

In Today's Real Estate Market Being Able to Structure A Deal Creatively Is Not Only Important It's Essential.

The days of "Full Priced Offers" that will close in 30 days are almost non-existent in this time of massive numbers of foreclosures and record unemployment, unless the buyer has lots of cash. As Curtis and I talk to real estate investors across the country, we hear the same problem repeated over and over. Most real estate investors are having trouble getting Bank financing to fund the deal they are buying. Over the past 10 to 12 years institutional financing has been easy to get until recently. If the borrower could fog a mirror, they could easily get some type of financing to pay for the properties they were buying. This has all changed.

The other day I was listening to my favorite radio station when I heard the song, "The Times They Are a Changin'". As I listened, I was thinking that truer words have never been spoken, and it is becoming more and more evident. It has become all but impossible for investors to get any type of financing today.

Even Hard Money Lenders have radically changed their qualification rules. Many Hard Money Lenders are requiring nearly as much documentation as the institutional lenders, such as several years of income tax returns, a higher credit score, as well as a good payment history with no exceptions. They want the borrower to have a lower debt to income ratio, and some Hard Money Lenders are even requiring that they be put on title of the property they will be lending money to buy. Some Hard Money Lenders require the borrower to pay for any needed repairs out-of-pocket as they will not escrow repair money and will only lend 50% of the After Repaired Value of the property. Because of these stiffer borrowing requirements it has become nearly impossible for investors to get any type of financing, especially those who have small cash reserves and less than stellar credit. This problem will eliminate many investors in the early years of their real estate investing business. This is completely different than what we have experienced over the past 10 years and I personally don't like what is going on. I know there are other ways to finance the deals we do. I believe as I have for years that the secret to your success will be to use some sort of Creative Seller Involved Financing. This type of financing is essential in today's real estate investing market.

Because Seller Involved Financing isn't what most investors are familiar with and use to pay for the properties they buy, we are seeing many short sale experts coming out of the woodwork and most, because of a lack of financing options and a knowledge of creative deal structuring, are nearly starving to death today.

One of the Problems Is, Not Every Investor Trying To Be A Short Sale

Expert Has access to large sums of money, nor do many of them have the available credit to fund their short sales. This is a real problem because transactional funding can cost you as much as 10%, and they (the lender) can leave you stranded if they decide to not fund the deal! Even if the investor has some cash, if they continually buy properties

they won't have their cash for long. Their cash may be tied up for long periods of time if they are unable to sell the properties they buy. In the recent past, short sales have been one of the most sought after ways to buy real estate. This is not my favorite way to buy real estate for several reasons. First, unless done exactly right, you stand little chance of completing a Short Sale in less than 3 to 6 months and possibly up to as long as 2 years. If you don't have a solid, pre-qualified buyer for that property who can get quick funding in place, the short sale lender may not agree to extend the time they give you to close the short sale and you would lose any agreed upon discount.

Here are some other problems many investors are having because they bought foreclosure property. Some of these investors could be facing legal issues depending how they are buying or controlling the foreclosure properties. One of the legal problems investors could have involves:

- Investors letting the homeowners who are in financial distress continue to live in the house after the investor has taken the property subject to the existing debt before doing the short sale. This in my opinion is a very bad idea.

Because everybody and their brother are becoming foreclosure and short sale experts, it has caused tremendous competition in most areas of the country, and these inexperienced people don't really know what they are doing.

- Today it could take as much as 2 years to complete some short sales. Many investors need money today not two years from now.
- Most investors haven't built a base of private lenders or a list of qualified buyers to fund or buy the short sale properties.
- The investors who rely on new homebuyers to qualify for a new loan to get the money to complete the short sale are finding it difficult to get these new homebuyers qualified and closed within the time period the loss mitigation people of the lender have given to complete the short sale.

The real problems are:

- Finding the money.
- Heavy competition in the market place.
- Being at the mercy of the Banks.

It Is My Opinion That If An Investor Today Doesn't Know How to Profitably Structure Deals They Will Find It Nearly Impossible to Actually Close On Those Deals.

I know most investors are still making offers to buy a property hoping they can flip the property to an investor or an end buyer who either has the cash needed to close the deal

or has the ability to get an institutional loan. This is getting more and more difficult to do now that the banks have restricted their lending practices.

I thought I would give you an example of a creative deal so you can get an idea how one might be structured when institutional financing is impossible to get. Let's start with a deal you will find again and again as you work your business.

A seller has a property that their parents owned for many years and now Mom and Dad have passed on. The seller lives in another state and does not want the responsibility of being a long distance landlord, nor do they want to have to worry about the lawn care, the pool care, paying the property taxes and the property insurance as well as the liability of someone breaking into the property, getting hurt and suing for damages. Needless to say the seller just might be somewhat motivated to be rid of the property. In this example the property has no existing debt and is free and clear. Because the seller lives in another state they aren't sure what the true value is of the property they have inherited. In most cases out-of-state owners have only the assessed value shown on the property tax statement showing what they believe is the true value of the property. Let's say the seller is asking \$120,000 for the property in its dated but rentable condition. What could we offer for this property?

Seller is Asking \$120,000

You believe the property is only worth \$100,000 maximum in its current but rentable condition.

What if you offered the seller \$100,000 payable at \$500 per month for 200 months?

If the seller accepts your offer they would get a good price and a \$500 per month income stream for 16 years and 8 months.

If the seller is willing to sell you the property for what you have offered you can rent the property for, let's say \$900 per month and make a handsome monthly cash-flow for the next 16 plus years.

Let's look at what each party to the transaction gets....

The Seller gets

- The seller gets rid of the property and responsibilities they inherited.
- The seller will get \$500 per month for the next 16 years and 8 months.
- This is free money to the seller for years to come. Basically like a pension plan.

The Buyer gets

- You as the buyer will get affordable financing without having to go to a bank.
- You get a monthly payment that contains NO INTEREST in this example.

- Every month the loan balance goes down \$500.
- Because of the payment amount it will be possible for you to make a very good monthly cash-flow.
- If the paperwork is done right you can have no personal liability for the repayment of the balance owed for the property.
- This deal can be non-recourse financing that may never show on your credit history.

What If You Don't Want to Be A Landlord? What If You Would Rather Have Some Fast Cash and Long Term Income?

What if you were able to get the seller to accept your offer then you were to immediately sell the property to someone who wants to live in the property for \$120,000 with \$20,000 down and a monthly payment to you for \$600 per month which includes 6% interest for the next 360 months.

You've seen the benefits to you as the buyer in the first example, now let's look at the benefits to you as the seller.

- \$20,000 Instant Cash
- 6% Interest
- You receive \$600 per month for 360 months.
- Of which you pay the original seller \$500 per month for 200 months
 - (\$500 X 200 = \$100,000).
- You receive \$600 per month and pay out \$500 each month leaving you \$100 each month for 200 months (\$100 X 200 months = \$20,000) until you have paid off the original seller.
- After that you get \$600 each month for the remaining 160 months (\$600 X 160 = \$96,000)
- For a total return over 30 years of
 - \$20,000 down payment (immediately)
 - \$20,000 (\$100 spread for 200 months)
 - \$96,000 (\$600 X 160 remaining months)
 - \$136,000 total if you sold the property as soon as you bought it.
- You make \$136,000 even after paying the original seller \$100,000 for the property.

With just a simple twist in thinking you can change the complexion of this deal from a long term rental property and an income stream to some fast cash as well as a long term income stream. By structuring a deal this way it can become part of your retirement pension plan.

A great deal for both the sellers and the buyers.

Knowing How to Creatively Structure Deals Is Important but unless you have negotiating skills to be able to convince sellers to work with you all of the creativity you have will not be adequate to be successful in today's real estate market. One thing that is for sure, if you don't have either of these skills it is going to be extremely difficult to be successful and profitable over the next few years. Knowing this information is what is needed to prosper in the real estate investing business.

Curtis and I will show you how easy it really can be to create and negotiate more killer, profitable deals. Join us Sunday, April 17th, 2011 at 7pm when we will show you how it's done. We will also be giving away some of our real estate products valued at over \$1,900.

See you there

Curtis Brooks and Larry Harbolt