLS YOU HOW IT WILL WORK - WHEN YOU WORK WITH A PRIVATE MONEY LENDER, *you and your lender determine how it works,* A BIG PLUS FOR YOU AS THE INVESTOR WHO'S CAPTAINING THE DEAL."

To help you understand how the money works, we'll set up an example and show you the three basic components of a private money loan transaction.

1. **The Property** - In this case, we'll focus on a single family home. For this example, we've identified an opportunity for a fix and flip property with the potential to net $40K or more after it sells. The purchase agreement is executed.
2. **The Mortgage** - This is the basic instrument that ties the property to the promissory note. It's your lender's security - and works to secure collateral for the loan. It's recorded as public record and identifies the property, the borrower, the lender and the dollar amount, along with the lender's recourse in case of default. This can be prepared by any qualified real estate closing attorney.
3. **The Note** - This is the I.O.U. from you to your lender - the promissory note. This is not public record: it is the financial agreement between you and your lender that outlines your promise to pay including the dollar amount, the terms such as interest, repayment periods - basically the when, where and how you will repay the loan. This can also be prepared by a qualified real estate closing attorney.

A SAMPLE DEAL

Here's an example of how you can work with a private money lender. (It could be Uncle Bob, a former co-worker, your closing agent, just about anyone - put your brain on it and you'll figure out who to ask. Plus, once you understand how it works, you're going be excited about offering the opportunity to make money together.)

Let's say you find a property for $50,000 that could be renovated for $36,000 and resold.

You'll need at least $86,000 to purchase and renovate the property. So, to close the deal, you'll need a private money loan for $86,000. You've determined that the property will net $128,000 after concessions and sales costs. With $86,000 in the deal, the net profit comes in at $42,000.

Identify those in your circle that have money (probably because they like to make money) and offer them the opportunity to make, for example, 12% interest on their money or 15% of the profit - whichever is greater.

In this example, if you buy, fix and resell the property in 6 months, you're offering them something that looks like this:

Based on 12% Interest:

$86,000 loan x .12 (annual interest rate) = $10,320. Since you're only borrowing the money for six months, adjust accordingly.

$10,320/12 months = $860 X 6 months = $5,160 in earnings for your private lender.

Based on 15% of Profit:

$42,000 profit X .15 = $6,300 in earnings for your private lender.

You don't have to be a math whiz or financial advisor to figure out that this is a great deal for your lender. They are fixed at 12% interest to earn. But if the deal is even sweeter, they have the potential to earn even more with the 15% of the profit option. It's a win-win. You get the funds you need to fund your flips and they earn great returns on their dollars languishing in a CD or lazy IRA.

Now that you have the mechanics of the money, let's revisit the paperwork involved. We already touched on it - it involves the house and the contract to purchase it, the mortgage and the promissory note.

PUTTING IT ON PAPER

Once you have the property under contract, put together a summary of the house and project. Meet with your potential lender and outline the terms you can offer (maybe yours are higher or lower than in our example - it's incumbent on you to determine what the property and project can support).

Discuss how the promissory note outlines the terms of the loan and repayment and also how the mortgage secures the note against the property. You may not need to do this with some private money lenders - they already get it - but for those who don't, you're already prepared to explain it. Once you come to an agreement on terms, contact your closing attorney.

This is a basic overview - the intent is simply help you overcome the fear of the deal - and understand that it's not all that complicated. Money follows opportunity - that's how it's made. With a better understanding of how to structure your deals and pay your private money lenders, you can approach more opportunities and ultimately have lenders seeking you out to do business.

TAKEAWAYS

Why would an individual want to loan you money for your deal? Think about this carefully. It will help you approach potential lenders with the advantages of loaning you money for your deal.

You found a property that you could purchase for $40K that needs $25K in repairs that will net $110K when sold.

What is you private lender's return if you borrow at 12%?

What is your private lender's return if you offer 15% of the net profit?

CHAPTER 5

THINKING OF CROWDFUNDING YOUR DEAL?

The Basics You Need to Know

For any number of reasons, a property or project may not be feasible for traditional lending. Crowdfunding real estate is increasingly becoming the tool of choice to fill the financial gap for the project's principals and developers.

Crowdfunding has exploded since the Jobs Act[1] opened the door for accredited and now finally, non-accredited investors alike, to participate. Initially, only high net worth "accredited" individuals could participate - effectively shutting out the average investor. Regulations opened the door for nearly anyone to get involved - and today you see more crowdfunded properties available for investment opportunities than ever before. All of these changes create an environment where online crowdfunding platforms can serve as a solid solution for the future of real estate investing and redevelopment.

THE BASIC MODEL

The basic crowdfunding model includes three primary entities:

1. **The Project** The Investment Sponsors/Developers: this includes the people and organizations that propose the projects to be funded. They are seeking funding from the next entity -
2. **The People** The Investors: they are the people, in essence, "the crowd" who collectively support the proposals/projects of the Sponsors/Developers by investing in the project.
3. **The Platform** The Entity: The project/proposal is supported by an organization which brings together the Sponsors and Investors through an online platform[2].

The Project

Properties that can benefit from financial-only methods to add value are prime candidates for crowdfunding. Industry experts characterize it like this:

High profile sites comprised of shopping centers or strip malls, office or industrial business parks or mixed-use sites, where solutions like lease restructuring and other financial-only methods work to add value and greater equity to investors by structuring funding with better terms or conditions.

Other properties include investment and lease-up sites which are primed with minor work effort or capital outlay through adaptive reuse with or without existing structures, re-zoning, entitlements and more. More capital intensive and challenging sites include properties requiring demolition, site preparation, and other work for new build-to-suit development. However, sites including major brownfield properties (former power plants, chemical manufacturing sites, etc.) are the most challenged for funding.

[1] The 2015 Jobs Act opened the door for Real Estate Crowdfunding for non-accredited investors https://www.sec.gov/news/pressrelease/2015-249.html

[2] Connected Investors offers a Crowdfunding portal at http://connectedinvestors.com/crowdfunding

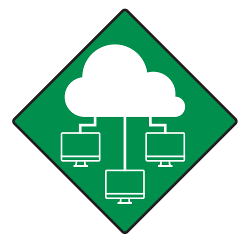
Crowdfunding smaller-scale projects like single-family or smaller multi-unit residential properties has yet to fully emerge. Given the demand for capital for small site projects, it's likely to only be a matter of time before some enterprising companies will meet that demand.

The People

The "crowd" is now made up of both accredited and non-accredited investors. (Prior to the Title IV rulings, only accredited investors could invest.) Accredited investors are individuals who earn more than $200,000 per year or have a net worth of over $1,000,000, or entities with over $5M in assets. The new rules broaden the definition of "qualified investors" to include non-accredited investors, but caps are placed on how much they can invest. Non-accredited investors can invest a maximum 10% of their income/net worth per year. The intent is to protect less experienced investors and ensure they don't "sell the farm" with a single crowdfunded investment.

The Platform

For those looking for out-of-the-box financing, the crowdfunded, layered funding model can be a viable option. To make it happen, you need the platform. Any quick web search will turn up dozens of sites that can facilitate funding from the crowd via their platform. But not all crowdfunding sites are created equal. Some only offer investments to accredited investors. Some only support specific types of properties and projects in specific geographic areas. Some only offer debt or equity funding, not both. Due diligence is in order before choosing.



WHEN DOES IT MAKE SENSE TO CROWDFUND A DEAL?

Banking being what it is today makes obtaining funding for ambitious projects a laborious drain on time and resources. For properties that need increased leverage at a lower cost than banks or traditional equity partners offer, crowdfunding offers an alternative.

The process for crowdfunding deals has been streamlined and can be done in a fraction of the time of the traditional bank/partners route. A crowdfunding platform helps you source intelligent funding - investors are vetted and verified making for a reliable, one-stop shop for attracting multiple sources of capital. The platform manages all investor relationships for you, and pools all accredited investors into a single LLC entity. The investor management and communications, reporting, updates, education, and more is left to the crowdfunding platform's team including attorneys, accounting and financial professionals, and support staff.

> "FOR PROPERTIES THAT NEED INCREASED LEVERAGE AT A *lower cost* THAN BANKS OR TRADITIONAL EQUITY PARTNERS OFFER, *crowdfunding offers an alternative.*"

What about Debt v. Equity?

Real estate crowdfunding has two subgroups – debt and equity.

DEBT INVESTMENT

The participating investor acts as a lender, not an owner of the property. The investor is entitled to monthly interest and return of any unpaid principal at maturity. But the debt investor does not receive the benefit of property appreciation. The investment is secured by the property and if the borrower fails to perform, the investor has recourse and can recover their investment through foreclosure.

EQUITY INVESTMENT

In this case, the investor is an indirect owner of the property. The investor is not secured by the real property and has little recourse if the property doesn't perform. The added risk means the investor is entitled to a greater return, which is generally achieved through property appreciation and then realized when the property is sold.

When considering crowdfunding your deal, the structuring of debt and equity is critical and depends on a wide range of factors including project type, timing, market conditions and more.

The Cost to Raise Capital through a Crowdfunding Platform

Beyond the returns paid to the crowd, this funding model has expenses related to the facilitation of the funding. Costs will vary depending on the platform, but in general expect fees for establishing and managing the fund that invests in your project.

There will be legal, accounting, compliance, and admin costs. The platform will put together a marketing package with profiles of the developer, the investment and more to showcase investment experience, credentials, credibility, past projects, successful turnarounds, rebranding, or leasing results, all in an effort to generate a strong response by investors for your project.

Crowdfunding is still in its infancy, but stands to become a standard for funding, and as such, it promises to disrupt the entrepreneurial capital market in a more fundamental way, bringing change to the previously elite world of investment fundraising and investing which used to be the exclusive domain of only the wealthy.

TAKEAWAYS

What is the difference between a DEBT investment and an EQUITY investment?

List potential lenders already in your network

CHAPTER 6

THE NEW KID ON THE BLOCK: CROWDFUNDING

Is this new way the best way for you?

Crowdfunding, generally speaking, is a way of spreading the risk – and the rewards – of an investment over a larger pool of people. Real estate is now an open market for crowdfunding.

Through an online platform, money is raised for a specific property project, and individual investor contributions are pooled as the 'crowd' for a common collective project as proposed by the property developer.

All this came about when in 2012, the Jobs Act opened the door for accredited investors to invest in crowded funded investments. And in 2015, new rules allow non-accredited investors which now opens up investment opportunities to an even wider pool of small investors.

So now, the "crowd" includes accredited investors those individuals who earn more than $200,000 per year or have a net worth of over $1,000,000, or entities with over $5M in assets. "Qualified investors" now include non-accredited investors, but caps are placed on how much they can invest. Nonaccredited investors can invest a maximum 10% of their income/net worth per year a governor rule with the intent of protecting the less experienced investor's capital.

> "POOLING YOUR MONEY WITH OTHER INVESTORS *spreads the risk* WHILE ALSO ALLOWING SMALLER INVESTORS TO PARTICIPATE IN CAPITAL FUNDING ONCE RESERVED ONLY FOR *the super wealthy.*"

WHY DO IT?

- Pooling your money with other investors obviously spreads the risk while also allowing smaller investors to participate in capital funding once reserved only for the super wealthy and well connected.
- Through crowdfunding investors can make smaller incremental investments on a variety of properties rather than going "all in" on just one large property.
- Free up time and resources: There's no need to get involved in the day to day administration or ongoing costs of owning a property.
- Crowdfunded properties offer flexibility that REITs and other real estate investment vehicles don't. Choose the best opportunities to suit your investment objectives and risk profile.
- You can participate in projects that are not usually accessible to the general public, such as commercial property developments.
- Save time and money. Locating investment opportunities is as easy as a web search. And unlike other investments, there are no costs associated with investing in a project beyond the capital investment itself.

HOW TO PARTICIPATE IN A CROWDFUNDED PROPERTY

When choosing an investment… finding it is only half the battle, you have to vet the projects and developers looking for a solid track record. Inside Connected Investors[3], we've built the world's first real estate crowdfunding aggregator that allows investors to compare investments across dozens of real estate crowdfunding portals (think Kayak.com for real estate). Before you jump in there are a few things you should know.

WHAT IS THE DIFFERENCE BETWEEN DEBT AND EQUITY REAL ESTATE CROWDFUNDING?

Real estate crowdfunding has two subgroups – debt and equity.

Debt Investment - The participating investor acts as a lender, not an owner of the property. The investor is entitled to monthly interest and return of any unpaid principal at maturity. But the debt investor does not receive the benefit of property appreciation. The investment is secured by the property and if the borrower fails to perform, the investor has recourse and can recover their investment through foreclosure.

Equity investment - In this case, the investor is an indirect owner of the property. The investor is not secured by the real property and has little recourse if the property doesn't perform. The added risk means the investor is entitled to a greater return, which is generally achieved through property appreciation and then realized when the property is sold.

YOU DON'T REALLY OWN REAL ESTATE

Investing in a crowdfunded real estate investment does not actually make you an owner of real estate. Rather, you become a member of a Limited Liability Company that in turn holds title to real property (in the case of equity) or makes a loan secured by real property (in the case of debt). Your ownership in the LLC is considered personal property rather than real property and your right to share in the income generated at the property is set forth in a governing document for the LLC called an Operating Agreement.

And, when considering crowdfunding your own deal, the structuring of debt and equity is critical and depends on a wide range of factors including project type, timing, market conditions and more.

WHEN ARE RETURNS RECEIVED?

Crowdfunding real estate sites sell investments in small chunks, which are much more accessible to an average investor than an entire building or development. An investor may contribute $5,000, for example, to purchase an empty building. The funds then go into renovating and leasing out the building, at which time the investor will receive an agreed upon percentage of rents and revenue.

[3] http://connectedinvestors.com/crowdfunding

HOW DO INVESTORS EARN RETURNS?

When an investor funds a debt investment opportunity (usually in the first position and secured by a commercial real estate asset or property), the fund invested in receives monthly interest payments. A share of these payments is deposited directly into a bank account of the investor's choice in accordance with the terms of the operating agreement for the fund.

If funding is made in an equity investment opportunity (such as a commercial property or portfolio of properties), the fund invested in will receive periodic payments of cash flow from rents and/or a share of the proceeds when/if a property or portfolio is sold. Similar to debt instruments, a share of those payments will be deposited directly into the investor's selected bank account in accordance with the terms of the operating agreement for the fund. Both investment sponsors and investors must carefully review the operating agreement for the specific investment opportunity which is being considered and offered to investors for further information.

DUE DILIGENCE

As with any investment strategy, it is essential that investors do their homework before investing their hard earned cash. This means looking into the experience and track record of the real estate developers that are soliciting crowdfunded money.

Good developers, who have a proven track record of earning substantial returns for their investors would likely not have a difficult time securing funding from a more traditional source, like a bank or a seasoned investment firm.

It is worth considering why a developer is going the crowdfunded route. Have they had trouble securing funding because of unsuccessful past projects? If so, what evidence is there that things will be different this time? Have they simply tapped out existing funding sources and need more capital for a viable project? Investors should seek to obtain as much information about a developer's history, including past projects, specific details of the proposed development, and even tax returns, in order to make an informed decision about the investment.

WHERE TO FIND REAL ESTATE CROWDFUNDING OPPORTUNITIES

New portals are popping up every day. We predict that every serious real estate investor and developer will one day have their own portal to fund their deals, and real estate crowdfunding will become the new norm.

TAKEAWAYS

When does it make sense to crowdfund a deal?

When does the Equity Investor see returns?

When does the Debt Investor see returns?

CHAPTER 7

PARTNERING TO GET THE FUNDS YOU NEED

When should property investors consider a partner to obtain more funding?

Partnering has been used in real estate as far back as the Roman Empire and maybe even earlier. History is great but what are the advantages of partnering up for real estate investors today? When does it make sense? Who might make good partners? What pitfalls and potholes in the road should be avoided?

REAL ESTATE PARTNERSHIPS 101

Real estate partnerships have been used by the elite for centuries, and they are still used by wealthy, sophisticated investors now. Yet, partnerships are also one of the most powerful investment tools even for brand new investors as well.

The concept is simple. It just means two or more investors working together to achieve a common goal. It can be a money partner and an individual with the time to do the work. It can be a whole circle of money partners and one partner with the expertise and time to create profits in real estate.

There are a variety of ways to set up partnerships. They can be crowdfunded campaigns, informal agreements between personal contacts, Limited Liability Partnerships (LLPs), or Limited Liability Corporations (LLCs). Everyone can have equal shares, or they can be divided up depending on the value of each party's contribution. Regardless of the parties involved, every partnership should be inked and signed by every stakeholder.

THE ADVANTAGES OF PARTNERING UP

- Why consider bringing in a partner?
- To provide the "skin in the game" an asset-based lender may require
- Reduce your personal risk in investing
- Spread your resources across more deals
- Get the extra funds you need to acquire and complete deals
- Allow others to participate in your success
- Do more and bigger real estate deals
- Having more people invested in your success
- Bringing in experienced individuals to help
- Obtaining better terms on financing

POTENTIAL CONS OF PARTNERING UP

- What might some of the cons of bringing in partners be?
- Having to split the profits
- Giving up control
- Extra reporting and accounting responsibilities
- Rogue partners

SMART TIMES TO PARTNER UP

- In advance when scouting for new property deals
- When launching real estate crowdfunding campaigns
- When other types of financing cannot be used
- To reduce the cost of leverage
- To provide confidence for future investors and lenders
- When it helps to speed up and secure other types of financing
- When you get stuck for cash
- When taking on a new type of real estate deal

In some cases real estate investors simply won't be able to raise all the funds needed to make a deal happen, or at least have the comfort cushion they desire. In other scenarios obtaining some partner funds can provide more flexibility, speed, and better profit margins. For example, obtaining a low LTV asset-based loan for the acquisition costs, and using partner money to make improvements.

WHO CAN INVESTORS PARTNER WITH?

There are a wide range of potential partners out there, including:

- Family members
- Friends
- Local individuals with excess funds
- Other real estate investors
- Real estate investment groups
- Angel investors
- Venture capital firms
- The public crowd of peer and accredited investors
- Local government and real estate and housing organizations

It's normally best to start out looking for partners among those already in your network. Remember, when you approach others outside your network for funds they may want to know how many of your friends and family members have or have not backed you - and why. Reaching out with partnership opportunities to those outside your inner circle can take various forms - everything from online crowdfunding campaigns, to private conversations over lunch, to live pitch events. Some investors create very detailed and lengthy credibility packages and prospectuses. Others work with a handshake.

WHAT AND WHO TO AVOID WHEN PITCHING POTENTIAL PARTNERS FOR MONEY

What don't you want in a real estate partnership? Some of the worst nightmare real estate partnership scenarios involve:

- Difficult partners that make it hard to make money
- Overly involved partners that drain time and energy
- Partners that may try to kick you out of the deal or company
- Partners that ruin your relationships with other people in the industry
- Those that may fail to perform, and even steal from your operation

While there may certainly be exceptions when it really pays to bring in a more experienced partner to run things, investors can normally avoid these situations by retaining firm control and legal boundaries.

HOW TO MAKE IT WORK

1. Choose Your Partners Wisely

You may not always be able to spot a scoundrel in advance, but some people are obviously going to be a pain to deal with on a daily basis. Others may give signals that their greed may encroach into your pockets. Trust your gut, and avoid all but those you really feel synergy with. It's not 'just business', this is personal, and relationships are more valuable than money. So recognize when it is better not to jeopardize your relationships with partnerships and joint ventures.

2. Legal Agreements

Of the top 10 biggest mistakes when dealing with partners listed by the "Real Estate Finance Journal," most center around the legal arrangements and written agreements made… or not made. It's amazing how much money can change people. One day someone is your best friend in the world, the next you find out they emptied your bank account, took an extra mortgage out on your property, and skipped town. Even in less extreme cases, simple miscommunication or assumptions that haven't been addressed can become financial nightmares. Make sure everyone is protected with very clear agreements in writing. Spell out the risks, each party's responsibilities, and the remedies. It's worth investing a couple hundred dollars in having an attorney draft an agreement for you - one that you may be able to use as a template for future deals and partnerships.

IN THE RESOURCE GUIDE, WE'VE INCLUDED A LINK TO THE CONNECTED INVESTORS PARTNERSHIP APP - WHERE YOU'LL GET ACCESS TO A FULL TRAINING COURSE - INCLUDING A VIDEOS AND ACTION-STEP WORKBOOK.

Ultimately partnerships are just as important and powerful as financing in real estate investment. There can be pitfalls for those that don't take the risks seriously, and protect themselves with smart legal structures. Yet, with so many advantages, partnerships certainly shouldn't be ignored. They could be what makes all the difference in getting you to where you want to be, and a lot faster.

TAKEAWAYS

When and why would you consider a partnership deal?

When considering your situation, what are the pluses of a partnership?

For you personally, what would be the main disadvantages of a partnership?
And are they deal breakers?

CHAPTER 8

USING BANKS TO FUND REAL ESTATE INVESTMENTS

Are banks and traditional lenders a viable option?

In today's lending climate, you will not meet many real estate investors who use banks and other traditional mortgage lenders to fund their investments. There are a number of reasons for it and most are the result of the recession and fallout from the housing bubble in the early part of the 2000s.

Let's explore this option and how it might or might not work for you with your investments.

Time is of the essence when it comes to great deals on real estate and more often than not, it takes too long to get approved for most traditional bank loans. For the single family residential investor, even if you get approval in time, it's likely you will not be afforded the cash necessary to pay for a foreclosure or short sale property - sometimes you'll need to plan to bring up to 40% to the closing table depending on the property and your plans for it. It's not entirely impossible to finance your real estate investments using banks, but if you do attempt to go that route, it's best to expect a few bumps along the way (and to have a backup plan!)

WHAT IT TAKES TO FUND INVESTMENT PROPERTY

As we mentioned above, qualifying for a mortgage for an investment property requires more than your typical 20% down payment and decent credit. While the requirements to qualify for home loans for your primary residence have undoubtedly gotten stricter over the years since the housing bubble burst, they are still nothing in comparison with the tough requirements to qualify as an investor.

"TIME IS OF THE ESSENCE WHEN IT COMES TO *great deals on real estate* AND MORE OFTEN THAN NOT, IT TAKES TOO LONG TO *get approved* FOR MOST TRADITIONAL BANK LOANS."

To begin with, if you are going to fund your investments through a bank, you'll need to have some substantial capital saved already. Because you are purchasing an investment property, mortgage insurance won't cover it, and so you need something else to secure your loan. Typically this will be a 25% or higher down payment.

You will increase your chances of approval if you have shown that you are a strong and qualified borrower. If your credit score is 740 or higher, you are more likely to qualify, as you've shown that you can borrow and pay back loan money with few hiccups during the repayment.

If you already have a mortgage on a rental property, and you are looking for the means to fund another one, you are likely to need a higher credit score if you don't want an astronomical interest rate and/or a much higher down payment. Banks have gotten very wary of risky loans, and – more and more – they are looking for borrowers to have reserve funds to ensure they'll be able to keep paying, even if a rental property is vacant.

The easiest way to get financing for an investment property, however, is to get owner occupant[4] financing instead of investment financing. If you are going to succeed in getting this kind of financing, though, you will have to use the property as your primary residence for a period of time (usually a minimum of a year) before you start renting it out or attempt to sell it. This is, for obvious reasons, not ideal for most real estate investors.

WHY TRADITIONAL LENDERS HAVE TURNED AWAY FROM FUNDING INVESTORS

So why is it so hard to qualify for a mortgage on an investment property? Essentially, banks and other traditional mortgage lenders are not deliberately cracking down on investors - they're just subject to a lot more regulation than they were before because of the risks and fallout from past lending practices.

In addition to government regulations and lending guidelines, a lot of banks are also enacting their own restrictions and requirements. Why? Simply because they do not want to be burned again. Prior to 2008, banks were handing out mortgages left and right. It was incredibly easy (comparatively) to get a loan on your primary residence or even for an investment property.

Unfortunately, entirely too many people who could not afford their mortgages were approved for loans. Those people then did not uphold their end of the bargain, and the banks foreclosed on thousands of properties. The massive real estate crash and resulting recession occurred, and traditional lenders are making it more difficult for anyone (owner occupant or investor) to qualify for a mortgage. Banks are in the money business, not the house business and the crash put them squarely in the middle of owning real estate and having to re-sell it to recoup their funds.

> "AFTER THE HOUSING CRASH IN 2008, THE US GOVERNMENT PUT A LOT MORE *restrictions and regulations* IN PLACE FOR BANKS SEEKING TO LEND MONEY FOR REAL ESTATE. MANY OF THESE REGULATIONS HAVE BANKS' HANDS TIED AND *prevent them from loaning money* TO PEOPLE WITH MULTIPLE MORTGAGES WHO DO NOT PASS A SERIES OF *strict requirements.*"

Finally, a real estate investment is typically a riskier loan than an owner occupant mortgage. Qualified borrowers who are in the market to buy a home where they'll live typically base their budgets on their income and how much they can afford to pay per month on their mortgage. Basically, their loan payments will be part of their monthly expenses, and the ability to make payments won't be based on some future venture.

This is why it is especially difficult for new investors to get loans from banks for their real estate investments. They do not have the net worth or income to pay on the loan if their investment does not pay off. Conversely, though, this is why it's easier and potentially more lucrative for veteran investors with other streams of income to qualify - in limited cases - for traditional funding.

4 http://www.investopedia.com/terms/o/owner-occupant.asp

PROS AND CONS

If you are interested in funding your investments through banks and/or other traditional mortgage lenders, you should be aware of a few pros and cons. Considering and weighing these will help you get a full understanding of this type of lending and how it may or may not be right for your investments.

Pro – Lower Interest Rates

Typically, you'll find the lowest interest rates of all types of investment loans from banks and mortgage lenders. Because they are so strict about who can get a loan, they can set their interest rates much lower than hard money lenders or even private money lenders. And, when compared with splitting your profits 50/50 with a partner, those rates look even better - when you can get them.

Con – Difficulty Getting Approval

That said, as we've already emphasized, as an investor it can be incredibly difficult to qualify for a mortgage loan from a bank. Getting approval almost always requires you to have at least a 25% down payment on the property, and you'll need to prove that you can make your mortgage payments on time and in full, whether or not you have tenants paying rent on the property. Rental property income isn't based on actual cash flow - it's based on a formula, so in many cases, the investor who was certain they could qualify can't - because of how banks calculate investment and rental income.

Con – Approval Takes Time

Unlike private money loans, even when you do qualify for a loan, getting that loan approved and closed takes more time than you can typically waste. If you find a lead on a great investment opportunity and you get it under contract, you usually need to fund it as quickly as possible so that you do not lose it. Banks and mortgage lenders are not typically the fastest at getting back to you about approval or getting your funds to you quickly. There are a lot of moving parts and approval processes that most investors don't have the time to deal with.

Con – It's Not Good for Flipping

If you are in the market to fix and flip properties, then this is definitely not the funding opportunity for you. The advantage you have when buying short sales and distressed properties is that you can offer to pay upfront and in cash. And, if you are buying foreclosed REO properties that need a lot of work, a bank mortgage isn't even an option.

Pro – Term Flexibility

Again, if you can qualify for a bank loan for your investment, with exemplary credit, a solid track record, and a relationship with your lender, you may also qualify for attractive and/or flexible terms. You might get a variable rate loan that gives you lower payments over a longer period of time, or you might be able to get a low, fixed-rate loan that is easy to pay off, whether or not your investment is currently bringing in cash flow.

Pro/Con – Your Credit Can Work for or Against You

Finally, if you have great credit, you can get better loan terms that will allow you a lot more flexibility and the ability to continue investing your surplus returns in other investments. But, just as your good credit can work for you with a bank loan, bad credit will work against you. Without stellar credit, even if you do get approved, you may be looking at terms that just don't work for you and your investment.

As you can see, if you are a seasoned investor with multiple streams of income – especially income that's unrelated to mortgaged properties – borrowing from banks to fund your investments may work - but count on delays, documentation and challenges. Bank funding is not the ideal solution for most investors, and it can be problematic on a few different levels for newer investors or those who do not have the best credit history.

TAKEAWAYS

What are the primary roadblocks to using banks for funding investment real estate?

What will a traditional bank require from the typical investor when considering underwriting a loan?

CHAPTER 9

HOW TO FIND ASSET-BASED LENDERS

What is the best way for investors to find asset-based loans today?

asset-based lending has been growing in popularity among both borrowers and lenders. So what are the most efficient and effective ways for real estate investors to find asset-based loans today?

WHO MAKES ASSET-BASED LOANS?

asset-based loans are now more available to individual investors and smaller investment firms than ever before.

Today asset-based loans can come from:

- An online portal - such as CiX.com
- Large private equity and hedge funds
- Big national banks
- Regional and community banks
- Family offices
- Hard money lenders
- Crowdfunding portals
- Venture capital firms
- Wealthy private investors
- Average individuals with underperforming capital
- Commercial lenders
- Mortgage lenders
- Specialist lenders

THE TRADITIONAL METHOD OF FINDING ASSET-BASED LENDERS

The traditional, old school way of finding lenders for real estate deals typically meant getting all of your paperwork together, and then stumping from lender to lender with document after document - with each lender requiring something new and different.

Since these lenders used to be notoriously slow in processing loan requests, and their requirements often meant lengthy closings, there wasn't much room for shopping around. The time and opportunity just wasn't there, so deals could be hanging by a thread, and the lenders could effectively charge what they liked - because the investor needed to get the deal done. This often included heavy upfront fees without any guarantee of a loan.

At best, real estate investors hoped to have a broker that would streamline the process with additional points added for "rushing" the closing. In other cases, an investor might happen to run into a local lender at an investment group that showed interest. And for those investors with millions in assets, they might try going through a local private bank, perhaps using their pull to push the loan application to a committee meeting.

Put bluntly - this way of finding funding for real estate investing was expensive, inefficient, and highly risky for investor borrowers.

THE NEW WAY TO FIND ASSET-BASED LOANS

Technology has revolutionized just about every aspect of our daily lives. And real estate is no exception. When it comes to locating properties, in their recent "Highlights From the 2015 Profile of Home Buyers and Sellers," the National Association of Realtors reports that 42% of home buyers start their home search online. Fannie Mae, in it's "Digital Divide" report, found that 48% of mortgage shoppers have used online sources for getting mortgage quotes, and 68% would prefer to use online resources.

The trends by homeowners to use online resources for buying and financing properties extend to investor buyers as well - and technology has risen to meet the demands of today's investor.

In a matter of minutes, a real estate investor can complete an online application from their computer or even from a smartphone - and the application is sent to multiple lenders to compete to fund the property. Quicker than you can grab a cup of coffee, an investor can submit their loan request to a variety of asset-based lenders who are eager to fund that deal.

INFORMATION

CONNECTED INVESTORS EXCHANGE (CIX.COM), AN OFFSHOOT OF CONNECTED INVESTORS, OFFERS A REVOLUTIONARY NEW APPROACH TO QUICKLY AND EASILY APPLYING FOR ASSET-BASED LOANS FOR ALL TYPES OF REAL ESTATE INVESTMENTS.

This dramatically speeds up the process so investors can get answers on the move, and it enables them to compare and shop great loan offers. This reduces risk in making purchase offers, and increases their own competitiveness, helps them to be more efficient in operating, and can substantially increase overall net returns.

Lenders value the opportunity to originate loans through CiX because of the ease and efficiency it affords them. Finding and building relationships with new investors borrowers used to be an expensive and time consuming endeavor. But the CiX technology solution is a win-win for borrowers and lenders. It creates savings and more profitability from efficient originations. Those savings can be passed on to borrowers, so they can get better terms and rates than ever before.

TAKEAWAYS

What are the primary advantages of using “the new way” to find asset-based lenders for your real estate investments?

CHAPTER 10

INSIDE THE MIND OF ASSET-BASED LENDERS

What do you need to know to get your deal funded?

The business of hard money lending also known as asset-based lending is considered to be all about the numbers - but that's not the whole story. So when you're considering using asset-based funding, you need to understand the mindset of the lender - what are they looking for in the property, the project and the principle… you, the investor?

Lenders of all types use the **rule of "C's"** when considering funding a property.

WHAT ASSET-BASED LENDERS CONSIDER WHEN FUNDING A PROPERTY

Their goal is to minimize risk while still making money. Lenders are not just looking for higher yields, they're looking for safe, secure investments that return capital and a solid ROI (return on investment). They want to know how and when they'll be paid back and they like to build repeat business with investors - so relationship building is key.

There's flexibility - so don't be concerned, for example, if you're a new investor. Maybe you don't have the Capacity of a more experienced investor, but you've got great Collateral, Character, Capital, Credit and Conditions. You're still in the running - you just may need to bring a little more equity or capital to the table.

> "LENDERS OFTEN US A *decision matrix* TO HELP GUIDE THEM IN DECIDING WHETHER OR NOT TO UNDERWRITE A LOAN. MOST USE THE FOLLOWING *"6 C's"* TO MAKE AN INITIAL DETERMINATION IF THE PROPERTY, PROJECT, AND THE PRINCIPAL CAN STAND UP TO THE *rigors of the underwriting process.*"

Collateral - Lenders are in the money business, not the real estate business. They will carefully consider all aspects of the property - its physical condition, its marketability and its profit potential among others all to determine what kind of equity cushion the property offers in its loan-to-value (LTV).

Capacity - Lenders will look for assurance that the borrower has the capacity to carry out the terms of the loan. They will look at experience, outcomes, partnerships, resources and existing obligations of the borrower.

Character - Many lenders also look into the character of the potential borrower. They may do background checks looking for liens and judgements, criminal background, and other derogatory public records.

Conditions - In an effort to minimize risk, many lenders look carefully into the conditions surrounding the property - how is the market in the target investment area? What is the availability of resources, other property inventory and demand for the property at resale or rental?

Capital - The whole notion of "No Money Down" in real estate investing is misleading. No money down transactions are rare - and nearly non-existent with most lenders. While it is possible to have none of your own money down - lenders still require that the borrower have skin in the game in the form of a down payment.

Credit - With asset-based lending, credit isn't the most important but it still plays a role. Good credit can make the difference between a yes and a no; it's really a matter of how good (or bad) the borrower's other 5 "C's" look to the lender.

WHAT SCARES LENDERS AWAY?

1. **Money is attracted to opportunity, not people** Lenders are looking for the opportunity to make money loaning you money. Investors just getting started don't have the pedigree - but that alone won't scare off a lender. They're looking for opportunities - what you have to do is "show them the money." Despite their eagerness to profit as a lender, there are lots of things that can scare a lender off.
2. **The Collateral** Location and condition can be a factor. In the lender's mind, the thought is, "Would I want to own this real estate if there's a default?" The value plays a major role. The appraisal comes in and it's not good. Was the ARV too low? Repairs too high? You have to be realistic about your numbers.
3. **Your Capacity** A borrower who can't demonstrate a clear ability to repay the loan - either through their own resources - or those of others - will be a "no way" flag for a lender.
4. **Your Character** Deals gone bad, unpaid debts, criminal activity - these and more can derail funding. Some lenders sell the notes they write so they're looking for solid performance and good business practices.
5. **The Conditions** Market conditions and geographics can cause a lender to turn away. Not all lenders loan in all locations and asset classes.
6. **Your Credit** A compromised (or nonexistent) credit score isn't reason for denial alone, but it weighs into the pros and cons of the rest of the loan application.

WHAT IF YOU CAN'T REPAY?

Asset-based lenders will vet the property and the numbers thoroughly - you have to remember, they are in the loan business, not in the real estate business, and they do not want to foreclose and become property owner, but sometimes deals go bad. Lenders will respond more positively to possible work-out solutions with borrowers who keep the lines of communication open - a work out is preferred to a foreclosure. Some lenders can offer loan modifications, extensions and other possible solutions. We cover this topic in more detail in Chapter 37.

WHAT'S YOUR NEXT STEP?

Understand that companies who lend money on residential investment properties need you just as much as you need them. BILLIONS have been raised to help you grow your real estate investing empire and all you need to do is know is who to talk to.

TAKEAWAYS

What are the 6 things that will scare an asset-based lender away?

CHAPTER 11

ASSET-BASED LENDERS - A PEEK AT THEIR CARDS

What do you need to know about how they operate?

Asset-based lenders (also known as hard and private money real estate lenders) are in the game of lending money for one reason only - to profit. Their goal is to work on behalf of the individuals and institutions that entrust them with their capital that is in turn, loaned to you, the real estate investor. The lender is charged with deploying that capital and putting it to use to make a profit for those who provide the money to loan. The lender is always working in the best interest of their investors/capital partners - because without them, they have no money to loan.

HOW ASSET-BASED LENDERS MAKE MONEY AND HOW IT WORKS TO FUND YOUR DEAL

Each lender you approach for funding works differently. Though they have regulations they must follow - they set their own rates, terms and underwriting guidelines within the parameters of the law. It's incumbent on you to find the best match between the lender and your property and project.

THE KEY AREAS WHERE ASSET-BASED LENDERS AND THEIR CAPITAL PARTNERS MAKE MONEY

It's important to remember there are two key players at the table that stand to profit from the proceeds of your loan.

First, there's the investor who has provided the capital to loan - their profit (in general) comes from the interest earned during the loan period. They may also profit from origination points - these are percentages charged to you upfront for the opportunity to get your property funded.

Of course, these are just generalities, each lender and each capital investor sets terms that meet their particular objectives and there may be other profit centers not mentioned here. Typically, you as the real estate investor will never have contact with the capital partner and in fact, will have no knowledge of who is actually backing your loan with cash.

> "DESPITE THE FACT THAT THE LENDER IS REALLY *on the side of his investors,* IT'S IMPORTANT TO REMEMBER THAT THE LENDER NEEDS YOU, TOO. *Without real estate investors,* THEIR BUSINESS MODEL IS ONE-SIDED. THEY MAY HAVE THE CAPITAL AVAILABLE, BUT WITHOUT YOU - AND YOUR WILLINGNESS TO WORK WITH THE TERMS, GUIDELILNES AND CONDITIONS THEY REQUIRE - IT'S NO MORE EFFECTIVE THAN THE CASH STASHED UNDER GRANNY'S MATTRESS. *It earns them nothing.*"

Next, the lender - the entity that you work with to fund your deal, makes money a number of different ways. It can be origination points as mentioned above, they may also profit from servicing fees. Servicing fees are fees charged to you that pay for their work to service your loan - everything from processing payments to closing the loan when it is repaid in full.

Lenders also make money if and when they sell your note to another entity. There are also a number of other fees a lender may charge - be sure to review any offer to fund your property and inquire about every fee. In general, and certainly not every case, the lender itself does not profit from interest rates - the interest is usually paid to the capital partner as compensation for loaning their cash. But there are always exceptions.

It's also important to note that the lender is the middle man - and as such bears a huge responsibility for loaning the capital effectively so that earnings are maximized. In Chapter 10, "Inside the Mind of Asset-Based Lenders," you'll discover what a lender looks for from you as the borrower. Asset-based lenders can be an invaluable piece of the puzzle for the real estate investor.

Getting to know the ins and outs of asset-based loans and lenders is critical. It pays to talk to as many lenders as possible - get referrals from other investors and use CiX.com and get multiple lenders competing to fund your deal. Know that fees can be negotiated - don't get so caught up in the need to fund a property that you don't ask. If you know how to get great deals on properties, you should also know how to get deals on your funding.

TAKEAWAYS

What are the most important things for real estate investors to understand about asset-based lenders?

CHAPTER 12

DEALING WITH DOWN PAYMENTS

Six Ways to Secure Down Payments for your Real Estate Investments

Most traditional real estate loans have pretty strict qualifying requirements these days – the borrower must have good credit history, reasonable income that's verifiable, a low debt-to-income ratio and a big down payment.

However, we're not talking about traditional real estate loans – we're talking about asset-based loans; hard- and private-money loans specifically for real estate investment that are based on the value of the asset (the property) being financed. So credit history isn't a deal breaker, personal income isn't a deal breaker, debt-to-income won't kill the deal and down payments aren't quite as important – but more often than not there is still an investment property down payment requirement.

Another way they protect themselves is with lower loan-to-value ratios (LTV). So, for example, a lender whose requirement is 65% LTV would loan you $65,000 on a property whose value is determined to be $100,000 after repairs.

But let's say you found property that you can purchase for $70,000 that needs minimal repairs to re-sell at $100,000. Your lender would require that you bring $5,000 to the table so that the loan is only $65,000 – or 65% LTV.

> "THE WHOLE NOTION OF *"no money down"* IS A STRETCH... SURE, IT MAY NOT BE YOUR MONEY, BUT ASSET-BASED LENDERS WANT THE BORROWER TO HAVE SKIN IN THE GAME. IN SOME CASES THIS CAN COME IN THE FORM OF *equity in the property* AND JUST AS IMPORTANT - *cash.* WHILE A LOAN FOR INVESTMENT PROPERTY IS OFTEN BASED ON THE ASSET, LENDERS WANT SECURITY AND THEY WILL REQUIRE *some cash from the borrower* - EVEN IF THE PURCHASE IS A $100K HOUSE FOR $20K THAT ONLY NEEDS $10K IN REPAIRS."

When you're faced with having to make down payments to close your deals, what's the best way to access the cash needed to get you in the game? Investors can get pretty creative when it comes to financing, and the same is true of securing down payments. A word of caution here – no matter where you are sourcing your funds, you MUST understand the numbers. In the case of fix and flips, does the deal really support the cost of financing it, repairing it and selling it? Too many investors, especially new investors, forget to include the cost of money in their calculations. For long term holds, does the Net Operating Income support the cost of the money – after you've deducted all of the expenses of owning and renting out the property?

SIX WAYS TO SECURE A DOWN PAYMENT FOR REAL ESTATE INVESTMENT

Once you know the numbers work, you can tap into these six sources to get your down payment to close the deal.

Your Own Cash or Resources

Naturally, if you have cash set aside, you can use that. It's the cheapest money you can access – and the easiest. When you consider the cost of borrowed money – for simplicity, let's say it's 7% interest, then using the money you have sitting in a bank earning .02% is a pretty good deal. Better to lose .02% than pay 7%.

But if you don't have cash set aside, you can:

1. **Borrow from your IRA** – most have no-penalty short term loans. Do your homework and understand all the terms and conditions of repayment.
2. **Use your own credit** – many investors will tap into their credit cards or other lines of credit. Again, do your homework, RUN THE NUMBERS (does the cost of this money fit into the deal?) and know the terms and conditions of repayment and build it into your deal.
3. Along the same lines as above, many investors use their own home's equity to jump start their deals. An open-ended **home equity line of credit (HELOC)** can give you readily accessible cash for purchases, repairs and down payments. But again, know your numbers and make sure you can stick to the repayment terms.
4. **Borrow Against Assets you own**. If own have cars, boats, motorcycles or any other asset of considerable value, you can use it as collateral for getting the cash for down payments. The sources of that cash are varied – it could be a friend, family member or even a bank or credit union.

Use OPM (Other People's Money)

When you don't have personal resources to bring money to the closing table, you have the option to use other people's money.

1. Just like you can borrow from your own IRA, **you can borrow from other people's IRA**. This strategy usually requires that the individual has a self-directed in place (especially if you need a quick closing). But they may also be able to borrow short term from a traditional IRA. Just make sure everyone in the deal understands all the terms and conditions. Go into the deal with eyes wide open – and you may be able to do repeat deals with other people's money.
2. **Bring in a "partner"** – partnerships, per se, can be tricky beasts and when not well executed, they can cost you a lot of money. Keep it simple – because really, all you need is down payment money, so don't give away the farm. Offer your partner a fair and reasonable interest rate and repayment terms. Secure their loan with collateral – either a second mortgage on the subject property (your asset-based lender will have the first mortgage) – or you can offer other collateral as security for the loan. Looking for a partner? Search real estate investors in your area.

The bottom line is this – if you have a great deal on a property, remember "money finds opportunity." Many investment property financing options are out there – and rather than going into any deal with a beggar's mindset, approach it from an opportunity mindset. Good deals on real estate create lots of opportunity – for you as the fix and flipper or landlord – and for potential lenders who can make interest income from the opportunities you present when you need a little bit of down payment cash to make a deal happen.

TAKEAWAYS

When considering your own sources of down payments, which of those mentioned could work for you?

CHAPTER 13

THE DIRTY TRUTH ABOUT SOME REAL ESTATE LENDERS

Are you ready for the truth about real estate lenders?

The sad truth is that not all real estate lenders are trustworthy - it's a truth that impacts all businesses - not just the lending business. So how can real estate investors get the financial leverage they need and avoid becoming victims of unscrupulous lenders?

THE UNSTOPPABLE MONEY MACHINE

Clearly, not all lenders, banks, and finance professionals are bad. In the wake of the financial crises in the early part of the 2000s, many people developed a negative opinion of banks and lenders - especially those who finance real estate. But, now more lenders have entered the industry with the expressed purpose of changing things for the better while tapping into a market of borrowers who were left underserved following the crash. Still, overall the lending industry has proven to deliberately, blatantly, repeatedly (and even systematically), disregard the rules, to the pain and loss of the public.

It was the fallout of the financial crisis that led to the biggest banks and mortgage lenders being blamed for appraisal fraud, mortgage fraud, and discriminatory and predatory lending practices. Yet, this all pales in comparison to the massive robo-signing scandal in which at least hundreds of thousands of homes were illegally put into foreclosure.

The robo-signing scandal in which lenders were charged with falsely executing loan documents, resulted in a $25 billion settlement with some of the biggest banks in the world, including Bank of America, Chase, and Wells Fargo. A subsequent settlement just a year later for $9.3 billion included 13 banks. Since then, it has been found that at least some of these organizations haven't even been living up to their agreement to pay out this settlement money or help homeowners.

This systematic approach to breaking the law, effectively with immunity, has some speculating that the entire downturn in the early part of the 2000s may have been orchestrated as one of the largest fraud schemes of our planet's history. Regardless, the impact has been real.

8 COMMON LENDER SCAMS

Banking and lending giants can be considered just too big to control. They are massive money making machines that derive much of their compounding profits from real estate and mortgage lending. When borrowing money for real estate, it's a matter of staying safe by knowing their some of the common tricks and scams, and looking for better lending partners.

1. Upfront Money Scams

One of the most common scams that can particularly impact real estate investors are lenders that demand upfront fees, and then fail to deliver a loan. Or at least a loan that works. This money may be called virtually anything from application fees, to broker fees, to inspection fees. There are third party hard costs. Wherever possible investors should only pay these fees directly to the third party vendors providing the service. Some 'lenders' may otherwise make a ton of money without giving out any loans at all.

2. Taking Your Deals

While hard to prove, in the past some mortgage brokers and investors have felt that lenders may actually be dragging out their requests, and denying them in order to scoop the deals for themselves.

3. Bait and Switch

Perhaps most common of all is bait and switch. In fairness, this sometimes occurs simply due to poorly trained and inexperienced loan officers that really don't know any better. In other cases it is a systematic process of low ball quotes to get loan applications in the door, and expecting to be able to hold borrowers captive through the closing, no matter what the terms end up being. After all, what are you going to do at closing, when your contract is expiring, and your only choice is to take a higher interest rate, or walk away from your deposit money, and possibly get sued?

4. Freezing Credit Lines

Reverse mortgage advisors revealed that one of the largest banks in the US became subject to a class action lawsuit after freezing borrower lines of credit after credit was granted in order to try and reduce their figures. The last thing you want after you've jumped through the hoops to get money is to have the well cut off.

5. Forced Placed Insurance

Forced placed insurance scams perpetrated by real estate lenders and servicers have been some of the ugliest and most devastating for borrowers. After closing (which requires proof of insurance), borrowers receive notices that the lender lost the record and has now placed insurance of their choosing on the property, often to the tune of thousands of dollars. Future payments by borrowers are then first credited to the scam insurance, while mortgage payments go 'unpaid', until the borrower pays the ransom money or loses the property to foreclosure.

6. Mortgage Relief Scams

Mortgage relief scams are often perpetrated by lenders and loan servicers under the guise of loan modification and short sale help. Struggling borrowers are encouraged to apply for this assistance, only for their requests to be drawn out, until the lender forecloses at a moment which is most profitable for them.

7. Illegal Foreclosures

Again, the robo-signing scandal has been one of the largest mortgage scams of all time. This involves lenders fraudulently signing documents to illegally foreclosure on properties which they made loans on, in order to seize and resell the underlying real estate.

8. Gurus with Paper

The tightening of capital in the recent past led real estate investors to look for funding in the most unusual of places. One strategy that was cooked up by so-called real estate gurus promises funding for deals when in reality, the guru collects a handsome sum from the investor and provides nothing more than a useless proof of funds letter that only allows the investor to make an offer. After that, the investor is roped into a partnership deal that can turn a good project into a bad one.

In Chapter 14, "Hard Money Scams and How to Avoid Them," we outline the safeguards you can take to protect yourself.

OVERPROMISE AND UNDERDELIVER

Good businesses and professionals under promise and over deliver. They don't claim to do it. They just do it and the results for everyone involved are better. Unfortunately, some real estate investors may encounter quite the opposite tactics out there at roadshows, and real estate investment guru events. Some of these promise access to money to fund deals. Not all deliver, or have lenders with criteria so tight that it is hard to obtain. The majority of these gurus and events often simply refer attendees and students to third party asset-based lenders which can be found locally or online by themselves.

LEAD GENERATION WEBSITES

There are also many websites out there which encourage users to enter their information to get a loan quote, but are not operated by lenders, and do not directly connect investors with lending sources. Rather these pages are often just run by marketing companies to collect lead information which is bundled and resold to a variety of firms. Often these can be spotted as one page landing pages with no substantial company information, and no real contact information.

TIPS FOR FINDING LENDERS YOU CAN TRUST

- ✓Look up reviews
- ✓Ask for referrals
- ✓Seek loan officers looking for long term business relationships
- ✓Choose loan officers that actually take their time to understand your financing needs and goals, and scenario, rather than throwing out blind quotes

Protect yourself well in the process by selecting reputable lenders (note that bigger isn't always better), allowing plenty of time to close, carefully reviewing Closing Disclosures, building relationships for repeat business, and refusing to be a victim of bad lenders that go on and hurt others and the real estate market.

TAKEAWAYS

How can you locate reputable lenders?

CHAPTER 14

HARD MONEY LENDER SCAMS

How to Avoid Them

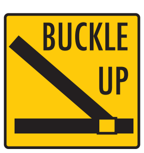
We've said it before and it's worth repeating… Money follows opportunity. We've seen it happening in real estate investing, especially in the single family residential market where big money (Wall Street) has entered the arena. We're also seeing in it the hard money lending game as well.

A massive amount of new capital is available for real estate investors from traditional and nontraditional sources. But not all lenders are created equal - and with this renewed interest in loaning money to real estate investors comes the potential for hard money lender scams.

Here's what you need to look out for so your deal gets funded and you don't waste time or even worse… get ripped off by an opportunist who is not a verified and reputable real estate lender. We talked to the professionals at Cogo Capital for some insight into the most common problems that investors encounter when seeking funding.

FEES

All lenders charge fees - it's a cost of doing business. But does the lender charge non-refundable up-front application fees? Are they charging due diligence fees? Travel fees? "Boots on the ground" fees? And are all of these fees charged whether or not the loan closes? If so, this is a clear sign that the company is making money on fees and NOT on closed loans. Beware of any lender that requires that you pay them upfront fees.

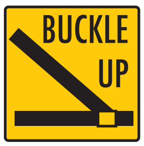


SAFEGUARDS

- ASK THE LENDER WHAT PERCENTAGE OF THEIR REVENUE COMES FROM FEES VS. CLOSED LOANS.
- REQUIRE THE LENDER TO SIGN AN AGREEMENT THAT FEES PAID UPFRONT ARE FULLY REFUNDABLE IN THE EVENT THE LOAN DOESN'T CLOSE.
- PAY FOR APPRAISALS, SURVEYS AND OTHER DUE DILIGENCE OUTSIDE CLOSING TO AVOID "FEE PADDING" AND OTHER FEE SCAMS

JOHNNY COME LATELY

Be on the lookout for the posers. There are so-called "Private Money Brokers" trying to capitalize on today's opportunities. Investors can't afford to lose both time and money when trying to secure funding - so it's worth the effort to vet and verify your lender's credentials. If you encounter a private hard money lender, ask for credentials. A credible lender will be a "Certified Private Money Broker."



SAFEGUARDS

- ASK HOW MANY LOANS THEY'VE CLOSED. THEY SHOULD BE ABLE TO DEMONSTRATE A TRACK RECORD OF SUCCESS.
- GET AT LEAST THREE NAMES AND PHONE NUMBERS OF RECENT PAST CLIENTS. CALL THESE CUSTOMERS AND ASK ABOUT THEIR EXPERIENCE WITH THE BROKER.

As in just about any industry, there are good and bad players. It's the same with hard money lenders and private money brokers - and it is always wise to approach lenders with a "borrower beware" mindset. Some good advice from our 40th President Ronald Reagan, "Trust but Verify."

TAKEAWAYS

What are the safeguards you can use to avoid scams?

CHAPTER 15

HOW TO SUCCESSFULLY GET FUNDED AS A NEW INVESTOR

How do you successfully get real estate investment financing as a new investor?

What does it take to get funded as a new real estate investor? Are there extra hoops you'll have to jump through? Extra pitfalls to watch out for? How can the funding process be made easier?

GETTING FUNDED WITHOUT EXPERIENCE

Getting financing for real estate investment properties can be a bit more challenging for new investors. Lenders are typically much more comfortable with experienced investors who have a track record of successful real estate investing activities. Getting a foot in the door can be a challenge and from there can also be underwriting challenges for new investors. And without knowledge and experience, there can be predators out there looking to prey on new real estate investors who don't recognize the red flags in a bad deal. The good news for the new investor is there are solutions for adequately funding real estate investment properties.

SPECIFIC CHALLENGES FACING NEWER REAL ESTATE INVESTORS

- Limited number of loans available until track record is proven
- Payment shock
- Inability to use history of income from real estate to qualify
- Down payments
- Reserve requirements
- Being unwittingly lured into committing real estate and mortgage fraud

In a nutshell, the lack of a track record means that individual lenders will be much more cautious about how much money they will loan to begin 'experimenting.' And although asset-based loans are primarily underwritten based on the property, lenders are extra cautious with new investors who've yet to turn a property into profits. It's mostly common sense, but these can be barriers that many new investors don't expect - most think that their great deal is all that's needed to get funded.

The best defense for the new investor is to ask a lot of questions, know your mortgage terminology, consult with others who are more experienced, and don't be afraid to do some comparison shopping.

WHAT TO LOOK FOR IN A REAL ESTATE LENDER

✓ An investor friendly lender that wants to do your type of deals
✓ A lender and loan officer serious about building relationship
✓ A loan officer that asks the right questions
✓ Does not charge upfront fees
✓ Responsive
✓ Honest about lending guidelines and the potential to offer a loan

You've got to find the right lender match who specializes in funding your type of deals, or the process will be painfully slow at best. And we all know that good deals require quick action - more than one deal has been lost due to financing hiccups.

Your loan officer should care about building a relationship. So look for those serious about asking the right questions, and that provide references from past and current clients. Ask for references from other industry professionals like title companies and Realtors.

A great loan officer won't just ask the questions needed to fill in the blanks on a mortgage application. They should ask what you want to achieve and what your longer term plans are. That way, they can truly provide loan options which best empower those plans.

HOW TO IMPROVE YOUR FUNDING SUCCESS AS A NEW INVESTOR

Improve your attractiveness as a borrower by:

- ✓Doing your homework. Don't wait until you have a deal in hand that has to close quickly. Start researching and building lender relationships before you need them
- ✓Submitting strong loan applications. They're complete and honest. Make the lender's job easier.
- ✓Bringing in a partner with experience, stronger financials, better credit and cash
- ✓Being pleasant to deal with and always prepared
- ✓Being patient in scaling your investments

Do this and you can look forward to easier borrowing, streamlined processes, and even preferred terms. It is possible to go from zero to hero and have lenders fight for your business.

We cover more on this topic in Chapter 7 "Partnering" and Chapter 12 "Dealing with Down Payments."

TAKEAWAYS

What steps can a new investor take to secure first time funding?

CHAPTER 16

HOW TO LAND THE BEST LOANS FOR YOUR DEALS

Finding the best financing for real estate investment property

There is a lot of money out there and there are a lot of people and institutions who want to put that money to work – generating more money. Success in real estate investment and maximizing the profit potential of each deal means obtaining the optimal loan for your property and project. So how do investors make sure they find the best loan for real estate investment?

WHAT'S SO IMPORTANT ABOUT FINDING THE RIGHT LOAN?

> "FINDING THE *right money* FOR REAL ESTATE INVESTMENT MAKES ALL THE DIFFERENCE IN *successfully executing your plan* FOR ANY SPECIFIC PROPERTY, AND HOW MUCH YOUR NET PROFIT WILL BE."

Not every loan or line of credit you land is going to be at the very lowest market rates, or come with your personal dream terms. But finding the right money for real estate investment make all the difference in successfully executing your plan for any specific property, and how much your net profit will be. It's also critical to know that a loan exists for your strategy even before making an offer. Knowing the available loan programs helps you swiftly navigate the entire deal search, negotiations, offer, and closing process. And just as important, having baseline knowledge of your funding sources can give you a serious speed, efficiency, and profit edge over competitors.

HOW TO MATCH LOANS AND LENDERS TO YOUR NEEDS

Each real estate investment loan or line of credit should take you closer to your per deal goals and your big picture vision. Some factors to keep in mind when loan shopping include:

- Protecting credit score for further deals
- Protecting credit bandwidth for future deals
- Sustainability
- Maintaining enough liquidity, equity and TIME to exit
- Obtaining enough money and credit to get the deal finished
- Securing deep enough margins to maintain profitability over the long term
- Speed and ease of funding
- Reliability of closing on time
- Trustworthiness of the lender
- Exit costs
- Ability to use the entity you want to finance under
- Ensuring the right lender and loan match for the property type, location, and strategy

FINANCING A REAL ESTATE INVESTMENT USING DIFFERENT REAL ESTATE STRATEGIES

Real Estate Wholesaling

Real estate wholesalers will normally find equity based loans and transactional "quick turn" funding their best allies. These are lenders which understand the dynamics of wholesaling, and the condition that these properties are often in. And the really savvy wholesalers have connections with lenders that can refer for their wholesale buyers. For example, many of the wholesalers in the Connected Investors network automatically send their buyers to CiX.com for funding that is fast and reliable – with lenders who understand the wholesaling model and the needs of the investor borrower.

Buy and Hold Real Estate Investing

There are two approaches to financing buy and hold income properties. One is purchasing existing rentals, and the other is rehabbing a distressed property and then leasing it out. Investment properties in need of substantial work, or that require additional funds to make repairs may require a rehab loan followed by a longer term, asset-based loan. On the other hand, properties ready for long term, permanent financing may benefit from more conventional financing or blanket mortgages.

Fix and Flip Deals

Fix and flip deals will often require rehab loans that include funding for acquisition, holding and improvements. Most traditional lenders aren't interested in funding these short term loans, so investors are wise to seek out asset-based lenders, and hard money lenders who offer equity based loans.

New Construction Financing

There are two main types of loans for new construction properties. Investor financing for real estate includes 'end loans' for those that are acquiring completed units complete with Certificate of Occupancy from the developer. Construction loans are for financing the actual building of units. There are also one time close construction perm loans which automatically roll over into fixed rate financing once building is complete and the collateral exists to secure the loan.

Commercial Real Estate Loans

Commercial mortgage loans have traditionally been used for financing 5-plus unit multifamily properties, industrial property, office buildings, and retail real estate. However, since 2008 more 'commercial' lenders are loaning on residential homes for investment purposes. These lenders and loans often suit those financing property for 'business' purposes, and that want to finance properties in the names of LLCs, corporations, and trusts.

Land Loans for Development

Many banks and other lenders make land loans. These can range from large blanket loans for raw land which may be subdivided, to individual lot loans. LTVs are typically significantly lower than for improved properties. Some have provisions requiring borrowers to begin building within a certain time frame, refinance, or pay off their loans.

Business Loans

Real estate investors can also use general business loans to fund deals. The application and approval process is very different than an asset-based loan. The loan is not based on collateral but instead is based on experience and potential earnings as well as other factors. The lender will want to you and your partner(s) to demonstrate good character, have experience and good personal and/or business credit history, along with the capacity to repay the loan.

Comparing Loans for Your Real Estate Deals

It is important to get the hang of apples-to-apples comparisons for loan shopping. You can compare oranges too. But you need to understand the difference. The best way to compare real estate loans is with the Lending Estimate provided by lenders. This document shows all the costs, loan features, and true APR or cost of borrowing. Use this to compare different quotes side by side. Don't just look at the bottom line figures; make sure each feature line item is the same for an apples-to-apples comparison.

Quick Tips for Honing in on the Best Loan Programs, Fast

1. Know that it doesn't always just take one loan or type of funding
2. Re-read and get to know Lending Estimate forms
3. Watch out for pre-payment penalties, adjustable rates, and balloons
4. Make sure your lender likes loaning in your area, on your property type
5. Create spreadsheets or pin up loan parameters so you can instantly match potential deals with the right lenders and enjoy a stress-free closing
6. Terms, terms, terms. When buying real estate, it's "location, location, location." When financing real estate, it's all about the terms. Know which terms affect your bottom line and HOW. You may get a great rate, but if the loan is called due ahead of your exit timeline – it's not the right loan.

The bottom line? Know your lender, know their loans and more important – know which terms are most important for your property, project, and exit strategy.

TAKEAWAYS

What are the main criteria you will use to match lenders to your investment needs?

CHAPTER 17

IS YOUR BABY UGLY?

The due diligence steps real estate investors should make before making an offer

Once you've mastered the the formulas found in Chapter 20 that are used by most real estate investors, it's time to determine if this is the real deal or just fool's gold. How do you know if you are really onto a good real estate deal and should invest? What due diligence should property investors engage in before presenting it to potential lenders?

EVERYONE THINKS THEIR BABY IS BEAUTIFUL

Beauty is definitely in the eye of the beholder. When it comes to investing in real estate, investors need to look beyond cosmetic beauty, and test their optimism with real, fact-based due diligence. Investors not only need to make sure the opportunity will be profitable, but it also has to be attractive to lenders.

HOW TO SCREEN FOR MONEY MAKERS

Six quick steps to making smart real estate acquisitions:

1. Match your basic investment and acquisition criteria
2. Ensure you are following smart principles and rules of thumb
3. Optimize your screening, offer, and loan application process
4. Verify the numbers before making an offer
5. Present the deal to the right financiers
6. Dig in and further verify your estimates

Investors simply can't waste their time looking at every available property. No matter what your level of experience, you should have some basic criteria of what you are looking for so you spend your time on the most viable opportunities.

This includes:

- Location and Marketability
- Square feet of living area
- Price range
- Potential profit spread or rental income
- Number of bedrooms
- Property type
- Complexity of repairing and remarketing the property

If properties don't match your criteria, your marketing and due diligence should reflect that. Any referral sources should have a good idea of your buying criteria. If you're marketing through your website, your messaging should target the kinds of houses you're looking for so you get good quality prospects. Serious volume investors often have acquistion assistants to screen for deals that meet their requirements. Keeping your eye on the ball prevents you from chasing deals that aren't the right kinds of deals - and helps you avoid "shiny object syndrome," where every new opportunity becomes a distraction and a waste of time.

> "INVESTORS NOT ONLY NED TO MAKE SURE THE OPPORTUNITY WILL BE *profitable*, BUT IT ALSO HAS TO BE *attractive to lenders.*"

RULES OF THUMB

Following are some general rules of thumb used by many real estate investors. They may not all work for you, or in every location every time. But having your own rules of thumb is important for quickly analyzing property deals and maximizing your results.

The Rule of Financial Intelligence

Venerable investor, Robert Kiyosaki reminds us to invest intelligently by remembering these definitions:

- Asset – puts money in your pocket
- Liability – takes money out of your pocket
- Good Debt – finances your assets, on which someone else makes the payments
- Bad Debt – finances your liabilities, which you make the payments on

The Rule of 72

This rule calculates how many years it will take you to double your money in an investment. Divide your annual rate of return by 72 to get the answer.

The 50% Rule

The 50% rule assumes that non-mortgage expenses will eat up half of the income from a rental property each month. So if your rental is bringing in $1,000 per month, expect maintenance, taxes, etc. to cost you $500 per month.

The 1% Rule

The 1% rule calls for investors to only look at income properties which can rent for at least 1% of the purchase price per month. So if you are buying a $100,000 property, it should rent for at least $1,000 per month. Some investors set the benchmark even higher at 2%.

This, like the 50% rule, is a QAD (quick and dirty) calculation. When it comes to rental real estate, before you make any buying decision, use NOI (see Net Operating Income in Chapter 20) calculations for single family properties and CAP rate (capitalization) rate for commercial properties.

Debt Service Ratio

Debt Service Ratio (DSR or DSCR) is normally used by commercial property lenders. This compares annual mortgage payments to expected net operating income. Most lenders demand at least a ratio of 1.2, meaning your NOI is 20% more than your mortgage payments.

CONFIRMING PROPERTY VALUES

Before you invest, or even figure out if a property is a good deal at a given price, you've got to know how much it is really worth.

Zillow is for Suckers

Even though notoriously, and often wildly inaccurate, Zillow's 'Zestimates' continue to often be used to guess the potential market value of properties by novice investors and sellers. This has resulted in horrific losses by many sellers due to falsely believing their properties were worth much more than they really were, and leading to them refusing to accept the offers they received. Online valuation tools too often rely on old data, and simply can't accurately reflect the realities of your market.

BPO App

Also, computer generated valuations can't do what a set of human eyes can. Connected Investors is aligned with one of the premier BPO (broker price opinion) providers in the nation. A paid licensed professional visits the subject property, provides photograph, and a full comparative market analysis. Providing your lender with accurate valuation information is critical to setting your loan in motion and securing good terms for your loan.

INFORMATION

CONNECTED INVESTORS BPO APP

HAVE A LICENSED PRO GO TO ANY PROPERTY AND CREATE A DETAILED VALUATION REPORT WITH JUST A FEW CLICKS. MORE INFO » BPO APP

Property Tax Assessments

Property tax assessments can be a useful tool. But you need to understand how "inaccurate" they are in your market. For example, tax assessed value might typically be 25% lower than properties are currently trading for in a given county. Tax values may not reflect a newly gentrified area, or any area experiencing environmental or other issues that negatively impact value. Time and experience in your market makes it simpler, but in the meantime - go the next step and verify, verify, verify.

CMA

Comparable Market Analyses are the presentation tools often used by real estate agents to guide homeowners in selecting a listing price. Realtors looking for listings will often prepare these for free. Investors can also piece together their own by comparing recent sold properties, pending listings, and expired listings, and comparing their prices and features. This is essentially how appraisers start the evaluation of residential homes. However, it is an art, not a science, and it's always best to verify.

AVMs

Automated Valuation Models are the next step up. These can sometimes be used in place of appraisals, but can be inaccurate. Of course, they are normally far cheaper and faster to obtain than full appraisals. Obtaining two of these AVMs to average out the findings can help, and empower investors to move quickly and decisively.

Appraisals

Full appraisals are not cheap. You can't afford to order full appraisals on every prospective opportunity - so utilizing the Connected Investors BPO App is a great alternative. Otherwise, you'll go broke before you do a deal. Your lenders will order their own appraisals and charge you for them - so a better alternative when initially evaluating a property is to use the BPO App or developing relationships with local real estate agents. In any case, investors can move the loan process along, and get better upfront answers by providing copies of previous valuations that give lenders all the specifics of a property along with photos.

Verifying the Rent

Verifying rents is a critical part of due diligence and accurately valuing rental real estate. If you get your rent estimates wrong, the true value of the property, how much your returns are, and how much you can borrow may be very different than initial expectations.

Never take figures offered by real estate agents and sellers at face value. Instead, ask for copies of rent rolls, do your own market research, and even test it out by running ads. Don't confuse asking rents with real rents, and make sure to understand different types of rental rates, i.e. weekly, annual, and Airbnb-type rentals.

Inspections

It's critical to do a preliminary walk through and to obtain quotes from contractors. Once there is a contract in place, real property inspections should be ordered and completed immediately. This is when you find out just how ugly your baby really is. Way too many deals have been derailed by lax inspections that could have uncovered costly repairs, liens and restrictions on the property.

IS THERE A LENDER FOR THIS DEAL?

Before signing a contract or even making an offer, it pays to make sure there is a lender that funds this type of deal. You may not be able to guarantee funding, but you should have identified a lender whose criteria matches your deal. For example, there is no point making an offer on a property you hope to tear down and rebuild if there are no investment lenders that offer construction financing in your area for your property type. Do your screening, find a lender match, forge ahead.

TAKEAWAYS

There are a number of good ways to determine the value of a real property. Of the methods listed, which can you employ in your business? And why are they the best choice?

What are your basic criteria when looking for properties? This helps you spend your time on the most viable opportunities.

CHAPTER 18

ESTIMATING YOUR PROJECT'S COSTS

How much is your property renovation project going to cost?

As you're preparing to fund your deal, you'll need to have a good estimate of costs to bring the property up to marketable value. How can real estate investors properly estimate a project's expenses? What factors and steps are involved? What hidden issues do investors need to be wary of? How will the scope of work impact funding, and vice versa?

KNOW YOUR CUSTOMER AND YOUR EXIT STRATEGY

Before estimating rehab project costs, you should determine your exit strategy. Will you sell or hold it for a rental? Short term, mid-term or long term? And whether it's a new development, multifamily apartment building makeover, single family rehab, investors absolutely have to know their market and their customers. What does the market demand in your area? You absolutely have to know what sells and rents in your area - because that market demand should drive your renovation decisions and budget. New investors in particular, need to pay attention to market trends and not make renovation decisions based on their personal tastes.

Knowing your market and your end buyer's "wish list" is the key to a project's success and acts as a guide for creating an effective and profitable scope of work and choosing the right materials. Ultimately, this helps investors to quickly and accurately assess a property, and put together a funding request to lenders.

INSPECTING AND EVALUATING THE PROPERTY

After gaining experience from a number of rehab projects, investors should find that they are able to skillfully, and very accurately sum up a property in 30 minutes or less. Even then it always pays to double check, verify, and investigate further with more thorough inspections.

Property inspections and checklists are critical for staying organized, having clarity, and demonstrating value to lenders. Remember, lenders are looking to minimize risk, maximize returns and you should as well.

So what types of inspections should real estate investors deploy? You have to remember, not all costs are related to things that are visible, or even related to the actual physical structure or land.

- Physical walk-through
- Professional third-party home inspections for residential property
- Environmental inspections for multifamily and commercial property
- Title and lien searches
- Final walk-through inspections before closing

If you cannot personally, physically walk the property, or have one of your own trusted team members do it, then at a bare minimum you need to have a trusted local contact take and provide exhaustive photography and video. Now, more than ever, it's easy to do with online tools like Connected Investor's BPO app. It connects you with licensed pro who performs a Broker's Price Opinion (BPO) that gives you a physical and financial overview of the property.

Thorough, professional third party inspections are always critical for digging in to identify repair needs, especially those lying under the surface. If you are not sure where to start with a preliminary inspection, it pays to bring along a more experienced investor, a trusted contractor or a licensed inspector. New investors in particular, need to rely on outside expertise to help them identify the "gotchas" that can turn a money maker into a money taker.

Don't overlook title and lien searches either. They can reveal boundary issues, permitting and use issues, and may alert you to additional opportunities, as well as what you can and cannot do to a property. For example, if you're in a historical district or an HOA community, you need to know this, as you may need to maintain certain design aspects in a renovation.

In some areas, it's worthwhile to inquire at the local government office regarding development, infrastructure, former well sites and other environmental issues that can impact your project.

GENERAL RULES OF THUMB

Here some of the common rules of thumb used when flipping houses and working the numbers on your property.

The 70% Rule

The 70% rule demands that your acquisition and house renovation costs should not exceed 70% of the after repaired value (ARV) of a property. We cover this more thoroughly in Chapter 20.

Price per Square Foot

In the case of fully gutted rehabs or additions, it can make sense to use local build costs per square foot to make sure you are on the safe side. If you plan to add a 1,000 square foot home addition, and build costs are around $100 per foot, estimate a $100,000 project cost.

The 'Cunningham Factor'

This calculation calls for adding 20% more money, and 80% more time to your estimates for completing a project. Somewhat tongue in cheek - this estimation tries to drive home the fact that your project will almost always take more time and money than you originally thought.

Obtaining Repair Estimates

Always obtain at least 3 repair estimates from different contractors until you have built reliable relationships. And always ask fellow investors for referrals. It's not uncommon in smaller markets for house flippers to use many of the same vendors.

AVOIDING THE TRAPS

There can be many pitfalls when taking on real estate projects. Here are four to watch out for...

1. Building Permits and Legal Use

Permit issues are one of the most financially catastrophic issues for newer investors. Minor building code violations such as overgrown landscaping may easily be overcome. But if you find out that 3 unit property is only legally a single family dwelling that will drastically change your figures. Some have even discovered a property is slated for demolition after they purchased it. This is where thorough due diligence is crucial. It can also pay to have good relationships with local inspectors and local government in order to vet properties and your plans for them prior to closing.

2. Capital Draining Improvements

Understanding what actually adds tangible value to a property - and what doesn't - is one of the toughest things for new real estate investors to wrap their heads around. Not even all Realtors understand this.

The first thing to recognize is the difference between boosting appeal and actual appraised value. You can spend thousands on repairs and upfits and not get the return at resale. The pictures might look nicer, ads might get more clicks, but if it doesn't appraise for more, buyers can't borrow any more to buy it - it all goes back to knowing your market and knowing your end buyer.

3. What's lurking underneath?

What's underneath is normally the really expensive stuff. It's those large, unexpected house remodeling costs which really break the budget and timeline. And the buyer can't even "see" the improvement like when it's a new kitchen or bath.

But those "hidden" repairs like roof structures, fire damage, and foundation repairs don't have to be deal breakers, if they are caught upfront and are accounted for in your repair estimates and purchase price. It is those sneaky plumbing, electrical, rot under leaky siding[6], and other challenges hiding in the walls and under the floor that can turn a $5,000, 30 day rehab into a 6 month, $50,000 or more money pit. Having a thorough inspector and contractors you can trust to point out potential issues in advance can be your best insurance.

4. What You Don't Inspect for

Not all of the big property killers are a part of the standard inspection list either. How about Chinese drywall and meth labs? Radon? Well testing? These factors can poison homes to such an extent that many ethical investors won't want to touch them, even if official remediation actions are taken. Know what issues are common in your area, and don't skimp on the small amounts to test for them.

[6] VIDEO TIP: Check out our YouTube Video - What's Lurking Behind the Siding?
https://www.youtube.com/watch?v=EwhRCNnqpYo

FUNDING AND THE NUMBERS GAME

Funding is a huge part of the numbers game. How much funding you can get will impact what repair and improvement items can be done, and to what level. Beyond the total funding amount, real estate investors need to pay attention to access to funds, and draws too.

Maximizing funding for real estate projects is also about knowing how to present to prospective lenders. Your figures, executive summary, and presentation will immediately reveal your true experience level. Optimize this with subject-to appraisals, real contractor estimates, and avoid being unrealistically optimistic.

> "IN MANY CASES, INVESTORS MAY HAVE TO *pay renovation costs up front,* AND THEN REQUEST DISBURSEMENTS FROM ESCROW. DO YOU HAVE THE LIQUIDITY TO *float these expenses?* IT'S CRITICAL WHEN CHOOSING YOUR FUNDING TO UNDERSTAND *how you will access the funds* THROUGHOUT THE RENOVATION PROCESS."

THE SCOPE OF WORK

All of your inspection work and desired improvements come together in the scope of work. This document lists out all of the items that need to be done, what materials will be used, and deadlines.

If you are using just one contractor for the entire project, they will likely provide the scope of work and estimate. If you will be doing some of your own work, or will be directing several subcontractors yourself, you will want a master scope of work, in addition to contracts with each of your service providers.

Experienced rehabbers recommend leaving your scope of work[7] at the property for contractors to review and bid on so that you ensure you are always comparing apples-to-apples. Keep it simple, so it's easy for all vendors to work with.

TALES FROM THE TRENCHES

What can happen to a real estate investment when investors rush in, and ignore common sense?

What you Can't See

In one Fort Lauderdale, FL rehab, an investor obtained an inspection, but didn't do a walk-through, missing the fact that the outdated electrical system wouldn't even support a stove. The result was completely tearing out the kitchen and bedroom walls, rewiring the house, and adding a new panel, and thousands of extra dollars in house renovation costs. In another case in SW Florida, failure to properly test plumbing resulted in new tenants discovering exterior pipes had been destroyed by tree roots and sewage backing up in the house. This meant laying new exterior pipes and paying for tenants to stay somewhere else during the construction. These kinds of oversights are costly and can happen to anyone who lets exuberance override thorough due diligence.

[7]The scope of work will need to be provided to your appraiser to obtain an accurate Subject-to Appraisal which most lenders will require.

COLLABORATING WITH PARTNERS

If you've watched a couple of episodes with shows flipping houses on reality TV, you already witnessed the challenges that can arise when renovating properties with partners. Worse than the stress of arguing over design finishes, partners can even go as far as far exceeding budgets, and even borrowing against equity in the property to fund additional improvements. This can leave a property in a negative equity situation, meaning it cannot be resold without a loss. In one case a partner took out a $30,000 line of credit against a property and spent it on personal items. The partner who put in over $30,000 in cash for improvements lost everything and the property went to foreclosure. Make sure there are clear boundaries for who is in charge of what. We cover this in more detail in the Partnership Chapter 7.

Coordinating Contractors

One of the most common real estate investment blunders is failing to coordinate different contractors and parts of the job in order. You don't want the next contractor to destroy the work of the previous one. So consider the order you should do floors, appliances, paint, ceilings, and other items.

Running Out of Money

Browse the internet and online real estate forums for 15 minutes and you'll probably discover several real estate investment tales in which newbies failed to plan for overages and found they ran out of cash, yet still had an unfinished property that could not be leased or sold. This is the fast path to bankruptcy. Always leave a cushion for additional expenses. Network with other investors to learn the realities of renovations, funding and making a profit.

SUMMARY

Accurately estimating project costs relies on thorough due diligence and inspections. In order to ensure plans are feasible, investors also need to take into account funding constraints and overages. This all comes together in a solid scope of work, which together with a little common sense, and sound business practices will help investors to avoid the pitfalls.

Bringing it all together, this process can be summed up in seven steps...

1. Know your customer, local real estate market, and values
2. Conduct thorough inspections as early as possible
3. Get real quotes from licensed contractors
4. Add in a time and money cushion for overages
5. Prepare your detailed scope of work
6. Re-run the numbers against values, and anticipated funding
7. Put your loan package together and get going

TAKEAWAYS

What are biggest "gotchas" that can be discovered in a potential investment property? Include those found in this chapter PLUS any that are common to your investment area.

CHAPTER 19

THE TIME VALUE OF MONEY

Don’t Underestimate the Value of Your Time

Have you ever heard the phrase “Don’t step over a dollar to pick up a dime?” This characterizes an often made mistake of real estate investors.

In an effort to save cash and keep control, entrepreneurs will take on too much and rather than hire out the work, they try to do it all themselves. The Forbes Entrepreneur “Lessons Learned in Business” feature[8] illustrates this perfectly. Guest Contributor Liza Deyrmenjian says, “My first lesson was when I discovered how much money I was wasting doing everything myself. I had a factory at the time with over 60 employees. I was booking over $1,500,000 in sales and I had no assistant. In running a factory and employees, managing customers and bringing in new orders, yet I had no right hand that could deal with the day-to-day minutiae. The year I hired my first assistant, I doubled my sales to 3 million.”

“Not only did an assistant help me increase my sales, it also allowed me to enjoy my life outside of the office a bit more so that I looked forward to coming into work every day. As a result, I was far more pleasant to my customers, and I had more energy to travel to trade shows, knowing there was someone back at the factory overseeing production and the ongoing concerns of a small business.”

> “TACKLING EVERY TASK LIMITS THE MENTAL AND PHYSICAL BANDWIDTH OF ANY INDIVIDUAL TO *effectively focus* ON THE MORE IMPORTANT ASPECTS OF THEIR BUSINESS - *like cash generating activities.*”

Notice how she says, “I realized how much MONEY I was wasting doing everything myself.” Not time… but money. Tackling every task limits the mental and physical bandwidth of any individual to effectively focus on the more important aspects of their business. In Liza’s case, she was able to realize better customer relationships and higher sales as a result - all because she wasn’t bogged down in the more trivial aspects of running the business.

The same holds true for real estate investors - if you’re a house flipper, are you really saving money painting that house yourself when it could be hired out, leaving you free to do other more critical cash-building things? More work gets done more quickly - the property goes to market faster and you can do more deals than if you did all the work yourself.

The lesson here? Don’t step over dollars to save dimes.

[8]http://www.forbes.com/sites/lizadeyrmenjian/2013/08/28/tripping-over-dollars-picking-up-pennies/#62c2eaf1706c

[9]Propertymetrics - The Time Value of Money

So now that you understand the real cost of stepping over dollars for dimes and really analyzing where you invest your time in your business, let's take a look at a concept that too many investors ignore - and it's most likely because many don't know about it.

It's "the time value of money."

At its most basic, the time value of money is the notion that money today is worth more than money tomorrow. Commercial real estate analyzer Propertymetrics[9] does a great job of outlining it in detail.

WHY MONEY HAS TIME VALUE

First of all, why does money have time value? Time value of money is the economic principle that a dollar received today has greater value than a dollar received in the future. The intuition behind this concept is easy to see with a simple example. Suppose you were given the choice between receiving $100,000 today or $100,000 in 100 years. Which option would you rather take? Clearly the first option is more valuable for the following reasons:

No Risk – There is no risk of having to get money back that you already have today.

Higher Purchasing Power – Because of inflation, $100,000 can be exchanged for more goods and services today than $100,000 in 100 years. Put another way, just think back to what $100,000 could buy you 100 years ago. $100,000 in 1916 would be the equivalent of roughly $2,300,000 today.

Opportunity Cost – A dollar received today can be invested now to earn interest, resulting in a higher value in the future. In contrast, a dollar received in the future can not begin earning interest until it is received. This lost opportunity to earn interest is the opportunity cost.

Combined, these two concepts should drive the investor looking to build a viable, long-term wealth building business to really consider carefully how they use their time, skills and vision as a driving force.

Opportunity costs = The Money Value of your Time

The Time Value of Money = The Opportunities Today and Tomorrow

TAKEAWAYS

Think about your "cash generating activities" - what are they in your business?

Now that you've identified the best value-add activities, what can you do to stay focused on them, versus investing time in other tasks that can easily be hired out?

CHAPTER 20

WHAT EVERY INVESTOR NEEDS TO KNOW ABOUT TERMS, CASH FLOW AND FORMULAS

Do You Know What You Don't Know?

Before you even approach a lender, you have to know the terms of engagement, so to speak. Though you may have purchased a house before, real estate investing is the polar opposite of buying a personal home - investing is all about the numbers; buying a personal residence is a more emotional undertaking.

> "FOR REAL ESTATE INVESTORS TO SUCCEED, *they must know, understand and use a basic set of formulas* TO GUIDE THEIR DECISION MAKING - ALL BASED ON THE NUMBERS."

MAO OR THE 70% RULE

Used by house flippers, The "Maximum Allowable Offer" (MAO) formula is based on the 70% rule. The 70% rule is the notion that an investor cannot pay more than 70% of the After Repaired Value (ARV) of the property after accounting for the cost of your funding, repairs, holding costs and resale commissions and costs.

It looks something like this:

ARV	$150,000	*Value of property after repairs*
Loan (Cost of Funding)	6,000	*Origination fees, Closing fees, Interest*
Repairs	25,000	*All expenses related to renovations*
Holding Costs	2,000	*Insurance, Utilities, Taxes, HOA, other*
ReSale Fees	9,000	*Realtor Fees (6%)*
	$108,000	*ARV minus costs to flip*
	x .70	
MAX ALLOWABLE OFFER	$ 75,600	

If it all plays out as planned your profit is $32,400 ($108,000 - $75,600)

When it's okay to break the 70% rule:

- When you have a guaranteed built-in buyer. No need to pay resale fees.
- When your cost of money is lower (e.g. a subject-to transaction) or access to cheap cash

THE WHOLESALER'S FORMULA

This formula is also used by wholesalers; they use the same basic formula but include a wholesale fee one of two ways.

They use a 65% Rule that accounts for their fee. Using the example, the wholesaler would make an offer of $70,200 and charge a $5,400 wholesale fee.

$108,000	*ARV minus costs to flip*
x .65	
$ 70,200	Max Offer when Wholesaling

They can also use a set fee amount. Using the example, the wholesaler adds the fee into the costs to flip. Let's say this wholesaler wanted a bigger fee because it was a difficult property to get under contract. It would look something like this.

ARV	$150,000	*Value of property after repairs*
Loan (Cost of Funding)	6,000	*Origination fees, Closing fees, Interest*
Repairs	25,000	*All expenses related to renovations*
Holding Costs	2,000	*Insurance, Utilities, Taxes, HOA, other*
ReSale Fees	9,000	*Realtor Fees (6%)*
	$108,000	*ARV minus costs to flip*
	x .70	
70% Rule Applied	$75,600	*Net before wholesale fee*
Wholesale Fee	- 10,000	
MAX ALLOWABLE OFFER	$ 65,600	

AN ALTERNATIVE TO THE 70% RULE

Every property that is fixed and flipped requires a different amount of time, cash and considerations. The 70% rule at it's most basic, builds in a 30% profit margin and can be a great rule of thumb.

But investors can also look at a property that may be a really quick and easy flip to determine that a property is a good deal even if doesn't meet the 70% rule - simply because the time and money needed to complete the deal is less effort.

Rather than use a margin, use a set profit amount.

For example, let's say you can pick up a 1,000 sf brick ranch in a very marketable neighborhood. The ARV is $150,000 The house only needs some basic cosmetics to bring it up to market and you can get the job done with little time and hassle. Repair costs are only $12K and holding costs are lower because the renovation time is shorter.

In this case, you'll build in your desired profit to determine your offer.

ARV	$150,000	*Value of property after repairs*
Loan (Cost of Funding)	5,000	*Origination fees, Closing fees, Interest*
Repairs	12,000	*All expenses related to renovations*
Holding Costs	1,000	*Insurance, Utilities, Taxes, HOA, other*
ReSale Fees	9,000	*Realtor Fees (6%)*
	$123,000	*ARV minus costs to flip*
Desired Profit	- 20,000	
MAX ALLOWABLE OFFER	**$ 103,000**	

NET OPERATING INCOME

Investors looking for cash flow and the benefits of building wealth through more passive rental income use the NOI formula for determining how much financial leverage makes sense.

Rental properties should support themselves - the conservative investor will never over-leverage into a position of negative cash flow. NOI takes expenses TODAY into consideration - but it's important to remember, rents rise over time as do expenses.

Here's the basic NOI formula to use when considering purchasing or refinancing a rental property. It's based on monthly numbers - rent less expenses equals cash flow (excluding loan payments).

Rent	$1,000	
Taxes	- 150	
Insurance	- 75	
Vacancy (10%)	- 100	*This can vary with turnover rate*
Repairs (8%)	- 80	*This varies by property and helps you budget for repairs*
Management (10%)	- 100	*Pay yourself, even if you self-manage*
Gross Operating Income	**$495**	

The gross operating income tells you how much mortgage the rental property can support today. While some investors own rental properties free and clear - many don't. You can use any mortgage calculator to determine how much loan makes sense when funding a rental property when you know the gross rental income.

In this case, the property could support a payment up to $495. So working backwards, with a mortgage calculator to get to a payment close to $495, you can determine that this property can support a mortgage of around $92,000 for 30 years at 5% for a payment of $493.88.

Gross Operating Income $495 - $493.88 = $1.12 monthly cash flow

It's important to understand that this example does not result in significant cash flow today. The conservative investor might run the numbers more like this to include cash flow from day one:

Rent	$1,000	
Taxes	- 150	
Insurance	- 75	
Vacancy (10%)	- 100	*This can vary with turnover rate*
Repairs (8%)	- 80	*This varies by property and helps you budget for repairs*
Management (10%)	- 100	*Pay yourself, even if you self-manage*
Gross Operating Income	$495	
DESIRED CASH FLOW	- 100	
Net Operating Income	**$395**	

With cash flow now built into your numbers, you can use a mortgage calculator to determine how much mortgage the property can support with a loan payment of $395.

There are a multitude of terms, formulas and strategies that make for sound investing - what we've outlined here are just a few. Commercial investors use Cap Rate for multi-family properties. Cash on Cash calculations help investors compare returns for the use of their available cash. Following these principles can keep your business strong by knowing your numbers and avoiding “feel good” decisions.

TAKEAWAYS

When should you use alternatives to the basic 70% rule?

Why does it make sense to use NOI when determining the financial on a rental property?

CHAPTER 21

THE HOLE POKER - THE DEVIL'S ADVOCATE

An Important Part of Your Real Estate Investment Team

What is a 'hole poker' and why should all real estate investors consider having one?

It's far too easy for real estate investors to get blinded by their optimism and eagerness to steam forward, ignore the formulas and make mistakes. Others may give up too quickly when a deal looks tough to negotiate. So how can a hole poker help? Where can you find one? And are there cases when should you ignore them?

EMOTIONAL VS. FACT BASED REAL ESTATE INVESTMENT

In Chapter 17, "Is Your Baby Ugly?," we offered insights into looking closely at your investment - is your deal really a deal and will a lender fund it? Both new and experienced real estate investors can let their emotions get the better of them when presented with new opportunities.

We buy real estate for many different reasons. And while there is absolutely a personal side to real estate, as Warren Buffett says, "Investment is best when most businesslike."

That means investing based on facts, not emotions.

This is where a hole poker comes in. They serve as a devil's advocate of sorts - their goal is to poke holes in your deal. A good hole poker should consider all aspects of your deal -

- Is the location good?
- Is the price right?
- Does the funding model support the exit strategy?
- Is the exit strategy sound and viable?
- Do the numbers work? Have the right formulas and calculations been used
- Can the necessary repairs be completed on budget?
- Is is reasonable to expect the repairs to be completed on time? Is labor readily available?

These are some of the questions a good hole poker should ask… and help answer.

Sometimes aspiring investors get frustrated and give up too easily. They allow inexperience and impatience to take money right out of their pockets, instead of making the extra couple calls needed to get the deal done right.

The truth is you might have to try several lenders to get your deal financed, but when there are tens or hundreds of thousands of dollars or more on the line it is normally worth it - and the extra sets of eyes can only be helpful in averting problems.

Other investors let optimism and bullishness override the facts, and cause them to neglect common sense investment principles - like proven formulas and due diligence. This is a major threat to sustainable investing. In severe cases it can lead to very heavy losses. Bullishness played a big part in the derailment of the property market in the early part of the 2000s.

It's absolutely vital to invest by the facts. Once you've done your due diligence - it's time to check your facts.

THE VALUE OF SECOND OPINIONS FOR FUNDING

There's a good reason that patients get a second opinion before undergoing major surgery. There can be big risks. Are there alternatives and what are they? When it comes to real estate, there can be big risks to your financial future - especially when there are big oversights and careless blunders. So it only makes sense to get second opinions on your investments too. After all, your finances are your lifeline.

So when it comes to closing deals for funding, get a second opinion on:

- → Purchase contract terms
- → Loan terms, timelines and other stipulations
- → Results of the appraisal
- → Timelines and scope of work are manageable
- → Viability of your exit strategy

Each of these are important considerations when navigating the funding phase of your deal. Getting feedback on these individual items can often save investors thousands of dollars and a tremendous amount of time.

THE HOLE POKER

As the title suggests, the hole poker's job is to poke holes in your deal. They are tasked with intentionally poking holes in your big picture plans and individual deals.

When you've got a real estate deal on the table, and maybe even before that when you are formulating an investment plan or business plan, it pays to get that second opinion and ask, "Can you find a problem with this?"

Ask:

- Is this a good deal and how can I make it happen?
- What issues or potential pitfalls do you see in my plan?
- Have you done a deal like this and what did you learn from it?
- Do my estimates and assumptions look accurate?
- Is this a good use of my time, credit, and dollars?
- How can I make this deal even better and more profitable?
- Would you do this deal - and if so, how would you make it happen?

WHERE TO FIND A GOOD HOLE POKER

Like buying your first car, it pays to take someone who knows cars along with you. They know where to look under the hood for issues, they know how to negotiate better deals. Most of us at least have an experienced car buyer in our family somewhere. Some might even have a mechanic. But far fewer may have a true real estate investment expert. So where can you find a good and trusted advocate to help you reduce risk and maximize profits?

People that may make good hole poker include:

- Real estate attorneys
- Financial planners who understand real estate investing
- Real estate investment coaches
- Other real estate investors - from the local REIA[10] or Connected Investors network
- Your private money lenders
- Trusted Contractors
- Inside the Connected Investors Community

The point is to find those with more experience, who have proven to successfully navigate the market, and whose input you can trust. Not all hole pokers can assess every aspect of your deal. You may want an attorney to pick apart your purchase contract and loan terms. You get the idea - if you can find an all-in-one advisor, don't be afraid to ask for the opinion of different experts.

HOW TO GET A GREAT HOLE POKER TO HELP YOU

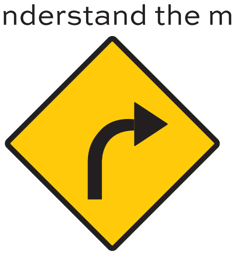
How do you get someone with far more experience, who can often earn hundreds of dollars an hour to give you their feedback?

Hiring them is the most obvious answer. Normally they'll more than pay for themselves with a few tips on how to improve the deal, or telling you to back away from a bad deal, but if you can't afford it, there are other options.

Find places they hang out and catch them. Local real estate investor groups, or professional group meetings are a great place. If you have a business relationship with some of these pros already, take them to lunch or for a coffee. They might start asking to do business with you as a private money lender or partner.

KNOW WHEN TO GO YOUR OWN WAY

Sometimes, despite others' advice, you've still got to go your own way. Sometimes you'll see what they don't, opportunity they don't understand, or you've just got to go with your gut. Perhaps there understanding of your big picture goals is unclear, perhaps they don't understand the market, the property or the remedies you can employ.



That's okay too - but do so with caution and a clear understanding of why and how your approach makes more sense than the input of others. Often, that's how new progress is made, and uncommon returns can be obtained. But, be aware - it can also go exactly the opposite.

When you use a hole poker, at least you'll be keenly aware of the facts, and alert to the potential pitfalls. It's wise to use a hole poker on your deals. Just make sure your hole poker has credibility, experience and a track record of success - and one whose advice you can trust - so every deal can be a good deal, no matter what advice you decide to act on.

[10] REIAs are local chapters of the National Real Estate Investors Association

TAKEAWAYS

Who can make a good hole poker for looking at your funding? Think of those already in your network and what role(s) they can play in examining the financials of your deal.

Why does it make sense to use others to poke holes in your deal - when it comes to the property, the market, the scope of work and aspects of your deal other than funding? Who in your network could you call on to examine your deal?

CHAPTER 22

NEXT! KNOW WHEN TO WALK AWAY FROM A REAL ESTATE DEAL

When should real estate investors walk away from a potential deal?

THE BITE TEST

Not every shiny gold colored object is valuable. Fool's gold and fake gold can appear almost identical to the real thing. So can counterfeit $100 bills. That's why we've all heard of the 'bite test' to check for real gold, and why stores have special lights, pens, and identifiers to spot counterfeit money.

There are a lot of potential real estate deals out there that aren't the real deal either. Even dirt cheap homes selling for $1,000 can turn out to be duds. And even brand new shiny oceanfront penthouses selling for millions of dollars can be terrible deals in disguise.

And more often than not, nothing is a deal unless you can land the right funding.

The whole point of investing in real estate is to make the most out of your money and time. So you simply can't afford to burn resources taking big risks on poorly performing properties.

> "IN REAL ESTATE, *this is due dilligence.* AND EVERY DEAL SHOULD TAKE YOU CLOSER TO YOUR *big picture goals* AND MEET YOUR CRITERIA FOR PROFITABILITY."

Each one needs to pass the bite test. And in many cases, you want to get a second opinion from a trusted "hole poker." (see Chapter 21 for more on using a hole poker to keep you in check)

WHEN TO WALK AWAY

When should investors walk away from a potential deal?

There are a number of reasons to pass on a property, and the earlier investors toss it back in the stream the sooner they can find the real gold.

Scenarios in which investors should walk away include:

- The deal doesn't directly help achieve your larger goals
- Unable to perform thorough due diligence
- Financing costs put you at risk or diminish returns too steeply
- Risks are too high
- Profit potential is purely based on speculation
- The numbers change for the worse
- You lack the experience or resources for the asset class or property type

If physical inspections aren't possible, and contractor estimates or title insurance[11] can't be secured, you're just asking for the worst case scenario by moving ahead. To ignore the results of your due diligence - or skip it all together can get unbelievably expensive. If the numbers are too thin at the beginning, they are only likely to get thinner later. That can mean negative cash flow, or having to pay money to get rid of a liability. That's no fun and it certainly breaks Buffett's golden rule, "Don't lose money."

Surprises can happen at closing too. Sorry to say, there are some bad seed lenders out there - and they will count on you not walking away from your deal. They may try to up their fees or change the terms at the last minute. Bad financing from any lender - reputable or not - can break a good deal. That extra thousand or two can rob you of cash flow or force you to make bad renovation decision. Sometimes you just have to walk.

In other cases, sellers will refuse to permit the walkthrough before closing, or an occupant isn't out. This presents massive legal and financial risks which most can't afford to take. There may be times when you have to bite bullet on a few thousand dollars in expenses already accrued, but that's likely better than taking on thousands in bad liabilities.

TAKING A HIT

If real estate investors make enough offers, and do enough deals, eventually most end up taking some hits. Just as it doesn't matter how great a boxer you are, if you get in the ring enough times someone is eventually going to get a punch in, or even beat you. That's only career ending if you give up, stay down, throw in the towel and retire. On the other hand: if you get back up, get in more punches than you take, and win more than you lose, you can still win in the real estate game for a long time.The key is minimizing those income hits. Sometimes it is a matter of blocking. In others it is stepping into the swing, to intercept the punch early, to take the power out of the hit.

Performing as much due diligence as early as you can, having strong contracts, a good corner person (attorney, coach or devil's advocate), and knowing when not to throw good money after bad are all ways to minimize damage. You may occasionally have to walk away from earnest money deposits and money invested in due diligence. That's a cost of doing business. Don't let it ruin your mindset. Learn from it, adjust your game, do better next time. It's a lot better to take a little jab and bruise to the ego than to get knocked flat out of the ring.

LIVE TO FIGHT ANOTHER DAY

Truly wealthy investors often make investment moves that seem overly cautious to new real estate investors. Why is this? Seasoned investors understand the importance of "living to fight another day." If you are still in the game - not over leveraged and not speculating, you can always make a comeback even after a stumble. In real estate investing, this means preserving your capital and credit to make further investments.

[11] Investopedia defines it this way: Insurance that covers the loss of an interest in a property due to legal defects and that is required if the property is under mortgage. Be aware there is title insurance for the lender and separate title insurance for the borrower.

> “THAT IS WHY, CONTRARY TO COMMON BELIEF, *savvy investors actually take very little risk.* THEY ANALYZE THEIR DEALS CAREFULLY, AND ONLY INVEST WHEN THEY FEEL *their capital is safe,* AND THE PROMISE OF REASONABLE RETURNS IS GOOD..”

So invest your time in due diligence upfront, don’t take bad deal just for the sake of doing a deal. Act decisively and wisely - working with facts - not emotions and misguided hope. The real heavy hitters - the leading investors differentiate themselves by being able to act quickly and decisively - and it’s all based on facts. It is said that the best decision you can make is the best choice, the second best is just to make a decision.

PLENTY OF FISH IN THE SEA

Know when to walk away from a bad real estate deal. And just as important, know that they are more deals out there. Don’t do deals just for the sake of doing a deal - do it for realizing profits and building wealth. There’s another house and another deal just around the corner.

TAKEAWAYS

List all the reasons that would prompt you personally to walk away from a potential deal. What are your deal breakers?

CHAPTER 23

PROGRAMMING THE GPS

Mapping your way to successfully funded, high profit real estate investment deals

You've got your eye on some potential real estate deals, and you've got an idea of the funding solutions you'd like to tap to bring it all together. But how do you point yourself in the right direction to get where you really want to go?

SUCCESSFULLY NAVIGATING THE ROAD TO REAL ESTATE RICHES

People get started in real estate investing typically because they have a desire to make money and create a lifestyle - and it can be done with great results. It's a matter of determining not only the destination but also the journey - how you'll get there. You can ask any successful investor - the journey (especially in real estate investing) is just as important as the destination. The day to day twists and turns are what make up life as a real estate investor.

So let's take a look at a what the real estate investing journey might look like. There are a lot of different ways to make money in real estate investing. Here's some of the most common:

Wholesaling - quick flipping contracts from the owner/seller to another investor with you acting as the middle man and earning a fee.

Fixing and Flipping - bringing a distressed property up to market standards and reselling for profit.

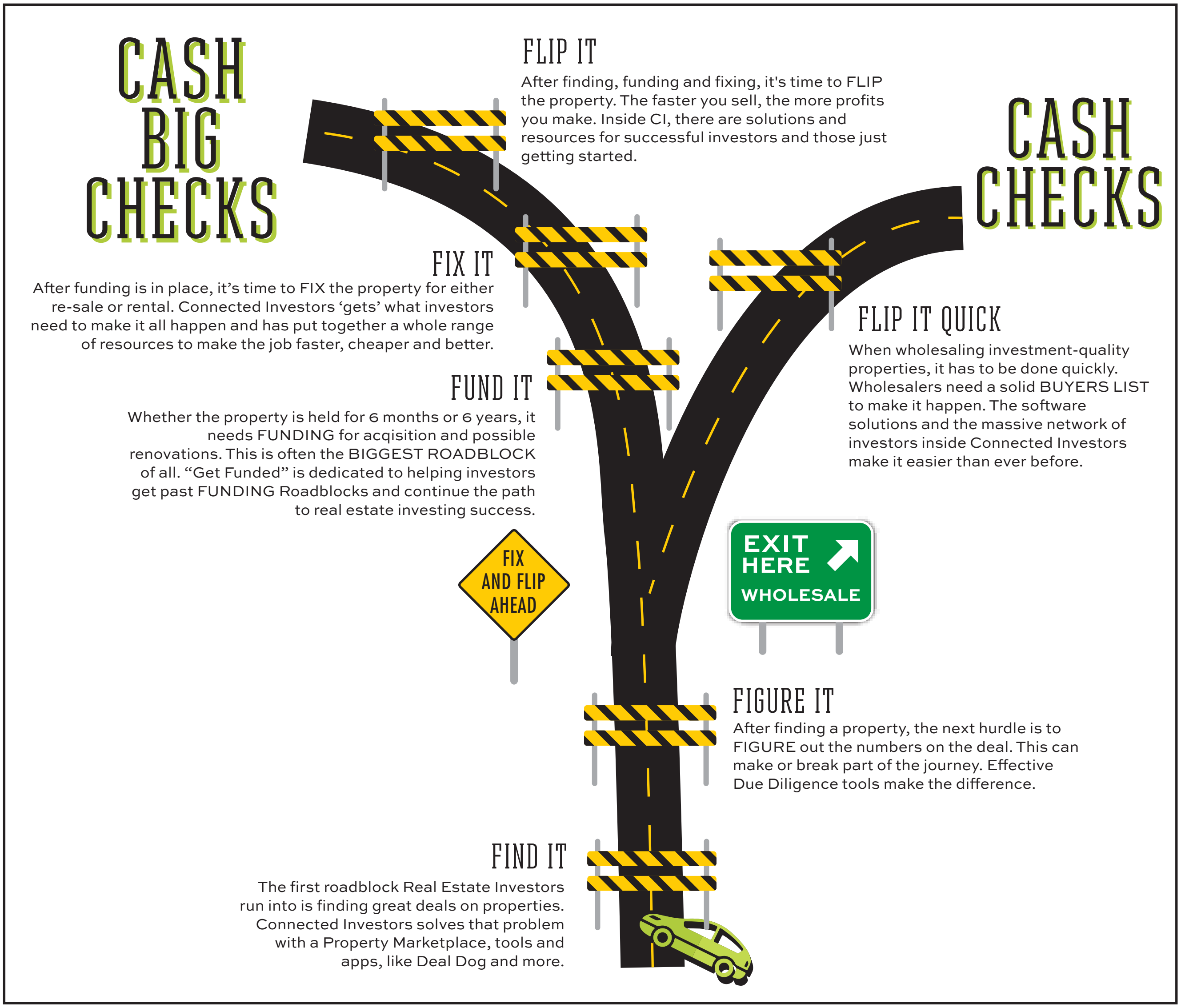
Buy and Hold - purchasing property for the expressed purpose of holding it to generate passive income.

THE BIG PICTURE

Because these three are the simplest to understand, we'll focus on them and how each is a unique journey that can take you to the same destination - making money and building wealth in real estate investing.

Let's take a look at the three major factors involved in investing - money, skills and time - and how each plays out for the investor in each niche.

AVOID REAL ESTATE INVESTING ROADBLOCKS



TO SEE A SHORT VIDEO ON HOW CONNECTED INVESTORS WORKS TO HELP INVESTORS BREAK THROUGH THE ROADBLOCKS ON THE WAY TO INVESTING SUCCESS, VISIT NEW.CONNECTEDINVESTORS.COM/ROADWAY.

As you're creating your real estate investing roadmap, it's a good idea to consider:

- How do the deals you are looking at fit into the big picture?
- What is it that you want them to do for you?
- How do they fit into your ideas of investing your time, money and skills?

If you have a lot of money but not a lot of time - buy and hold could be your thing. If you have more time than money - wholesaling could be the ideal gig for you. It pays to really take a close look at the personal commitment different investing strategies require and determine if it fits your ideals.

EXIT STRATEGIES

Having clear exit strategies is critical for any investor in any niche. Understanding and applying strategies that meet short-, mid- and long-term goals helps make determining your exits even easier. Experienced investors in all asset classes know that you have no business getting into an investment unless you've got a clear path out.

So what's the end game for the deal you are looking at right now?

- **Are you buying and holding?** What's your monthly income going to look like? How long will you keep the property and why? What will you do with the proceeds when you sell?
- **Are you fixing and flipping?** How long until you can cash out? What's the cost of your funding? What's your expected profit? What will you do with the proceeds? Is this something you want to do again and again?
- **Are you Wholesaling only?** How much in wholesale fees would you like to earn? How many leads do you need to make enough offers? What market will you target? What will you do with the money you make and are you willing to wash, rinse and repeat to keep the fees coming in?

If you are a fix and flip or buy and hold investor, you need access to funds to get you where you want to go. If you don't have a clear exit strategy that demonstrates expected returns and timelines for repayment, don't expect an easy road to funding.

In Chapter 16, we cover the types of funding and loan features that can best facilitate your exit strategy and big picture plan. Match those to lenders that offer the loan products are the foundation of the financial workings of your deal.

PLAN B - DEALING WITH DETOURS

It doesn't matter what business you're in, it's always smart to have a plan B. If there's one thing that's certain in life and in real estate, it's that things change. Your goals may change, market and neighborhood dynamics can change, and unforeseen events can put your plans into a complete 180.

Savvy real estate investors love deals that have multiple potential exit strategies. Lenders love when they pledge capital to fund a project that has multiple exit strategies. It dramatically reduces risk, and increases odds of success.

What are your exit strategies and alternate options in case you can't flip that house on the schedule you planned? Or that long term hold is impacted by outside factors?

10 DETOURS TO TAKE WHEN THINGS DON'T GO AS PLANNED:

1. Wholesale the property as-is
2. Clean it out and sell it as a handyman special
3. Bring in a partner
4. Rent instead of selling it
5. Lease it out short term via Airbnb
6. Convert condos to rentals, or rental to condos
7. Renovate instead of wholesaling it
8. Offer seller financing or lease options
9. Rezone the property to match highest and best use
10. Refinance

IMPORTANT CONSIDERATIONS FOR A SUCCESSFUL VENTURE

Consider where you really want your real estate investing to take you. It takes time, skills and funding. Map out where you want to go, how you want to get there, along with some potential alternative routes, possible detours, and shortcuts. Different strategies get different results and the steps in each is very different - but knowing this can help you determine the kind of investor you want to be and can drive your funding decisions from the first to the last property you ever purchase.

TAKEAWAYS

Revisit the Money, Skills, Time chart. When you think about these, which Strategy will work for you right now and why?

Which would you like to use 5 years from now and how do you plan to get there?

CHAPTER 24

WHAT COMES FIRST? THE DEAL OR THE DOLLARS?

Getting Ready to Be Ready

When it comes to real estate investment, funding is like your fuel. Funding keeps the deals going - whether it's fix and flip projects or long term holds for passive income. It pays to make sure you have not only enough funding but also the right kind to keep all your investment activities on track.

PUT THE HORSE BEFORE THE CART

It's the proverbial chicken and egg of real estate investment. So which needs to come first? In short, it depends.

> "DO YOU NEED *funding first,* OR A SIGNED PURCHASE ORDER FIRST? DO YOU NEED TO HAVE YOUR *financing in order* TO GO OUT AND MAKE PURCHASE OFFERS AND CUT REAL ESTATE DEALS? OR DO YOU NEED A *solid deal and exit strategy* TO GET A LOAN LINED UP?"

Confusing right? The truth is that you need a little of both. Some real estate agents and sellers won't even speak with you, never mind actually show you a property unless you have proof of funds to purchase, or are at least equipped with a mortgage pre-approval letter. At the same time it is difficult for a lender to give you a solid loan commitment with terms that will stick, unless they know the details of the transaction.

And when working with asset-based lenders, where the funding is based on the asset rather than the borrower, it gets even stickier.

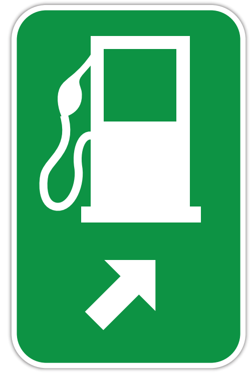
The best way forward is to obtain a preliminary mortgage funding approval based on your financial information, and general scenario.

> "LENDERS ARE USED TO *providing preliminary funding letters* FOR MAKING OFFERS. IF YOU'RE USING A *private money lender,* YOU CAN GET DOCUMENTATION FROM THEM - IT ALL DEPENDS ON *what the seller and the lender require.*"

Once you have at least a preliminary funding plan in place, then you can go out and make competitive offers with confidence. Once you have a signed contract, then you go back to your lender with all of the specifics, get the loan underwritten, and obtain a solid funding commitment.

So find several funding sources, and start the process, but before you do...

FIND THE RIGHT FUNDING SOURCES FOR YOUR DEALS



If funding is like the fuel for your real estate deals, it's important to pick the right kind of fuel. Put short term funding on a property that you hold long term can destroy your investment vehicle and your returns.

There are different funding sources specializing in different types of financing. Short-term, long-term, income-based, equity-based: there are lots of different funding options. You have to go to the right lender to get the right fuel for your real estate investment based on where you plan to take it...

For example, if you walk into a bank and say you want a loan with no credit check to buy a distressed property, and oh, you want money to fix it up, too - what do think will happen? Most likely they'll smile and show you the door. Take the same deal somewhere else (to an asset-based lender - i.e., the right kind of lender) and that lender might work aggressively to help you get it closed.

How do you know what kind of lender will meet your needs? It really depends on your plans for the property and how long you need the money in play.

Short-term Funding - This is what a lot of house flippers use. Often called hard money, the loan terms are usually less than one year and typically come with higher rates and fees. Easier to qualify for, they are usually entirely asset-based - meaning the loan is qualified based on the property, not on the borrower (you). The higher cost of borrowing is calculated into the deal - if the numbers work, this type of funding can be a good option. Short term funding is used for all kinds of properties - single family, multi-units, commercial and land deals, and is often used to bridge the funding from the initial acquisition into more permanent financing.

Mid-term Funding - This is great for properties you sell on lease option or plan to hold as a rental for less than 8-10 years. Some commercial lenders and many private money lenders prefer to fund these types of properties. They get a better than average rates but not as much as hard money. Their investment is secured by an income producing asset and they earn secured, steady interest income.

Long-term Funding - If you plan to hold a property for the long run, then you need a long term financing sources. FHA Lending guidelines seem to change every six months - and for the real estate investor, securing multiple loans is for single family properties can be a wild goose chase if you look for conventional funding. But it is possible to find a reliable funding source - typically a local portfolio lender. For multifamily and commercial properties, long term funding is based on the property's income - and the capacity for the property to generate cash flow.

Regardless of your source of funding, make sure the property and the plans you have for it are supported by solid plan for the financing. Having a loan called due when you don't have a good exit laid out is a certain fast track to major setbacks and even failure.

WHAT YOU NEED TO GET GOING

- Depending on the type of transaction you are working, you may need:
- Deposit money
- Funds to cover due diligence
- Proof of funds letters
- Closing costs
- Renovation and upfit money.

You may also need to plan enough cash and credit to cover holding costs, marketing, and a cushion for reserves. Balloon loans and adjustable rate mortgages can be popular in some niches - but again, proceed with caution on these types of loans. A balloon payment on a loan when an investor is not prepared to pay it off can immediately steer you off course and turn a great property into a train wreck.

Funding really is like fuel for an investor - and just like any road trip, give yourself enough gas in case of detours or delays. They will happen. In these situations, it may be worth exploring single close construction to perm loans, or mini-perms, as well as flexible credit lines based on your overall portfolio equity and net worth.

Longevity as an investor requires informed choices about funding sources, funding types, and the right funding applied to the right property and situation. Funding is the fuel that can propel an investor forward but if used haphazardly, it can have the opposite effect. Develop relationships with private lenders, get to know funding sources for your property types and go into each deal with a solid plan for capital to underpin the property and project.

TAKEAWAYS

In the last chapter, you identified Strategies to use in your real estate investing. What types of funding will you need to make it all happen?

We identified 8 things you need to get going. Of those, which do you have?

Now, list the things you don't have and what steps you can take to get them.

CHAPTER 25

PREPARING TO GET YOUR LOAN FUNDED

Failing to Plan is Planning to Fail

You've located a great property, you've run the numbers and completed your due diligence. You've decided to go it alone or bring in a partner and sourced your down payment. Now it's time to get your deal funded.

PLANNING FOR SUCCESS

So what steps do real estate investors need to take in order to be prepared to successfully and expediently get funded? This is a broad overview - then we'll dig into the details.

1. Know what you'll need to fund your deal
2. Know the forms you'll be expected to sign and what they mean
3. Anticipate what your lender may demand
4. Understand the common issues, and how to stay ahead of them

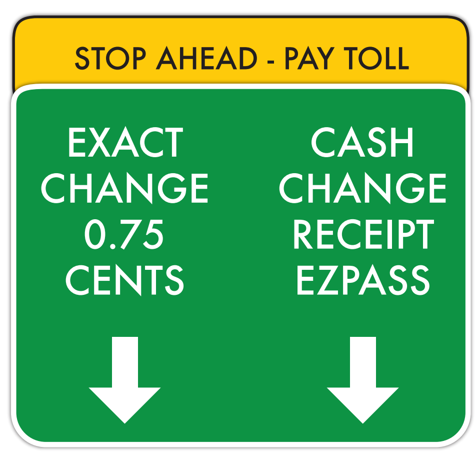
> "WE ALL KNOW THE SAYING *"failing to plan is planning to fail."* THIS IS NEVER TRUER THAN IT COMES TO *getting a real estate deal funded.*"

WHAT YOU NEED TO FUND YOUR DEAL

Each lender and loan scenario will have specific criteria and demands, but there are essentials that will apply to every loan.

This includes:

- Valid ID for closing the loan
- Social security number or tax ID number
- Valid real estate contract (for purchases)
- Insurable title
- Title insurance (with lender mortgagee clause)
- Property insurance



And last bet never least, especially in the eyes of the lender is CASH. Lenders require that you have "skin in the game" and for the most part the notion of "no money down" is merely a way of saying none of YOUR money down. We cover this topic more in Chapter 12.

Depending on the property type, the loan and the lender, some typical items that may be required include:

- Credit checks
- Property appraisals
- Income verification or rent rolls
- Scope of work and budgets for remodels and upfits
- Asset verification

Lenders won't ask for all of this upfront, but the more you can provide earlier, the smoother the process will be and the fewer unpleasant surprises along the way. While is it often tempting to go the route requiring the least documentation (and can sometimes be best), it can also pay to provide more information in exchange for better rates and terms.

MORTGAGE FORMS AND DOCUMENTS

What are the most important forms and documents real estate investors will encounter in the process of getting financing?

LOAN APPLICATIONS

The form real estate loan applications take can vary widely depending on the lender and type of loan being applied for. This may take the form of the standard Fannie Mae residential home application. It could be a short online form or lenders may expect borrowers to lead in with an executive summary.

An executive summary is a simple 2-3 page document that outlines the opportunity, who's involved in the execution of the deal and the loan request. A good executive summary should include:

- Property details (description, market conditions, as-is and ARV projections)
- Transaction details
- Profile of the principals and management team
- Project description - acquisition and exit, anticipated returns, how it will be executed
- Loan request including terms and plans for servicing debt

These all lay out the specifics of the transaction, and as much personal or business financial information as is required by the lender for the specific loan program.

SCOPE OF WORK

If there are repairs, renovations, or construction work involved, your scope of work will play a significant role in moving your loan forward. Both lenders and appraisers will use this document to assess the ultimate value of the property, how much to loan, and when. Make sure this document is thorough, accurate and realistic.

CLOSING DOCUMENTS

The closing documents are really the most important in the whole process today. The previous documents may dictate whether you will make it to the closing, but don't underestimate this part of the transaction.

These documents lay out the final terms of your loan and transaction. That means how much you need to close, the interest rate, payments, loan term, and more. This collection of documents also includes a hefty variety of disclosures. As mind numbing and time consuming as it may be, read all of the fine print, and ask questions until you get it. Do not sign anything unless it is 100% accurate. This where having a solid relationship with your closing attorney or title office is critical.

QUICK TIPS FOR SETTING UP A SMOOTH FUNDING PROCESS

1. Read your forms and documents in advance until you are comfortable with them
2. Request a funding checklist of all the items your lender needs to close
3. Anticipate potential lender demands and have the paperwork ready
4. Return requested documents ASAP
5. Get due diligence items completed immediately
6. Appoint someone to manage the transaction (i.e. Realtor, mortgage broker, assistant)
7. Agree on updates and timelines in advance so you aren't panicking or slowing down the process with non-stop calls and messages
8. Focus on developing relationships with lenders that are excited about doing business with you, and that will facilitate an easy process for repeat deals

The more you are prepared with knowledge going in, the smoother your venture will go. Be ready with the paperwork you need, and watch all the fine print. Then set up a process that will ensure speedy progress to real estate closing after closing. Once you've closed a few transactions, the process become less intimidating and you'll have a foundation for setting yourself up for success.

IN THE RESOURCE GUIDE, WE'VE INCLUDED A CHECKLIST AND OTHER RESOURCES TO HELP YOU PREPARE TO GET YOUR PROPERTY OR PROJECT FUNDED USING A HARD MONEY LENDER.

TAKEAWAYS

Make a list of everything you need to close a loan. Then, combine your list with the Checklist in the Resource Guide and your lender's requirements. Use this as a Master List as you begin to close more loans.

CHAPTER 26

WHO TO TAKE WITH YOU

The Real Estate Professionals You Need to Close the Deal

Who are the real estate professionals most investors need to get their deals closed? Whether it's locating investment quality properties or closing the deal, the team you surround yourself with are an important part of your business.

7 REAL ESTATE PROS TO HAVE ON YOUR SIDE

Realtors

> "THEY SAY *your network is your net worth* - AND THIS IS ESPECIALLY TRUE IN *real estate investing.*"

It was a competitive relationship, but now many real estate agents and investors have discovered the benefits of working together. Realtors now realize that investors buy multiple properties and they buy properties that most other buyers don't want. And investors realize that brokers have access to networks, relationships and information that is of mutual benefit. Real estate may be seen as a "properties business" - but when the rubber hits the road, it's a people business.

Mortgage Professionals and Private Money Lenders

Just as important - the relationship you build with potential lenders. Nearly every aspect of real estate investing is relationship-based - so the more relationships you can build with those with capital to invest, the better. Even if you are sourcing real estate investment capital and mortgage loans online, relationships matter. The team involved, the individuals you communicate with, and the processors who work your files are essential to your success.

Streamlining your loan requests to closing, and getting those difficult deals past quirky underwriting processes often relies on having a skilled loan officer, that you can actually build a relationship with. If you can build that connection they'll go the extra mile for you to ensure easy processing, on time closings, and great deals, again and again. When it comes to private money lenders, the relationship is typically built prior to ever putting a funding request in front of them, but that's not always the case. Regardless, investors are well served to treat their funding relationships with the utmost care.

Title Company Reps

Title searches and are a key part of real estate and protect in the event of some sort of cloud on the title[12]. Your title company rep is more than just a salesperson or someone you hire to do research. They are a gateway to many auxiliary services. Build a good relationship here, so they go the extra mile in resolving title issues before they threaten to derail your deals. Title company reps can also offer you property leads, help make the numbers work at closing, and to connect you with real estate attorneys for help in negotiating liens, contract terms, and other items.

[12] Cloud on the Title Defined - http://thelawdictionary.org/cloud-on-title/

Insurance Agents

Insurance may be about as much fun as taxes, but it is one of those must-haves. A good insurance contact will help minimize premiums, maximize coverage, and sometimes most importantly: get the work done fast so you can close. Investors are well-served to work with agents experienced in rentals, rehab projects and commercial property. It pays to network with other investors and find out who they use for each property type.

Real Estate Attorneys

A real estate attorney is an essential member of any real estate investor's team. Contract issues will happen, deposit disputes will arise, tenant problems will come up - the list of "could happens" is exhaustive and every investor must develop a relationship with a local attorney to help them navigate the legal waters of investment real estate. If you don't know a credible real estate attorney, trust that your fellow investors and local REIA members do. Ask for referrals rather than simply relying on web search. This is an important relationship and you want someone who knows the ropes of investment real estate.

Inspectors

Some investors do their own property inspections - their years of experience has made a basic inspection fairly routine. But there are situations that require the services of a licensed inspector.

If you are a new investor, you can learn a tremendous amount from an inspector. Look for one that will welcome your presence during the inspection (not all do, so developing that relationship is important). Overall, inspector relationships can be even more important in some cases due to the short inspection period. You may have 30 to 45 days to close, but only 3 to 10 days to inspect the property and negotiate repairs or request your deposit money back. If you can't get an inspector out in that time frame a lot of money, and other relationships can be on the line. Then of course there is the need for accurate evaluations of acquisitions too. And you may have more than one inspector relationship. You may need a basic home inspector for single family properties, another capable of environment inspections on commercial properties, and good contacts for getting inspections passed on renovation and building projects.

Closers - The Paralegals

Many people agree that closers are often the most vital, yet most undervalued professional in the real estate transaction. Sometimes the closer will also be your title company rep, but not always - your closer may also work for your real estate attorney and is often paralegal. The closer works to ensure the deal gets closed on time, even if all the Realtors, mortgage company contacts, and others are unreachable.

Depending on the nature of your real estate investment business, you will need a variety of team members to make your mission a reality. As you choose the people you want to work with, be cautious - get referrals, take the time to vet them and look for those whose work style matches your own. Building a quality team can take time and you should expect it to be a process of trial and error - but in the end, the time and effort are a great pay off.

TAKEAWAYS

Start building your team now. Make a list of each of the pros identified above. Beside each, list either:

a. A pro already in your network, -or-

b. Someone who can provide you with a referral.

CHAPTER 27

ESTIMATING YOUR TIME OF ARRIVAL

How Long Will it Take to Close My Real Estate Deal?

How long does it take to fund and close a real estate deal? And what can real estate investors do to streamline the process?

Real estate closings and in particular, financed acquisitions can be tricky. Yet, being able to count on a closing is crucial for real estate investors who want to keep consistent deal flow and a solid reputation. So how can investors successfully navigate the common roadblocks?

> "REAL ESTATE CLOSINGS AND IN PARTICULAR, *financed acquisitions*, CAN BE TRICKY. YET BEING ABLE TO COUNT ON A CLOSING IS CRUCIAL FOR REAL ESTATE INVESTORS WHO *what to keep consistent deal flow and a solid reputation.* SO HOW CAN INVESTORS *successfully navigate* THE COMMON ROADBLOCKS?"

HOW LONG WILL IT TAKE TO CLOSE?

Before digging into this, it can be helpful to go back and remember your 'GPS' - the big picture real estate investing game plan . Real estate investment, like wealth building in general, is a marathon, not a sprint. Each deal should fit in and propel you toward your overall mission. But there will be moments to sprint - and closings are often sprint time.

You want to be able to make offers fast, close fast, and resell or lease fast. But with so many moving parts, closings take time and attention. You'll run into sellers who don't want to close for a month or two. Others are under serious pressure to close immediately. Regardless, it is crucial to allow yourself enough time to close - otherwise you risk your reputation, the opportunity, and any deposit you have made.

While some investor buyers as well as lenders, advertise being able to close in as little as 3 days, this is more a rarity, than reality. For the cash investor, it is possible to close in 3 days - and it's also possible if you're using a private money lender with whom you have a prior relationship and track record of success.

But when you're looking for institutional funding - like found on CiX.com, the safer bet is a ten-day closing which entirely possible - when you have your ducks in a row and come in well prepared.

Often, it's the small things that can take time. And they can add up. That doesn't account for any hiccups either. Title and insurance can take a couple days. Sometimes appraisers are backed up at least a couple weeks. Then there may be holidays or non-business days which can slow things down. What if your loan processor gets sick and has to pass your file to someone else?

For more traditional lending sources like a local bank, 45 days is now seen as the standard and provides a more realistic and comfortable timeline.

THE STEPS INVOLVED IN CLOSING A REAL ESTATE DEAL

After getting preapproved for financing and screening potential deals, getting to closing requires:

1. Making your offer and negotiating the contract
2. Making your formal loan application
3. Commissioning due diligence items (inspections, quotes, appraisals)
4. Obtaining insurances and any necessary approvals
5. Satisfying any underwriting conditions
6. Coordinating the closing
7. Finalizing the closing, title exchange and funding

THINGS THAT WILL SLOW YOU DOWN

Crying Wolf - Rushing Your Vendors Unnecessarily

All of the steps above are "sprints." And they must be given enough time to be completed. If every single one of your deals is an urgent "rush" for your vendors and partners, you risk burning them out and lose credibility. Allow them time to do their jobs well while still getting the job done. Build relationships, and try to reserve the big favors for when you really need them.

Busy Markets

Sometimes delays are simply a matter of the market being overwhelmed with volume. Appraisers, inspectors, and contractors can sometimes be backed up for weeks. These "must-do" items can hold back underwriting of loans. This doesn't mean to avoid these markets, but it is important to be alert to current turnaround times, and make sure your contracts and closing dates accommodate them.

Inexperienced Partners and Vendors

What really slows down the loan process and closings more than anything is a vendor that fails to alert you to potential issues immediately. In a busy market, it may that they are just busy themselves. In others, it's lack of experience. They don't recognize potential problems in advance. This is especially true when it comes to appraisals, title, and contractors. Waiting until the day of closing to tell you an ex-spouse of the seller needs to be hunted down to agree and sign the contract from another state just isn't cool. You need professionals that know the business and lender's requirements and that will be proactive about keeping your deals moving.

Chain Transactions

Having multiple deals lined up is great. However, having multiple deals relying on each other to close can be risky. If you are waiting on one closing to fund the down payment on a another property, there is a lot that can go wrong. The more links in the chain, the more likely there will be delays. Try to line up additional sources of capital and credit lines to ensure you can close, even if there are delays.

When You Close - Watch the Calendar

Friday afternoon, the end of the month, and during any holiday can be tough times to close. They are just prone to issues. And delays can then run days or weeks longer versus a matter of hours. When you schedule your closing, be sure to ask the closer or scheduler about any upcoming calendar gotchas that could send your deal into a tailspin.

THREE ROADBLOCKS TO WATCH FOR

1. Lender Timelines

It is important for real estate investors to understand lender timelines. Know how long it takes for loans to:

- Get through Processing - the loan application and related documentation
- Move through Underwriting - the lender assesses risk of writing the loan
- How long it takes for conditions to be cleared
- Receive a solid loan commitment
- Prepare the approved loans for closing

For example, once loan conditions are sent in it may take at least 48 business hours to sign off on them (if they are accepted). Then it can take another couple days after final approval to get to clear to close status. And then another 3 to actually get to funding. Get to know your lender's processes so you can be prepared for any detours.

2. Keep the Pressure On

While putting an extended closing date on your contract can theoretically give you more cushion, it can also leave others slacking. They are working on files in order of priority by closing. But you don't want your file collecting dust for a month before even being looked at. Make sure to keep the pressure on, and ensure consistent progress is being made. In addition, the introduction of TRID[13] in 2015 changed the way lenders and closing attorneys process and fund loans. Be sure your team is well aware of new guidelines and processes so you're not caught unaware.

3. It's Not Closed Until it's Funded (and then some)

"Don't count your chickens until they've hatched." Don't count on the money until it is not just closed, but you've got the money in your hand. And note that in fraudulent deals, money can still get yanked back.

PREPARING FOR CLOSING DAY

Ensuring smooth sailing through the closing requires being prepared for the closing. That means making sure your ID is valid, you have the cash available to close, and all parties are free to sign.

Savvy investors also recognize that actually converting an acquisition into profit also requires renting or reselling. The faster that is arranged, the faster returns actually happen. So make sure property management, renovation teams, the marketing team and collateral are already to go on the day of closing.

[13] TRID defines the closing process for mortgage loans. See more at https://www.usbank.com/content/mortgage_brokers/docs/pdfs/TRID_Basics.pdf

Be sure you have a system for keeping documents stored and ready for issues. And after closing, don't forget the thank you cards and gifts for building those relationships.

Going even further: document your takeaways from each transaction. What went well? What could have been done better? Many seasoned investors we've talked to wish they had kept "what happened" notes to help them learn from past closings to improve future ones as well.

TAKEAWAYS

What are the key actions you can take to assure a smooth and timely closing?

CHAPTER 28

AVOIDING COSTLY BORROWING MISTAKES

It Pays to Understand the Underlying Costs of Funding

When it comes to accurately estimating your real estate deal costs, you've got to avoid omitting costs that you may not have considered. Optimizing per deal, annual, and lifetime profit from real estate is just as much about avoiding costly transactional blunders as it is making the big bucks. So what should investors pay specific attention to in order to minimize losses and waste?

EARNEST MONEY DEPOSITS

Deposits represent one of the biggest risks to investors, and one of the most common ways to lose money. There are three parts to protecting your deposit money:

1. Where your deposit money is held
2. The strength of your purchase contract
3. How effectively investors live up to contract terms

DEPOSIT SMARTS

Obviously the smaller the deposit a buyer makes on a offer to purchase, the lower the financial risk. Of course, sellers know this, and they and their agents will try and secure the biggest deposit possible. The hotter the market, the more negotiating power the selling side has and ultimately can impact the required deposit to lock down a deal. Decide in advance of negotiations how much you are willing to risk for this deal and opportunity. Avoid "auction fever" when bidding on properties that have multiple offers and require highest and best offers with high deposit requirements.

WHO HOLDS THE DEPOSIT MONEY?

The designated holder of earnest money deposit is one of the most pivotal parts of this risk equation. It is the seller and selling agent's intention to get the deposit money locked down. At a minimum they'll request that it is deposited in their real estate broker's escrow account. Investors must be aware that this is the equivalent of saying goodbye to the money in the event the contract falls apart.

When things go well, it will be credited at closing. If the contract falls apart, often it isn't easy to get back. Simply disputing the escrowed money, a seller and agent can effectively tie up your cash. In some cases, you can burn more in time and legal fees than you would have lost by letting earnest money go. In these cases, you've got to know when to stop throwing time and money away.

To avoid this, whenever possible all earnest money deposits should be made with your own real estate attorney or trusted title company. This ensures the money is being managed by someone on your side.

REAL ESTATE CONTRACT CONTINGENCIES

A well written real estate purchase contract provides great protection for your earnest money deposit. This is the document which provides the contingencies under which you can back out of the contract and are eligible to get your deposit back.

Expect sellers and their agents to push back on contingencies in order to tie you in, and guarantee they'll at least walk with your deposit money. Be wise. Give yourself outs and give yourself plenty of time for due diligence.

Common contingencies savvy investors use to protect themselves include appraisal contingencies, financing contingencies, and inspection contingencies.

That means if you as the buyer can't get the financing you hoped, property inspections uncover bigger issues than you budgeted for, or the property doesn't appraise for as much as you thought, you can choose to walk away and get your deposit back - or renegotiate.

Note that most of these items are extremely time sensitive. You must be sure that you can get an inspector and appraiser out, and get financing within the allotted time, or you could lose the deal and your money. Check on vendors' current timelines before inking the contract.

BEWARE OF DUE DILIGENCE COSTS

Due diligence is critical. However, this can also be an area that can burn a lot of working capital. Given the risks to deposits, and the stubbornness of some sellers and real estate agents to grant terms, some due diligence can be done upfront. Other due diligence is done only after a contract is signed without the investor having the real, hard the numbers on the deal.

If you end up spending money on multiple inspections or environmental reports, and multiple appraisals and title searches - all before closing on one deal - that equals net profits that effectively come out of that one deal.

Savvy investors know their local markets intimately, and do as much preliminary due diligence as they can for free online, and by calling their preferred vendors before getting locked in.

BUYING PROPERTY SIGHT UNSEEN

Investing in an out of area property without physically walking it first is commonplace in busy real estate times. This is true of auction properties, third party deals out of state, and even local deals when in a hurry. Sometimes these deals turn out to be incredibly profitable. But it is a big risk. There are many factors that can impact value and costs. Make no assumptions. For example, photos can miss that wiring or connections for major appliances is outdated. Find that out after closing and you're looking at thousands of dollars in contractor work to rewire the property. What if a single street view was missed and it is a commercial building? Many lenders won't make residential loans on properties that may be considered to be in commercial areas.

To make a safe out of area investment, it pays to use a service like the Connected Investors BPO app[14], that for a fee, sends a professional to the subject property to give a valuation and property report. And sometimes, this alone is not enough - investors are well served to hire a local inspector to give the property a once over - in fact, it may even be a lender requirement - to assure that due diligence was performed on the property and project and property planning are well executed.

SABOTAGING YOUR LOAN APPLICATION

There are a number of very expensive mistakes that investors can make that have the potential to derail their loan applications, or that result in inferior terms when it comes to closing time.

These items include:

- Applying for any other credit
- Having too many lenders check your credit
- Increasing debt balances and payments
- Quitting a job
- Failing to maintain a paper trail of money being moved around
- Skipping payments
- Executing new deals that impact your loan currently in consideration

It is traditional that lenders and other parties will perform last minutes checks on the day of closing to verify all of the loan information is still accurate. This includes employment, status of corporate entities, income, credit scores and more.

TITLE AND LIEN SEARCHES

Title and lien searches should be updated the day of closing. It is crucial that no new potential liens are levied against the property which could add to your debt, ability to resell, or impact your ownership rights. A good title company should have you covered here.

You might not always like what they find, but it is in your best interest. For this reason among many others, it is absolutely vital that investors find a reputable and trustworthy title company or closing attorney that is committed to doing business right. It is better to pay a little more for a good title partner than risk the costs of working with a “get what you pay for” provider.

In the downturn of the early part of the 2000s, some title companies failed to pay off mortgages, didn’t pay property taxes for which they collected escrow money, and some were even raided by the FBI - wreaking havoc with all of their client’s files and properties.

[14] Available at http://new.connectedinvestors.com/bpo

ACCURATELY FORECASTING CLOSING TIMEFRAMES FOR YOUR DEALS

Missing closing dates is consistently one of the most expensive challenges for real estate investors. If you don't close on schedule your earnest money deposit is effectively forfeited to the seller. Loan rate locks could expire, interest rates could go up, and other issues will arise.

Don't miss your closing date. It's got a snowball effect and when you are in the midst of a closing, it pays to check and double check that all the moving parts are doing exactly that - moving toward the closing.

Give your deal plenty of time to close. Know how long it is taking your lender to close on your type of transaction, and add some time padding to that. Hard money loans may close very quickly. But conventional residential home loans, and commercial real estate loans can take a lot longer. This can also vary depending on the market and season you are trying to close.

Due to the new TILA RESPA Integrated Disclosure (TRID) Rules implemented in October 2015, the National Association of Realtors (NAR) has recommended allowing at least 45 days from contract to close, versus the previous 30 days. The head of the Mortgage Bankers Association heralds the new TRID rules as one of the biggest changes to disrupt the industry which will affect every single lender, Realtor, investor and consumer involved.

The most notable element of the new TRID rules is a 3 day waiting period between the final terms being presented and actual completion of the transaction. There is a danger that some will encounter a vicious cycle where this 3 day period resets several times causing far more extensive delays. Watch out for it and as always, be prepared.

FAILURE TO HIT THE GROUND RUNNING

Every day an investor holds a property it means money. Most significantly, it means holding costs. The day you get the keys, contractor teams should be on the job, and marketing for tenants or resale should be in the works.

There are plenty of expenses involved in buying real estate. There is also plenty investors can do to minimize costs and avoid losses. Use this section as a checklist to slash waste and maximize profit potential. Make sure you have a great attorney on retainer. Commit to operating efficiently.

TAKEAWAYS

What are the key actions you can take to assure a smooth and timely closing?

CHAPTER 29

INVESTMENT PROPERTY LOANS: EVERYTHING IS NEGOTIABLE, RIGHT? USING LEVERAGE

The Toll Booth – How Much Will it Cost to get Your Deal Funded?

Financial leverage is the ultimate power tool for real estate investors, but there are costs of borrowing. So how much does it cost to get funded? How can investors reduce those costs of doing business?

THE POWER OF LEVERAGE

We're all well aware of the dangers of over-leverage or borrowing from notorious Hollywood-style loan sharks. Yet, there is no denying that financial leverage is a critical part of real estate investing, personal income and wealth building.

The advantages of leverage include:

- Being able to invest in better quality properties and deals
- Investing for higher returns
- Enabling diversification
- Reducing risk
- Propelling gains and goals

> "*The alternative to leverage?* WOULD-BE INVESTORS PUT OFF INVESTING FOR YEARS, OR DECIDE TO USE ALL CASH. DURING THAT TIME, THAT CASH IS DEVALUING DUE TO INFLATION, *while property prices are often accelerating.* IT CAN BE A ZERO SUM GAIN - *until you utilize smart leverage* TO GET MORE DEALS DONE."

The investor that leverages an additional $1 million in real estate today, and who is able to achieve just an average net return of 7.5% over the next 10 years would pocket an extra $1,061,031.56, thanks to compounding returns. Not too shabby, right?

Those results can always be scaled in volume, and time too. You can use online compound interest calculators like Moneychimp to play with the numbers yourself.

BORROWING COSTS + INVESTMENT STRATEGY

Borrowing the money to leverage real estate costs money. That's how make their money so that they can stay around and help you on future deals. The truly wealthy and savvy investors understand this. They actually want their vendors, partners, and lenders to be fairly compensated. They get the value in this in paying their vendors and partners a fair share.

However, the wealthy and successful are also known for being prudent with their financial choices. That means not unnecessarily overpaying. Financial icon Warren Buffett famously quote this in it's simplest terms, "Don't lose money." We'll look at some of the borrowing costs that you can (and should) negotiate and save on. What's most important before negotiating and shopping around for capital is to understand your goals, and what type of borrowing strategy best aligns with your real estate investment strategy and goals.

There are four ways to strategize your funding costs:

1. Weighing higher upfront costs with lower costs later
2. Postponing costs until later
3. Prioritizing lower payments and cash flow versus cost
4. Focusing on reducing total net borrowing costs

The approach in you choose depends on your resources and the types of deals you are doing. For example, hard money may appear more expensive, but if it allows investors to gain better deals it may not mean a significant net hit. Rental property investors may seek lower payments to maximize cash flow. Others just need to maximize financing upfront so that they can generate larger sums later.

COMMON BORROWING COSTS AND FEES

Common costs associated with investment property loans include:

- Interest payments
- Prepayment penalties (in some states)
- Mortgage insurance
- Title insurance
- Property insurances
- Origination fees
- Points
- Application fees
- Underwriting fees
- Credit report fees
- Recording fees
- Transfer and sales taxes
- Prorated property taxes upfront

INFORMATION

NOTE THAT THE FORMS USED TO PRESENT THESE FEES AND COSTS CHANGED IN OCTOBER 2015. FAMILIARIZE YOURSELF WITH THE NEW LOAN ESTIMATE AND CLOSING DISCLOSURE FORMS (TRID) AVAILABLE AT CONSUMERFINANCE.GOV.

Some of these costs are directly related to the loan and are lender fees. Others are third party fees such as title and insurance costs. Others are local government fees, i.e. taxes and recording fees.

EVERYTHING IS NEGOTIABLE, RIGHT?

Yes, and no. Some costs, like government taxes, are hard costs. While you can't negotiate the government fees, you can negotiate for your seller or buyer to pay them. Fees like lender points are more flexible. Everything is negotiable in the essence of who pays what - and how much. So yes, everything is negotiate in some sense. However, your lender and other vendors will certainly have minimums they need to meet.

In most cases it is pretty easy to get lenders to shift costs around to meet your needs. This is how ‘no closing cost’ loans are possible. It doesn’t mean they are free. It just means that they may absorb some of the upfront charges by rolling them into the loan and charging more interest. Those that want to pay less each month may choose to pay more points to reduce interest, and monthly payments.

Use your Loan Estimate from your lender to shop and compare loan quotes with other lenders. Note that the Annual Percentage Rate (APR) figure is normally the most significant in accurately comparing loan quotes and the true total cost of borrowing. Yet, you can’t afford not to make sure prepayment penalties, terms, and other factors are equal as well.

NEGOTIATING SMARTS

It never hurts to ask your loan officer if they can “do a little better,” or drop a certain fee. Often that’s all it takes. However, investors must also know when to stop. If you’ve got a great loan officer, good lender, and a good loan offer that you can make work – go with the flow!

Prospective borrowers can absolutely go too far in negotiating. There is definitely a point at which the lender will no longer deem it is worth winning your business or closing your loan. Beyond the risk of lending to you, and the other borrowers out there that may be willing to pay more for the money, and with less hassle, it takes a lot of people a lot of hours to work to get your loan funded. Would you flip houses or rent properties out for free? No one can afford to keep doing that.

It is also critical to note that in most cases speed, closing on time, and just actually getting your loan closed is probably worth more than spending more hours trying to shave another $100 off of an already great loan offer. So try to get slightly reduced lender fees, and work with title and insurance companies to knock off a few bucks where you can too. But know when you’ve got a good deal that you don’t want to blow.

Quick Tips for Negotiating Better Loan Deals:

1. Talk to your loan officer about your goals and needs, and find out how they can arrange the terms to best suit you
2. Make sure you are comparing quotes in an apples to apples way
3. Always ask “can you do any better?”
4. Know when to take a good deal

TAKEAWAYS

Prepare to fund your next property. Make a list of common lender fees. Then, do some preliminary research to get estimated costs for each. Use this same list as a checklist when you are comparing loan costs.

CHAPTER 30

HOW TO CHOOSE THE BEST FUNDING AND INVESTMENT PROPERTY LENDER TO MEET YOUR NEEDS

Taking Different Paths to Reach the Same Destination

Despite what most people think, there are a lot of investment property lenders out there. Billions of dollars have poured into private and hard money – and that capital is readily available for the average investor to fund projects of all kinds. So how do real estate investors choose the best ones to work with? Why not just settle in and work with one lender?

All lenders offer financial leverage that may be used to take you to your goals. And building relationships with mortgage lenders and capital sources is important, but there are many choices, and sometimes it is not only wise, but necessary to shake things up. So when is it time to bond with a lender? Break up with one? Mix it up?

PICKING THE RIGHT LENDER FOR YOUR PROJECT

Investors often find themselves switching their game plan due to personal goals or market changes. Or they adopt new strategies as they progress over the course of their investment lifetime. Get to know the right funding for your investment type and shop the best lenders to meet your particular needs.

For a number of reasons it is often unrealistic to use the same lender for every deal that you'll ever do. You may use the same loan broker or lending portal, but the individual financiers will almost certainly differ over time and between transactions.

Five scenarios that demand multiple lenders:

1. Really big deals
2. When switching between strategies with the same property
3. Engaging in different real estate investment strategies
4. Investing in different geographic locations
5. When reaching lenders limits

Different types of lending sources:

- Conventional banks
- Credit unions
- Crowdfunding
- Hard money lenders
- Private mortgage lenders
- Land loan specialists
- Rehab lenders
- Business loan lenders
- Equipment financing lenders
- Seller financing
- Construction loan lenders
- Transactional lenders

It's not uncommon for bigger deals to require a variety of funding including the investor's own cash combined with commercial lender loans, or even crowdfunding. In the case of a fix and hold, a hard money loan may be used to acquire the property and obtain rehab funds. After work is complete the property may be refinanced on more attractive terms on a long term loan.

Regardless of strategy, geography, experience and other factors, many lenders have restrictions on loans they will underwrite for a single borrower included the number of loans, or dollar limit in order to limit their exposure to loss.

THE IMPORTANCE OF INVESTOR-LENDER RELATIONSHIPS

Even though it pays to work with multiple lenders, relationships are important. Relationships with lenders, loan officers, and other vendors can make all the difference in getting real estate deals done, and also getting better deals, improving your investment performance and gaining a competitive advantage in the marketplace.

Once you have some deal volume, investors are flooded with offers of credit, and even have competing lender and title reps stopping by to take you to lunch or happy hour – all in an effort to win your business. Remember, they need investors as much as investors need them. But until then, it's on you as the investor to do a lot of the relationship building.

Making the effort to build relationships has a great payoff. You know what they say – "your network is your net worth" and your network can carry a ton of weight when it comes to getting better terms and loan deals, getting rushed files closed on time, and shuffling closing fees to make the numbers work at closing.

DON'T GET TOO COMFORTABLE. THIS USUALLY ISN'T A LONG TERM RELATIONSHIP

You may develop friendships with your loan officers, title reps, home inspectors and other industry pros. But when it comes to lending entities, you shouldn't count on a "one and only," long term relationship.

Why? Especially when you've developed such great working relationships?

It is important to know that every lender goes through phases and cycles. What may be a great lender to work with this year, may not be next year. They may run into financial challenges, changes in underwriting guidelines; they may take heavy losses on one type of property or loan profile or over time, they may find regulations in your state or zip code unattractive to deal with.

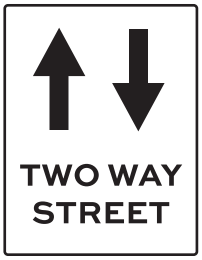
Plus, over time your borrowing needs will change. You may move into multifamily deals, commercial property investing or any other asset class - and that means you may need a new lender who specializes in that.

Another reason you can't count on long term relationships – an investment property lender will often sell loans after they are processed and closed. Most often you'll deal with someone completely different when it comes to loan servicing next year.

Giving a lot of business volume to the same vendors and lenders over time can give you some pull in some cases, but don't expect that loyalty to reciprocated as much as you think – especially when working with the larger financing companies. Ten years and $10M is barely a blip for a multi-billion dollar lender that has been around for decades.

INVESTMENT PROPERTY LENDERS NEED YOU TOO

Too often, investors have a one-sided view of the lender/borrower relationship. Never forget – lenders need you too. Loan officers need you too. New loans are their commission, profit, and paychecks. If your project is a winner and you are a good risk and can help them deploy capital and boost originations, they will aggressively seek your business. They spend millions on trying to get the attention of investors in an effort to attract and keep borrowers. Consistent repeat business saves them massive amounts of money and increases their operating profit. But remember, every lender isn't always a good fit. When terms and relationships aren't working, don't try to force it. There's another investment property lender out there that offers the type of capital you need.



TAKEAWAYS

Think about the types of properties and projects you plan to invest in. Next, make a list of each property type. Identify the different types of lenders you can utilize and begin researching available funding sources for each.

CHAPTER 31

HIGH PERFORMANCE PROPERTY FINANCING - UNDERSTANDING THE MECHANICS OF YOUR LOAN

How to keep your loans rolling through till closing

Investors looking for an uneventful trip during closing after closing, need to master how the loan process works, how to best manage their lenders, and how to sail through at the closing table.

Just How Much Does it Matter?

Understanding the loan process and knowing how to effectively manage a real estate transaction makes all the difference in successful and profitable closings.

To get through to closing and get your deals done requires knowing how lenders work. Plus, you have to anticipate issues and know how to motivate the different players to work to your benefit. Without this skill set, it certainly means deals are at risk for falling apart. Or at best, you'll have costly delays or get stuck with inferior terms and less profit. And any one of those can mean the difference between a good deal and a dud.

Great investors get to know their lenders' processes and underwriting guidelines nearly as well as their lenders, underwriters, and loan officers - and they are able to get deals done, and on terms others can't.

HOW THE LOAN PROCESS WORKS

Most borrowers would be floored if they understood a fraction of what goes on behind the scenes at the typical closing. In fact, given the complexity, and number of people and factors involved, it's a sheer miracle that any loans get closed at all. Signing the contract and making the loan application is just the very beginning and minute part of the process.

While each lender and loan type is a different, the loan process generally flows like this:

1. Official loan application and paperwork documentation submitted
2. Loan goes into processing
3. Due diligence and third party items ordered (credit, appraisals, etc.)
4. Loan goes to underwriting
5. Conditional loan approval granted
6. Loan conditions are received, reviewed, approved
7. Loan moves to closing department
8. Closing documents are drawn and Closing Disclosure is sent out
9. Closing is scheduled
10. Closing documents signed and reviewed so that funding can be approved

This is the dramatically scaled down version of the process for most institutional mortgage loans. In some cases, asset-based loans can be much easier, with fewer steps and individuals involvedterm loan.

MANAGING YOUR LOAN

Managing your loan and loan process is something that isn't even on the radar of most new investors. They expect it to take care of itself. It often doesn't.

One of three people really have to take ownership of managing the transaction:

1. You
2. Your loan officer
3. Your Realtor (when applicable)

This should only be left to these professionals if they have mastered of this process, and will manage everyone else involved along with coordinating everything. A mortgage broker is normally the most efficient at this. This is where Realtors and mortgage professionals can really deliver their best value. But if you don't have power people in these positions, and you are doing serious volume, then you may want to have a member of your own team monitor this.

Managing the process means:

- Organizing and preparing paperwork and documents
- Coordinating inspections and third party items
- Consistent follow up
- Coordinating the closing, and ensuring all parties are adequately prepared to close

Tip: Don't overdo it and micro manage everyone. Push for results but do it in a way that gets them to hustle for you without being a pest. Calling and emailing them too frequently is counterproductive and slows down the process. Establish the best methods of contact in advance and set timelines with your lender to receive updates, and clear conditions.

WHAT TO EXPECT AT THE CLOSING TABLE

Getting to the closing can sometimes be a marathon of Indy500 proportions. It can be a huge relief when you finally cross the finish line. But there can also be glitches.

Today's closings are a lot different than they used to be. A few decades ago everyone met up at the title company or real estate attorney's office. Both Realtors would be there. The loan officer or mortgage broker would be there. Both buyer and seller would be present. And a title company closing rep, or at least one attorney would be there to walk parties through the paperwork, guide signatures, and notarize them. Today, this would definitely be the exception rather than the rule.

More likely today you will run into the closing office and sign your half of the paperwork with the closer, or they'll come out to your home or office. Or if you are really fortunate you can do the whole thing online.

New rules dictate that the Closing Disclosure (which used to be the HUD 1 Settlement Statement) must be provided to all parties 3 days before actual consummation of the transaction. It used to be 24 hours, but all too often the parties would show up at the closing to find the final terms far different than expected. The pressure they were under in that moment led to most simply signing whatever was in front of them. And some unscrupulous individuals counted on that. The newer rules will need play out in practice in the field, but everyone should now have the opportunity to dispute errors, and get them fixed. But note that under the TRID rules, this can cause that 3-day period to reset all over again.

Still, never sign any documents that are not accurate, and don't be forced into inferior terms.

BEING PREPARED TO CLOSE: A CHECKLIST

- ✓Have an original valid government issued ID with at least several months before expiry
- ✓Have more than enough liquid cash to close and available for wire
- ✓Have any additional documents to be required at closing (i.e. proof of debts paid off, proof of work done to the property)
- ✓Leave extra time to get there, and know your way to the closing location

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FOR A COMPREHENSIVE CLOSING CHECKLIST, SEE THE RESOURCE GUIDE

POST-CLOSING CONSIDERATIONS

- ✓Make sure you are ready to navigate any roadblocks that can arise after closing. It's also helpful to make notes that will help you prepare for the next real estate closing.
- ✓Maintain a contact list of everyone involved in the transaction
- ✓Jot down any unusual aspects of the closing that can be helpful for future closings
- ✓Keep records of all paperwork and files
- ✓Be sure to document any changes to the property, and know where to find the info
- ✓Have multiple backups of this data, online and offline

Do not underestimate the power and importance of understanding how the loan process works, how to effectively manage transactions, and stay equipped with protected data to facilitate smooth future closings. Many deals have been lost due to a messy closing - be proactive and be prepared.

TAKEAWAYS

As you begin funding your next deal, make a list of questions for your lender and closing agent. If you are using a Realtor, start there to get answers. If you are handling the purchase yourself, get answers from your lender and closer.

CHAPTER 32

FIX AND FLIP STRATEGIES TO GET YOUR INVESTMENT PROPERTY SOLD

What Smart Tactics Can Help Real Estate Investors Go From Flip to Flip with Ease?

The profit from flipping just one property can be substantial. And some deals even eclipse the typical average annual earnings of other investments - making it a very attractive way to make a living. Most investors want to keep the machine turning properties quarter after quarter or even month after month. Getting from deal number one, to flipping investment properties every month, or even dozens of properties every month requires effective processes. So how do you efficiently turn that first acquisition into a house flipping cash snowball?

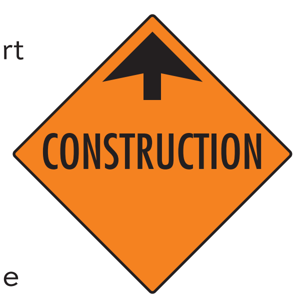
TIPS FOR FIXING AND FLIPPING FAST

Each real estate investment opportunity is only as good as the execution. For flippers, potential profit only becomes a reality when the rehab work is done, the property is resold, and the cash in firmly in hand. So what are some of the smart rules that successful property flippers stick to for converting opportunities efficiently and consistently?

RENOVATE TO YOUR TARGET MARKET TO SELL FAST

Would you put granite counters and stainless steel appliances in a cookie cutter starter home? Gut instinct says no...but even as obvious as it seems, there are exceptions. For example, a cookie cutter starter home in San Diego may command relatively low cost upgrades - but the same style and size home in Boise couldn't get you same kind of return. Be smart with your renovation choices. Carefully consider who your buyer is - what are their hot buttons and what are the must haves that you can offer without breaking your rehab budget? With experience, you'll know how to identify your target buyers and make even smarter rehab choices.

HERE'S HOW YOU UNLOCK PROFIT WITH BETTER PROCESSES:



1. Hit the ground running with boots on the job from day 1. You should start your renovation plans long before closing.
2. Build strong relationships by managing and paying contractors well. A good team of contractors is critical to repeat flipping.
3. Don't waste materials and tools, they'll always come in handy later. Serial flippers have readily available tools and inventory to get the job done.
4. Commit to quality rehab work to preserve and build your reputation. That's how you get buyers under contract before the project is even completed.
5. Be sure to include a marketing budget in your initial figures - in fact, check your numbers and check them again to make sure your project is on track financially.
6. Recognize the critical role marketing plays in profit and resales.

WHEN TO START MARKETING FOR RESALE

When is the right time to begin marketing to resell your flips?This can be one of the most contentious in the house flipping process. Even the experts are often split on when to start marketing properties for sale.

Realtors are normally decidedly for only beginning active advertising and offering showings after the property is 100% polished, cleaned, and often even staged. Of course this is in the agent's favor as it theoretically makes it a lot easier to sell at top dollar. That means more profit and commission for real estate agents.

However, every day of holding costs bleeds money and profit. Some savvy rehabbers choose begin marketing the opportunity from day one of acquisition. Some may even market before that. The less you have to put in, and the less time it takes to resell, the lower the risk, and the higher the profit potential. In many cases this may also be the ideal scenario for the buyer. Some buyers would rather complete improvements to their own tastes.

The downside of beginning to market too early is that some buyers just may not have the imagination to envision the end product and value and are scared away from an unfinished project. It depends on the buyer and how you are able to present the property. If you can afford it, test out these options.

CHOOSING THE RIGHT REAL ESTATE MARKETING FORMULA FOR YOUR DEALS

There's more than one way to market an investment property for sale. Choosing the right path can depend on:

- Your location
- Your overall real estate investment strategy and business model
- Your funding arrangements and loan terms
- The specific property characteristics
- Current and trending market conditions
- Your deal numbers
- The ideal target buyers for this property

So what are some of the common ways to resell a property? How do they stack up compared to your needs and goals?

LISTING PROPERTY WITH A REAL ESTATE AGENT

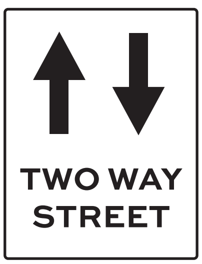
The right real estate agent can be an effective marketing partner. Several notable house flipping personalities from reality shows like 'Flip This House' use Realtors to market and sell their properties. Other long time investors have launched their own real estate brokerages to sell their properties. Warren Buffett recently jumped into the brokerage scene with Berkshire Hathaway Home Services. For the average investor, working with a local, knowledgeable agent can be a plus.

There are some downsides to listing properties with Realtors. Commission is a big one. You'll have to decide for yourself what an agent's service is worth or not. But there will always be those that will negotiate. Perhaps even more significant is the time factor. If agents are trying to lock you up with a 6 or 12 month listing agreement, with no guarantee it will sell during that period, most flippers can't afford that. Savvy flippers are trying to be in and out of deals in 30 days or less. Another factor here is how long you have on your loan term. If you only have a 6 month asset-based loan you absolutely have no business in signing a 12 month listing agreement.

There are upsides to working with agents - such as access to the MLS, a wider audience, and having a professional out there working for you. Just make sure you do the math carefully.

Some real estate investors choose to obtain their own real estate licenses. Again carefully do the math on the costs and time demands. And watch for legal restrictions on your investment activities.

HYBRID REAL ESTATE SERVICES



There are hybrid services that c e same benefits of listing with a Realtor, without the cost.

These can generally be divided into tw gories:

1. Flat fee listing services offered by licensed real estate brokerages
2. For-Sale-By-Owner (FSBO) services

With around 60% of home sales happening via the MLS (multiple listing service), it shouldn't be dismissed. If you can list your property on the MLS for a couple hundred dollars, that may be smart usage of part of your real estate marketing budget. You'll represent yourself as the seller and a buyer's agent will bring the buyer. You'll still have to offer commission to the buyer's agent, but in most cases it's half the cost of the typical MLS listing - because there's no seller's agent commission.

FSBO services are also available. For Sale By Owner websites and publications can offer another marketing avenue. When selling properties on your own with the services of a real estate agent, be sure you understand your contracts, deadlines and commitments.

DIY MARKETING

There are many ways that real estate investors can market their own properties for sale themselves. This can include...

- Yard signs
- 'Bandit' signs
- Newspaper and magazine ads
- Email marketing
- Social media marketing
- PPC and other online marketing
- Via your own real estate website
- In person networking with local professionals, and at investor groups
- Direct mail
- Open houses

All of these marketing methods work. They can all also run on their own cycles, becoming more or less effective during certain phases. In strong seller's markets, sometimes all it takes is a yard sign or a Craigslist ad to sell a property in a few hours. In tough times it can take a lot more money and a lot more time.

THE BUYERS LIST

Serious real estate investors who are eager to build robust deal flow, and maximize profit while limiting risk, make building a buyers list a priority - especially when wholesaling properties. Put simply, if you have a list of qualified buyers eagerly waiting to purchase properties from you, investors can quickly and easily flip houses like clockwork.

As you are marketing your renovated properties, add as many qualified buyers to your list as possible. This can be done through pre-marketing the home to contacts made through your online marketing such as craigslist and social media, along with bandit sign and direct mail campaigns.

The process of turning a property into profits is one that when mastered, can generate a lot of income. Every investor takes a slightly different route to their profits - and the most successful of them have funding, a team and a set of general "get it done" processes that takes a project to completion.

TAKEAWAYS

The growth of your real estate investing depends on how you can scale your business. Flippers doing only one or two properties each year may not be concerned with scale. But those who want to grow must scale out.

What is your target annual flipping income? How many houses would you need to flip to get there? If it's more than two, you need to scale your business for multiple annual flips. How can you do this? Map out a plan.

CHAPTER 33

BUY AND HOLD REAL ESTATE INVESTMENT

I like this place – think I'll keep it. Maximizing income property opportunities.

> "THINKING ABOUT HOLDING ONTO A PROPERTY FOR A WHILE? *How can you improve the numbers?* WHAT CRITICAL FACTORS DO YOU NEED TO CONSIDER AND *ultimately master* TO MAKE BUY AND HOLD A PROFITABLE REAL ESTATE VENTURE?"

Some investors make acquisitions with the expressed goal of turning them into buy and hold income properties. Others make the decision after they make the buy and believe the numbers or market justify holding versus flipping. A few others may feel they have little choice after renovating or flipping plans are disrupted.

So when is it time to hold?

When the numbers make sense. Strategic buy and hold real estate investors always "make their money when they buy." That can mean positive cash flow from rental income, and, or buying with a significant equity cushion. Stay far away from negative cash flow, or overpaying and solely gambling on appreciation for profit. Buy and hold properties must support themselves from the income they can generate. Gambling in the real estate market has bankrupted millions. It is not a gamble when you are acquiring undervalued assets with built in equity.

The three boxes most will want to check are:

1. Real Net Operating Income (NOI) (See Chapter 20 for more)
2. Potential for consistent long term cash flow
3. Potential for positive appreciation

What if the numbers don't work?

> "SOMETIMES THE CURRENT NUMBERS *just won't work for buying and holding a property.* PERHAPS YOU USED HIGHER RATE, ASSET-BASED LENDING BECAUSE THE CONDITION OF THE PROPERTY WOULDN'T JUSTIFY OTHER FINANCING, OR MAYBE IT WAS DUE TO THE *need for speed.* PERHAPS THE PAYMENTS ARE TOO HIGH COMPARED TO THE RENT. MAYBE THAT LOAN HAS A BALLOON WITHIN THENEXT 36 MONTHS. *So what do you do?*"

REFINANCING AND OPTIMIZING FINANCIAL LEVERAGE

After the rehab work is done, there should be even more equity in it. Once rented you also have income to help qualify for a new loan. This is a great time to refinance to lock in lower rate and lower payment long term financing.

For example, refinancing a $250,000 loan with a 7% interest rate, with 30 year amortization payments, to a 4% interest rate would drop your debt service from $1,663.26 per month to just $1,193.54. That's a substantial extra spread for creating real positive cash flow each month.

Another option is taking out a line of credit. This could be used to pay off any existing debt, and provide access to additional capital for making future acquisitions, and as a security cushion for unexpected expenses and maintenance. This can also help avoid leaving equity captive in your properties when it should be working hard to help you achieve your financial goals.

For some scenarios, lenders may even offer mini-perms[15] or one time close construction to perm loans that automatically roll over into more attractive loans and fixed loan terms rates after rehab work is done, or a property proves its income potential - all with one closing and set of closing costs. Lenders offer these types of loan because they are based on the value of the property after it's been improved and increased in value.

WHAT'S THE BEST LEASING STRATEGY?

The numbers can also be improved by finding the optimal leasing strategy for your property.

There is certainly more than one option, including:

1. Annual and long term leases
2. Seasonal vacation rentals
3. Airbnb-style short term rentals
4. Extended stay rentals - not weekly, but not annual
5. Corporate rentals

The last 4 of these can offer substantially higher monthly rents than your neighbors are getting on annual leases. There can be cons as well as pros of these strategies, but they are worth exploring in order to maximize income. There are more turnovers, but the cost can be covered by the increased rental rate.

Intelligent Tenant Screening

Ensuring consistent cash flow and maximizing NOI also significantly relies on the landlord's tenant screening and selection process. Rental turnovers are costly - and thorough screening can keep turnovers at a minimum.

Tenant screening and selection is very important - in fact, it can be make or break for the landlord. But it is even more important for real estate investors to find balance in this process. Key to this is understanding your local rental market conditions, available tenant pool, and the high cost of vacancies.

Many newbie landlords get hung up on extreme vetting process or they don't do it at all. Both are counterproductive. In certain top end markets, investors may be able to demand top notch credit scores and substantial deposits. In other markets there may be no tenants with 600+ credit scores, or that are willing to pay application fees. In some cases it may be a struggle to collect several months' security deposit upfront, or to demand clean background checks, even if they are legal in your area. At the other extreme, you find landlord who don't ask enough questions, don't do enough screening and the results can be disastrous.

Vacancies cost money every day. Vacant properties can bring extra risk to assets too, such as vandalism and squatters. If you are not getting applicants or filing the property on the terms you are requesting, back up and regroup - adjust your marketing and terms.

[15] http://www.investopedia.com/terms/m/miniperm.asp

PROPERTY MAINTENANCE AND MANAGEMENT

> "PROPERTY MAINTENANC AND DAILY MANAGEMENT OFTEN HAS THE *most significant impact on real net profit or loss* IN INCOME REAL ESTATE. *The biggest choice here* IS WHETHER TO TAKE TEH DIY APPROACH AND SELF-MANAGE, OR TO OUTSOURCE AND HIRE A PROFESSIONAL THIRD PARTY PROPERTY MANAGEMENT FIRM."

In most cases outsourcing this part of the business makes sense. This frees up investors to keep sourcing new acquisitions, and can reduce liability. If you decide to self-manage be sure to still leave room in your cash flow for hiring a manager, as one day you may not want or be able to manage it any more.

Buy and hold real estate investments make sense for a lot of investors. When house flipping no longer has appeal, building a portfolio of cash-flowing properties is a great way to go. There's passive income, tax advantages and the potential for appreciation.

TAKEAWAYS

Do you see buy and hold investing in your future? If so, how can you transition from house flipping to buy and hold? What do you need to make it happen?

Start mapping out a plan - short and and long term. This will help you recognize and capitalizing on opportunities as they arise.

CHAPTER 34

KEEP FUELING THE JOURNEY

How do property investors keep the wheels turning, to go from deal to deal?

Once investors have the hang of funding and turning real estate opportunities into profitable ventures, how do they keep the wheels greased so that they can repeat and scale for even better results?

LAP AFTER LAP

Achieving all your financial goals isn't likely to happen with just one real estate deal. It's a journey. It's a long term venture. It's a lifestyle. Even when individuals can afford to comfortably retire on their real estate profits, they need to keep their money safe and working hard for them. So after you fix and flip that first deal, or you successfully convert a property to a performing rental, how do you most efficiently keep the machine going to repeat win after win?

In Formula 1 racing there are multiple laps, and even multiple races. Key to success is not only getting into a good pattern for each following lap, but making timely, but brief pit stops, and time between races to re-calibrate engines, and replace tires.

PERFORMANCE BOOSTING ANALYSIS

In any sport, all serious participants take time to improve their performance. This might be watching footage of the competition, training, getting better equipment, and maintenance.

In real estate investors can apply this by:

- Committing to constant learning
- Regular deal and portfolio analysis
- Targeting areas for improvement
- Diversifying
- Networking

After your first few real estate deals, and at least quarterly or annually after that investors need to take time to evaluate their performance.

Specifically make a list of what went well, and what could be improved upon. Turn the things you did successfully and great into systems to be repeated and scaled. Target the areas that can be improved on for improvement.

Could you have done a little better in due diligence and estimating repair costs?

How about negotiating slightly better loan terms, or managing the transaction through to closing?

What went right and wrong with your rehab projects?

How did your marketing go?

QUICK TIPS FOR TUNING YOUR ENGINE

- Systematize the process wherever possible
- Keep great records
- Look for tax saving strategies
- Ask lenders about lines of credit and blanket mortgages for streamlined access to capital

YOU CAN'T AFFORD TO STOP WHEN YOU THINK YOU'RE AHEAD

MAINTAIN
TOP
SAFE
SPEED

Stopping or slowing down because you think you've already won, only to be passed by a rival is one of the most classic and cringe worthy bloopers. It may be painfully hilarious to watch it happen to others on YouTube, but when it comes to your income and wealth it can be gut wrenching and can leave a big, and very real hole in your wallet.

Real estate transactions can have a significant fallout rate. This varies over time, and depends a lot on how easy lending is, it cannot be underestimated.

The Reality of Deal Flow

Serious and savvy investors may expect to seriously investigate 10 potential properties, before making 5 offers, before securing 2 contracts, and hoping at least one closes. Your numbers may be better or worse. Know them, and how many deals you need to look at each month, week or day. Know how many offers you need to make - and how many contracts you need signed to meet your goals.

When investors merely make the occasional offer, and stop looking once they find one of interest, they'll find that they go quite a while between actual closings. That isn't going to do wonders for steady progress towards goals, or consistency of income, not to mention missing out on many profitable opportunities.

TIPS FOR IMPROVING DEAL FLOW

Multiple Sources

Consistency and volume are going to depend on having a variety of deal sources working all the time. The goal should be to have new deals to review in your inbox every day.

11 sources to put to work include:

1. ConnectedInvestors.com
2. The MLS
3. Realtors
4. Craigslist and online sources
5. Real estate investment groups
6. Real estate wholesalers
7. Local contractors and vendors
8. Professional referral sources (loan officers, bank managers, attorneys, etc.)
9. Local newspapers
10. Your own website and lead generating marketing
11. Driving neighborhoods

> "YOU KNOW YOU NEED TO *find and do more deals,* BUT HOW DO YOU ACHIEVE THAT?"

Relationships

Getting great deals on properties that 'may' be for sale is about finding properties that the rest of the world doesn't know about. If you want truly profitable deals and the chance to buy them at the best prices, on the best terms, then you want the first look before the general public. For example, real estate agents can bring you their pocket listings before anyone else. You may need to earn this privilege by proving yourself as a reliable buyer first, but don't underestimate the importance of it and other referral sources for buying houses.

Curated Real Estate Deals

Investors simply can't look at every property that can be bought. You can't afford to waste time looking at properties that aren't a good fit. So make sure you set filters for property searches, and provide referral sources a tight profile of the criteria you are looking for. It will preserve your relationship as you don't have to repeatedly say no. And it will increase the number of matching properties that you get.

Get Help

Today's successful investor must have a web presence. A quality website that attracts visitors and captures leads is essential. Connected Investors offers state-of-the-art investor sites that not only capture leads but also includes lead management tools to make sure no good deals fall through the cracks. Driving traffic to your site can be automated as well - there are great programs available that help you set up and manage marketing campaigns that keep quality leads coming.

If you are looking to take down several deals a month, or even get into real estate investing full time, you'll want some help. At a minimum you should consider a remote assistant for pre-screening your deals against your criteria. That way you are only spending your precious time looking at that 1 out of 10 or 1 out of 100 that are actually worth making an offer on. This not only means checking the area, price range, and discount but also verifying values, rental potential, and repairs. Some investors use cookie cutter criteria and contracts or letters of interest that assistants can send out.

> "FINDING THE RIGHT "FORMULA" FOR YOUR BUSINESS IS A MATTER OF *deciding on your targets and the processes you use* TO TAKE YOU WHERE YOU WANT IT TO GO."

TAKEAWAYS

Revisit your annual income goals. How many deals will you need to do to meet them? Working backwards, assuming you'll buy only one of every ten you look at - how much time and money do you investing in deal finding? What sources will you use to find investment properties?

CHAPTER 35

WHEN YOUR LENDER TAKES THE EXIT

What happens when the mortgage lender sends you on a detour?

Even the best planned trips can run into detours. The GPS is off the mark, surprise construction work pops up, and it all results in delays. On the road to real estate success, one of the biggest roadblocks is funding gone bad. What then?

WHEN LENDERS BAIL

Unfortunately, real estate lenders do bail on borrowers. Sometimes there are so many contingencies, conditions, and outs in a loan commitment that there really isn't much 'commitment' at all.

So why do they do it? How can investors anticipate it and see it coming? What do you do if it happens to you?

WHY LENDERS BAIL

Real estate lenders are in the business of making money making loans. The want to minimize risk, be assured that the numbers really work and most important - they want to be repaid. Here are some of the common things that can derail your loan

- The Property - Finding the property's value or condition is unacceptable
- The Project - Budget issues for bringing the property up to marketable condition
- Limited lending areas and locales.
- Discovering that the borrower can't meet the " 6 C's" (see Chapter 10 for more)
- The loan was priced and quoted incorrectly
- The profit margins for the lender changed, and it is no longer appealing to them
- New regulations limiting lending
- Financial and liquidity challenges
- Attempting to minimize exposure to loss
- Inability to resell the loan in the secondary market
- Discovery of new information after the loan is made

HOW TO RECOGNIZE THE SIGNS

Recognizing the signs that your lender is backing away is critical to investors. If you have to resort to Plan B, then it's best to know as soon as possible. Time is always of the essence in real estate, so know your lender's documentation needs.

Build relationships and respond quickly to their requests. Remember, they're not asking for more docs for fun - they're doing it to satisfy their capital partners and government regulations.

If you are working a new lender relationship, keep a keen eye on how responsive they are to your requests and/or application. Always ASK if your loan request fits their lending criteria - not all lenders are a good match. One critical mistake new borrowers make is seeking funding from the wrong type of lender. Better to know right away. Once you've gotten past the initial introductions and ground work, pay close attention to the lender and how the process is progressing... or not.

Five signs your lender is looking for an exit:

1. Claiming paperwork has been lost (repeatedly)
2. New loan conditions added after you're into the process
3. Difficult or impossible to provide conditions
4. Changing the rate, terms, or amount of the loan
5. No response from your loan officer or primary contact

WHAT TO DO

1. Clarify the issue immediately

You should have a good contact that you can trust to give you straight answers. They might not be able to tell you the whole story. But they can definitely tell you if your experience is just standard, or if you are facing a major roadblock. It's better to save yourself the time and stress and nail down any issues right away.

2. Get an extension on your real estate purchase contract

If your lending source is looking shaky, the chances are you've derailed your timeline for closing. You don't want to risk your earnest money deposit, getting sued for non-performance, or bruising your industry relationships. So request a contract extension, and get it signed early. Give yourself plenty of time.

3. Apply for another loan

Talk to your other lenders. Explain the scenario. Deliver the whole loan package, complete with all the due diligence and conditions you can so that you can expedite your loan application, and get an answer fast. And don't bad mouth the lender who bailed - you'll make yourself look like a difficult borrower.

Preventative Maintenance

In other chapters, we've pointed out the importance of seeking the right type of lender - and being prepared to get a deal closed. Lender relationships are critical - vet your lenders. Ask for the names and locations of the last five loans they've closed. Get professional referrals. Work only with online sources like The Connected Investors Exchange (CiX.com) a marketplace of pre-vetted, reliable lenders.

TAKEAWAYS

What preventative measures should you take when your lending source is looking shaky?

CHAPTER 36

WHEN YOUR REHAB GOES SOUTH

What Can You Do When Your Rehab Takes a Wrong Turn?

How can real estate investors turn it around when rehab projects don't go as hoped?

Fix and flip projects don't always go as expected. That's a given. It's what you do when things get off track that makes all the difference in the end result. Taking the rhinoceros approach to just charging ahead oblivious to the financial minefield is not a strategy. The property investor with the eagle eye for spotting issues early - that has the bigger picture view will have the edge in a turning potential pitfall into bigger rewards.

WHY REHABS GO WRONG

Real estate rehabs, like any renovation or building project can go off in the ditch really fast for a variety of reasons.

Sometimes it is simply the result of poor planning and due diligence:

- Forgoing property inspections
- Not conducting further testing for mold, meth labs, and Chinese drywall
- Over (or under) rehabbing for current market conditions
- Failing to obtain accurate contractor quotes in advance
- Failing to get good contractors on the job.
- Under budgeting - money and time
- Not budgeting for overages
- Failing to stick to the budget and scope of work
- Taking the DIY approach on items that need a pro

Other rehab issues that can impact newer real estate investors include:

- Falling in love with the wrong property, and trying to force it to work
- Paying a contractor before they finish their work
- Failing to secure the property during and after rehab
- Ignoring final inspection requirements
- Changes in local property values
- Damage from natural disasters
- Bad contractors
- Lack of trusted contractors that alert to issues early, and watch your budget

COPING WITH OVER BUDGET ISSUES

The impact of all of the above generally hits you directly in the budget. If your budget gets blown too far out, you may be lucky to get out without heavy losses. Many novice investors have bankrupted themselves by rushing in without education, and with no financial reserves to back them up.

Step 1: Re-evaluate the deal and the numbers (where you are, what you can afford)

Step 2: Re-establish priorities

Step 3: Ensure you have access to the money you need to complete

Step 4: Get going fast, and objectively

Step 5: Document the issues, remedies, and create better systems and rules for next time

VIP: What's most important is getting the property into a livable and salable condition. If you can't do that, things are likely to only get. A habitable, salable property still offers you multiple exit and financial options.

WHERE TO SAVE

Real estate investors that get stuck can find ways to save, and still finish the job.

Save on:

- Appliances
- Where you shop for materials
- The quality level of materials
- Eliminating low ROI items
- Patching and repairing versus replacing
- Negotiating to pay contractors after you cash out

WHERE NOT TO SKIMP

Do NOT skimp on your marketing budget!

Your marketing budget is what is going to get the opportunity turned into profit, and get cash coming back in. Every day, holding costs are eating into your bottom line to cash out - or for the buy and hold investor, it means loss of cash flow.

Focus on getting the property into a livable and marketable state - while still accounting for all of your expenses and desired profit.

WHEN INVESTORS NEED MORE MONEY

What if you absolutely need to come up with more cash to finish the project?

Watch these two golden rules:

1. Raise more money as early as you can
2. Protect your credit so that you don't get cut off from capital

One of the worst mistakes that new real estate investors make is immediately turning to their savings and personal credit cards to try and finish the project. All too often this results in completely running out of cash, and destroying credit ratings to the point of not being able to borrow. Once you are in that place, and the property still isn't livable you may not even be able to afford to file for bankruptcy. Pull in partners - money is attracted to opportunity. If there's an opportunity to make money - partners and funding will follow.

WORKING WITH YOUR LENDER WHEN YOU NEED MORE MONEY

There is a chance your current lender will provide more cash, but you have to ask. And the earlier, the better. This is especially true of alternative lenders, asset-based lenders, commercial real estate, and specialist rehab lenders. They may be able to 'open up' your loan and provide more funds. If you have lender money in escrow to reimburse you for repairs made, you might be able to get that money early too. They normally don't want to risk losing their capital and will want to work with you, IF you can show them some better numbers. Go in with a game plan.

OTHER CAPITAL SOURCES

Your existing lender may not be able to help. They may be very wary about throwing good money after bad. You should be cautious about this too. It can be better to eat the loss, for a clear exit, rather than gambling more money on the unknown.

Before you tap your children's college tuition, retirement funds, or destroy your credit rating:

- Ask other mortgage lenders about a refinance
- Apply for a different type of loan if the property is in livable condition, and value is up
- Look into home equity loans and lines of credit
- Check out business loan lenders, and business lines of credit
- Don't overlook friends and family for cash or partnership possibilities
- Crowdsource your funding. Rather than a full-blown crowdfunded deal, this option is becoming more and more popular

4 STRATEGIES FOR TURNING YOUR REHAB NIGHTMARE INTO CASH

Complete with lower end finishes and rent it instead of selling it (if your funding is secured for a longer term)

Sell it as is and cash out versus renting it out

Offer the property 'designer ready' or have the buyer pay for custom finishes

Try 'prehabbing' or "whole-taling" - a hybrid that's a step up from simple wholesaling but not quite rehabbing for retail sale

TAKEAWAYS

Suppose you have a rehab underway. You take stock of the project and discover that you are $5000 over budget and a least 2 weeks behind. What can you do to get your project on track and/or minimize losses?

CHAPTER 37

WHAT IF YOU CAN'T MAKE GOOD ON YOUR INVESTMENT PROPERTY LOAN?

What to do if you can't pay your investment property mortgage

Sometimes real estate investors just can't pay their loans on time. What happens then? What options might be on the table? What happens if you fall into foreclosure?

WHY INVESTORS CAN'T PAY THEIR LOANS

Real estate investors don't generally go into a deal or sign for a loan with the intention of not paying. You've done your numbers, your market research, educated yourself, and don't see any way this deal can go sideways on you. Sometimes it just does anyway. It can be rare, but it's good to be aware of some the issues that have hit others, so you can avoid them.

This includes:

- Surprise repairs
- Running over rehab budgets
- Rogue contractors
- Cash flow held up from other deals
- Market changes
- Local weather catastrophes
- Personal financial emergencies
- Non-performing tenants
- End buyers that back out, or delayed closings
- Missing insurance or tax payments

KNOW YOUR OPTIONS

If you tackle the issue early, you have options. If you bury your head in the sand, and drag your feet, you can guarantee those options are going to dry up, and things will only get worse. The earlier you deal with it, the better the outcome is going to be.

Your options:

- Approach your current lender for get extensions or other options
- Try pledging equity in other property to get a line of credit
- Consider a secured line of credit against other assets or savings
- Ask friends and family for help
- Bring in a partner on the real estate deal
- Try to refinance with another investment property lender
- Check out peer to peer lending sites
- Consider real estate crowdfunding

3 VIPS:

- You have to get new financing closed before you go 30 days late
- Take action early
- Have a documented plan of how you'll turn around the situation

WHAT HAPPENS WHEN INVESTORS DON'T PAY THEIR LOANS

If you are simply going to be a few days late in paying your mortgage payment, and are 110% certain that you won't be more than 30 days late you probably don't need to stress yourself out, or panic. Regardless, call your lender. Stay on top it - if you're responsive to the situation, they're more like to be as well. If there is a chance you might run over 30 days, you've got to get on your game, fast!

How bad it will get, and how fast may depend on:

- Where you are at in your loan
- The amount of equity you have
- The current condition and status of the property
- The current market
- Who your mortgage lender and loan servicer is

In all cases you can expect your phone to ring off the hook, the mailbox to fill up with notices, and eventually for attorney's letters to come, and even to be served a notice of default[16] (NOD). During this time there will be mounting fees, accrued interest, fees for attorney's letters, and more.

ALL OF THIS MAKES IT HARDER TO CATCH UP AND MUST BE AVOIDED.

If all your efforts to bring the loan current fail, eventually the loan will go into foreclosure. How long a foreclosure will take really depends on the laws of the state , current foreclosure volumes, as well as the type of loan. A business or commercial real estate loan can fall into foreclosure in just a few days. Residential real estate loans may take 90 days or more before they get into the court system. Just know that as the market improves foreclosure times are being cut rapidly.

Even though the bank may seize the property as collateral, that doesn't mean that borrowers are off the hook for their debt. Depending on local laws, creditors may still pursue deficiency judgements[17] from borrowers for money owed, even after the property has been forfeited.

THE ALTERNATIVES TO FORECLOSURE

Banks and mortgage lenders normally do not want to foreclose. They are in the money business, not the real estate business. They do not want the situation to get progressively worse and risk losing capital, and the money of their investors. However, there may be some cases in which it is more appealing for lenders to foreclosure than to cut borrowers a break. So don't assume anything or take options to work things out for granted.

[16] https://en.wikipedia.org/wiki/Notice_of_default
[17] http://www.investopedia.com/terms/d/deficiency-judgment.asp

Options that may be available instead of going through foreclosure may include:

- Loan modifications and re-capitalization plans
- Selling the property
- Reinstating the loan
- Short sales
- Signing over the deed in lieu of foreclosure
- Having someone else buy the note, and becoming your new lender

A loan modification that gives you time to pay, without making the terms even harder to keep up with can be a viable option that creates a fair compromise for both borrower and lender. Expect fees and changed terms - both of which can be a much better alternative than foreclosure.

THE EFFECTS OF FORECLOSURE ON REAL ESTATE INVESTORS

There are both short and long term effects of foreclosure on real estate investors. At a minimum, in the short term, it's likely you will be unable to obtain other financing. No other lender, especially a mortgage lender is going to want to extend you credit if you are in foreclosure, or are fresh out of it. That doesn't mean that you can't find ways to invest in real estate and get back on top of your finances, but it is going to make things a lot harder.

The effects of going through a full blown foreclosure will follow you for a long time. In the wake of the crises of the early part of the 2000s and then the over-tightening loan requirements, it has finally been made easier for borrowers to get loans after foreclosure and short sales. Often this is just a 2 to 3 year waiting period. The foreclosure crisis impacted millions of people in America, including many wealthy real estate moguls and celebrities. It will impact your finances for a long time and recovery is possible but it's best to avoid a full blown foreclosure at all costs.

Your credit report being hampered for at least 7 to 10 years. This makes the cost of not being able to access credit will make everything in life and business more expensive. You'll make less, and pay more for everything. If banks or the feds believe you may be involved in a real estate and mortgage fraud scheme lenders may even blacklist you all together. Judgements, collections, and tax penalties may also impact earnings until the debt is satisfied.

So know your options, and get to work solving the situation quickly. If you've already been through foreclosure, you can still invest in real estate, but your borrowing options are certain to be more limited and far more expensive.

TAKEAWAYS

For any investor facing the inability to repay their loan, what would you recommend as a course of action? List at least 5 alternatives and how they can work.

CHAPTER 38

WHEN THE WHEELS COME OFF YOUR REAL ESTATE INVESTMENT VENTURE

What do you do when you're facing a failure in real estate?

Sometimes real estate investment plans fail. In spite of the best hopes and plans, it doesn't always work out as expected. What do you do then?

If there is one thing that we should have learned from the most successful real estate and business leaders out there recently, it's to embrace failures. They are often the catalyst for the greatest successes throughout history. So if your real estate investment doesn't go right, what should you do next?

IT HAPPENS TO THE BEST OF US

Millions of Americans 'failed' in real estate in the last couple of decades. That includes wealthy celebrities and average citizens. Donald Trump has failed plenty of times. And Shark Tank investor Barbara Corcoran who started in real estate with just $1,000 and grew it to a $5 billion empire says the best thing entrepreneurs can do is embrace failure. In fact, she says it is the most important thing they can do.

You can be smart, rich, and bullish. But that won't guarantee you sustainable success the first time around. If it wasn't for great minds and risk takers who are willing to try again, we wouldn't have the internet, electricity, the phone, mortgage loans, and let's not forget good vacuum cleaners.

So how can real estate investors minimize the chance of failure? Get back in the saddle after some bumps in the road? Make sure things go better in the future? And who is going to work with you even if you've taken a few extreme detours from real estate success in the past?

WHY DO REAL ESTATE INVESTORS FAIL?

The biggest failure of all is still not trying real estate investment. If you don't try it, you've already failed – guaranteed.

Out of those that have invested in real estate some of the most common reasons for failure are:

- Poor budgeting of rehabs
- Buying properties with negative cash flow
- Surprise repairs after failing to do due diligence
- Real estate and mortgage fraud
- Borrowing too much
- Rushing in without getting educated first
- Overconfidence
- Ignoring common sense investment principles
- Poor money management
- Bad tenants
- Natural disasters
- Malicious and frivolous lawsuits
- Bad financing terms
- Analysis Paralysis
- Over-leverage

Interestingly data from Statistic Brain[18] shows that not only are startup ventures succeeding better than in the past, but real estate is now has the best success rate. Despite that, businesses come and go in any sector and any economy.

The top reasons for recent business failures include:

- Emotional pricing
- Living beyond mean
- Failure to pay taxes
- Lack of planning
- No knowledge of financing
- Lack of experience in record keeping
- Expanding too fast
- Inadequate and ineffective borrowing practices
- Wasted advertising budget
- Going into business for the wrong reasons

TIPS FOR PREVENTING FAILURE IN REAL ESTATE INVESTMENT

Whether starting out with one investment property, or launching a real estate investment business, it is pretty clear the best way to prevent failure is to avoid the pitfalls we've just covered.

Do this by:

- Planning thoroughly
- Completing all needed due diligence
- Learning about financing
- Borrowing better, and enough
- Keeping better records
- Staying on top of taxes
- Watching your budgets
- Living within your means
- Having insurance
- Having legal help on call
- Sticking to common sense

TIPS FOR GETTING BACK ON THE ROAD TO REAL ESTATE RICHES

What if your child fell off a bicycle the first time they tried to ride one? You'd insist they try again, right? You'd think it was crazy if an adult friend of yours told you they have never tried riding a bicycle again after an incident like that, right? So don't even consider not getting back on your journey to building wealth in real estate.

It's just a matter of how you do it.

[18] http://www.statisticbrain.com/startup-failure-by-industry

You might want a helmet, some elbow pads, a few tips, and maybe even someone riding alongside you so that you don't crash and burn again. Find a mentor, hire a coach and network with successful investors to learn the lessons of the pros.

- Be objective about past failures (it's not you, it's what you do)
- Analyze what went wrong, and what you can do better
- Invest in learning more about your craft and the real estate market
- Put safety precautions in place, and avoid the pitfalls
- Get busy moving forward

OPPORTUNITY IS KNOCKING

If you've had a deal, or a whole portfolio go wrong in the past, don't let it hold you back. This is opportunity knocking, right now. It's waiting for you.

There are lots of great real estate investment opportunities out there. And even with a few battles scars, there are even a number of real estate lenders to work with you. Be prepared to talk about what happened and demonstrate that despite what happened - and that you know what to do, and what not to do. That's an asset. That's an advantage.

RESOURCE GUIDE

BONUS! VISIT WWW.CIX.COM/BOOK FOR REGULARLY UPDATED INVESTOR FUNDING INFORMATION AND MORE

Funding Checklists for Fix and Flip, Buy and Hold and Refinance Loans

FIND IT • FIGURE IT • FIX IT • FLIP IT