

The Art of Being Broke: Career-Ending Problem Or Creative Opportunity?

By: Steve Cook

I know that many people are inspired by my rags-to-riches story. We're always inspired by the stories of someone who has overcome many hurdles. For example, when I got started in the business, I was broke! I didn't have money. In fact, I was in debt from a previous, failed business venture. Now, many people view "being broke" as a disadvantage.

I'm here to tell you that the reason that I've experienced success as a real estate investor is because I was broke. I'm 100% convinced that if I had had money, I would **not** have achieved the same success. I'm not saying that if you have money you are at a *disadvantage*. There are advantages to having money when you get started in this business, too. But for me, being broke forced me to be much more creative, in order to get things done. I couldn't do deals traditionally. I couldn't buy deals, borrow funds, and fix deals the way many others did. I couldn't do things traditionally, because there wasn't any money to do it with.

Let's take a look at some of the skills that I developed as a result of being broke:

Purchasing Homes With No Money Out Of Pocket. If you don't have any money, you can't purchase a home with terms that require you to bring money to the table. I could not make an offer and move forward with a deal where the terms required cash. If I did, the deals would have fallen apart.

Doing a deal that required none of my own money was necessary for every deal that I did. Most people who don't have money hear that they need money to buy a house, and they just walk away from the business. I guess I'm lucky that I was stubborn. I didn't walk away. Instead, I identified the problem and came up with a solution:

It was imperative that I find a lender who would loan 100% of my purchase price and, in my case, 100% of the rehab money too. I needed a lender that would loan the greatest amount possible. 95% or even 99% of the purchase price wasn't going to cut it for me.

So, I found a lender that would lend 100% of my purchase price and renovation costs. However, there was another problem: he wouldn't lend me closing costs. He said I was 100% "on my own" for the transfer taxes, title search, judgement reports, etc.

This was another roadblock. I could have given up, but instead I found another solution:

Negotiating Creatively With Sellers. The sellers I was talking to really wanted to sell their properties, so I simply bumped the asking price of the properties up from an agreed upon cash price, and asked the sellers to pay ALL of my closing costs. They always agreed, provided that I put enough into the purchase price to cover those costs. Now my lender would lend me 100% of my purchase price, and I didn't have any closing costs to worry about because the seller was paying them all.

This was great! I was broke...but I was buying houses.

But then there was another problem. I now had to fix these houses.

So, I'd call contractors to get estimates from them. I fought hard to get contractors to work within my budget. And, in time, I found some that would get the job done for the right price. We would agree upon a number. And, then, they would drop the bomb.

They wanted a deposit to get started.

There goes another one of those career-ending problems. I should have packed my bags then and gone home like so many others. Right? But I couldn't do that! Like I told you, I was stubborn, and I was going to make this thing work.

Negotiating Contracts To Fix Houses...Without A Deposit. So, I went back to my contractors and started negotiating my deposit down to zero dollars. That was my only option. Since I was broke, that was what I *had to* accomplish.

Of course, the contractors were not very happy about having to start jobs without a deposit. Most of them declined the work. However, I kept trying. Eventually, I learned to approach a contractor, sit him down and show him the paperwork for my loan. Here's what I did:

I showed him that I had the money, but it wasn't in *my* account; it *was* in my lenders escrow account. I told the contractor that when the work was completed, the lender would release the monies to him. All of the money. I told the contractor that I would sign paperwork assigning the escrow funds to him, so that he was guaranteed to get paid. Fortunately, I found a contractor that accepted this arrangement and agreed to do my rehabs.

As you can see, not only was I a broke house-buyer, I was also *rehabbing* houses...all with NO money.

How To Keep A Rehab Coming In On Budget. Of course, if you've rehabbed a house, you've been down the path before: a contractor comes to you and tells you

that they need more money. Something unexpected came up, and they need cash NOW. Some of those stories are so convincing!

If I had the money, I surely would have been forking it over, but the bad news (umm... actually, the good news) was that (you guessed it) *I didn't have any money.*

I couldn't give the contractors more money. I made it clear that there wasn't any more money in the well, it was dry, and that all I had to work with was in the escrow agreement that I had already shared with them. Once the contractor realized that there wasn't a checkbook sitting around somewhere that I could magically come up with more money to pay their unexpected surprise repairs or costs, the contractor became creative and (somehow) figured out a way to fix things for less.

Also, I used being broke to my advantage when negotiating my rehab estimates. When a contractor came in too high, I simply let them know what my budget was and made it very clear that there wasn't any more money to bring to the table. If all I had was \$12,000 in escrow, \$15,000 wasn't going to get the job. \$13,000 or even \$12,500 wouldn't get the job for the contractor, because I didn't have anything extra to pay them with.

Being broke taught me to be *creative*, and it taught me how to *negotiate* to get my number. These are still skills that I use regularly today. I don't overpay for my work. I have a number in mind, and I work until I get to my number.

I see many students today who pay more just because the contractor said, "I need more money." Thank God I didn't have any money, or I might have done the same thing.

If you're looking for a moral to this story, it's this: **Even if you do have money, act like you don't...and learn to be frugal, in every part of the deal.**

So, is being broke a career-ending problem or creative opportunity? Ultimately, you decide. I hope you choose to be stubborn and creative, like I had to be. The alternative is to give in too easily - whether that means walking away from the business when you don't have cash or giving in to demands from other parties for your cash.

Stubbornness and creativity will serve you well when it comes to getting things done as a real estate investor.