

LAZY MAN'S GUIDE TO

INVESTMENT REAL ESTATE



Floyd W. Brown

**LAZY MAN'S GUIDE
TO INVESTMENT PROPERTY**

FLOYD W BROWN

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Dedication

To my parents, who are not around anymore to read this book. They would probably be surprised and excited about me writing this book.

To my wonderful wife, Olivia, I am not sure how she has put up with me for 36 years.

To my lovely daughter, Vijali, I did my best. I think you turned out to be the best.

Acknowledgments

During my real estate career over the last 40 years there are some people I would like to thank for their help. I have to attribute my success to the support of many wonderful people that have guided me, motivated me, inspired me and educated me during my real estate career.

First of all, I would like to thank my parents who inspired and encouraged me to do anything that I aspired to.

To my wife, Olivia, who has given me support throughout our 36 years of marriage. She has been supportive of all of my real estate ventures.

I would like to thank Vijali Brown, who is not only an exceptional daughter, but was also the editor for this book. She is also the best property manager that I have had in all my years of real estate.

I also want to thank Tabatha Romero. She has been my real estate partner for the last eight years and also a very close friend. I have had many partners in the last 40 years and she has been the best. Thank you for that.

I would like to thank William Nickerson. He wrote the book "How I turned \$1000 into \$1 million in real estate in my spare time". This is the first book I ever read on real estate and it's super motivated me immediately. I immediately went out and bought a four unit building.

I would like to thank J. T. Foxx for educating me in personal development. He is also one of my coaches.

I would like to thank Scott Krone, Who works for the JT Fox company as a coach. He did a great job coaching me.

I would like to thank Bill and Dwan Twyford for teaching me short sales.

I would like to thank Gary DiGrazia, Sr. who taught me probates.

I would like to thank Richard Roop who taught me how to invest correctly in Free and Clear properties. He also taught me how to raise capital.

I would like to thank Dave Lindahl who taught me multi unit investing. Even though I had already been investing in Apartment buildings for 20 years, he still taught me a lot more.

I would like to thank Jimmy Napier and George Coats who taught me how to invest in debt.

I would like to thank Jack Miller and Nick Sidoti who educated me on how to be a property manager. This is important. After you buy the property, you have to manage the property.

I would like to thank Gary Prescott who taught me how to expand our mortgage office into a short sale office.

I would like to thank Susan Lassiter-Lyons who taught me how to raise capital.

I would like to thank Claire R Fox who taught me about syndications.

I would like to thank John T. Reed for all his real estate books that I read.

Last, but definitely not least, I would like to thank Mike Schindelheim who does the videotaping of all our projects. He is also the editor of the videos, without him, we would have no videos!

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About the Author



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Introduction

"If you think education is expensive, try ignorance!" Jimmy Napier

"You make your money when you buy".

Have you heard that phrase before?

What that phrase really means that if you buy at the right price, no matter how bad you screw up, you're still going to make money on the deal.

This is not a no money down book. Have I bought properties no money down? Yes. One can do it with a few different techniques. However this is a book about how to acquire properties and some properties will have to pay all cash, especially when you're buying wholesale.

My name is Floyd Brown. I have been buying real estate since January 1977. My first property was a four unit apartment building. It was listed for \$45,000. I wrote an offer for \$28,000. The real estate agent didn't want to write the offer. She said it would never get accepted. However she finally relented and presented the offer to the seller. The seller took it! The agent said to me "if I had known they were going to take that low of a price, I would have written the offer for myself". I put \$4000 down, which I didn't have, (I refinanced my car) and acquired a loan with Happy Savings and Loan for the other 24,000. I owned the property for six months, painted it inside and out, raised the rents and sold the property for \$65,000. At the time, I was making \$6000 a year working for an insurance company. All of a sudden I had \$40,000. I also had a new line of work. I was now an apartment building rehabber. My next building was a 12 unit apartment building. However, as a new rehabber. I wanted to do this building as fast as possible. I paid \$95,000 for this building, fixed it up in three months, attained new rents, and sold the building for \$165,000. I was off and running.

I kept doing apartment buildings and things were going great until 1981 when inflation was going through the roof and Paul Volker

kept raising the interest rates on my loans all the way to 21.5%. All of a sudden the commercial real estate market dried up.

Now, I had to really educate myself. I had already taken for granted how easy it was to buy an apartment building, fix it up and resell it for a very good profit. However with that market now gone, I had to get educated. Now I started studying different ways of buying real estate wholesale. I studied Foreclosures, Auctions, Probates, Wholesaling, and Options. During this period, I also got a real estate brokers license. That gave me a different type of access, such as the MLS and also I could list my own properties when I was reselling, and picking up commissions when I was buying properties. That was part of getting educated.

You'll have to get used to writing a lot of offers. Not everybody wants to sell their property wholesale. You might have to write 50 to 100 offers to get one wholesale deal. But if you don't write the offers you will get zero deals. You should set a goal such as 10 offers per day. So start writing!

Your success will be determined by how hard you work and the determination you apply to your business.

The bottom line in real estate investing is that this is a simple business but it is not easy. It requires you to do work. And let us be honest, who likes doing work?

I know this sounds strange because every other "guru" tells you how easy it is and how it will rain money after you buy their book, tapes and/or seminars.

If one buys all these books, tapes and/or seminars and just listens and/or reads them, guess what will happen...?

Nothing!

One still has to go out and do the work!

"It's not what you get by reaching your goal that counts. It's what you become by trying." Zig Ziglar



Chapter 1

"90% of all millionaires became so through real estate. More money has been made in real estate and all industrial investments combined. The wise young man or wage earner today invest his money in real estate." Andrew Carnegie

Single Family Residence

Single-family homes are the backbone of the country. Most people start out in real estate by buying a single-family home. Most people who purchase single-family homes also think about living in the home, rather than renting them out.

I won't spend much time on single-family residences as a house to live in, because this is a book about investing. Therefore, I will speak about single-family residences as Income Property.

When buying a single-family residence as an Investor you must deal with Motivated Sellers. A Motivated Seller is someone who

needs to sell the property, not someone who wants to sell the property. There is a big difference.

Is someone who has their property listed in the MLS a Motivated Seller? Possibly, but most sellers in the MLS are retail sellers. They don't have to sell the property. They will sell if they get their price or close to their price. This is an example of someone who wants to sell their property, but does not need to sell their property. We need to deal with motivated sellers that have to sell the property for one reason or another.

Where do we find these Motivated Seller?

1. People who are in foreclosure.
 - a. These can be people who are in the Pre-Foreclosure process, or at the Foreclosure Auction.
2. Heirs that have acquired property through probate.
 - a. These can be found through the courthouse, or a private service that sells this information. One such company is called www.probatedata.com
3. Vacant's
 - a. We find these by:
 - i. Search the tax records
 - ii. Send a postcard. Be sure to put a do not forward - address correction requested on it.
 - iii. Look in www.whitepages.com.
 - iv. Skip tracing - we use www.Spokeo.com
 - v. Leave a yellow sticky note on the front door that says I want to buy your house. Don't forget to put your telephone number on the sticky.
 - vi. The neighbors - knock on the two doors on each side of the property and three doors across the street. Ask anybody who answers the door if they know how to get in contact with the owner.

4. Craigslist.
5. Multiple listing services.
6. Realtors.
7. For sale by owner's (FSBO).
8. Newspapers.

The two main ways of holding single-family residences for income are fix and flips and buy and hold for long term.

Fix and Flips

Buy the property as cheap as possible. This can be done many different ways such as:

1. Buying a short sale.
2. Buying a pre-foreclosure or at a foreclosure auction.
3. Buying a Probate.
4. Use an option

I will explain all of these techniques in later chapters. The main thing to remember is you must have a Motivated Seller. A Motivated Seller is someone who needs to rid themselves of the property. It is not a seller who will only sell if he gets his price. Most Listings in the multiple listing services are all retail prices. For a fix and flip you have to buy wholesale.

When you find a Motivated Seller be sure to get it at a wholesale price. A wholesale price is approximately 65% to 80% of the retail price depending on how much fix up that you need to repair the property. If there is a lot of fix up you might want to pay less than 65% of the retail price. If there is no work to be done and you can flip it without putting any money into it then you might pay as much as 80% of the retail price. If your pay more than 80% of the retail price you are paying retail!

You cannot make any money paying retail. One makes their money on the buy. I use this formula:

Retail price times 65% minus fix up costs equals Maximum Allowable Offer.

Example:

\$100,000 FMV (Fair Market Value)

X .35

\$65,000

-20,000 Fix up costs

\$45,000 Maximum Allowable Offer

On the fix-up, are you going to do your work yourself to save costs or are you going to hire out the work to get done. If you do the work yourself you will save money on labor however it'll take a lot longer unless you're a contractor. If you hire it out it should be much faster but more costly to do the flip.

To do the work yourself you have to factor in the time value of your money. Do you want to have the property for three or four months to do repairs on the weekends, maybe at night etc. or are you going to work eight hours a day seven days a week until it's finished with no disruptions.

Some properties will not need any fixing at all. Those you can start marketing retail right away.

To flip the properties right away, you must have buyers. Where are you going to get your buyers?

1. MLS - you can always list your property with a Real Estate Agent and he/she will put it in the Multiple Listing Service. That will be a retail way of finding a buyer.
2. Have an Email Buyers List. Start compiling an email list of buyers. Some can be purchased, or you can start a campaign to collect as many email addresses of potential buyers that you can. If you have a website, you can collect email addresses by giving something away on a squeeze

page. This is a page that makes people import data to obtain information, i.e., name and email address.

3. Put it on craigslist. You have to be careful about other wholesalers trying to get your property as inexpensive as possible.
4. Old-fashioned newspaper. Newspapers still do classified advertising.

The other way of investing in single-family residences (SFR) is the Buy and Hold method. This is where you buy it either wholesale or retail, and you plan on holding it for a long time such as 10 years or more. One can pay retail if you are going to hold onto it for a long period of time. Inflation will catch up during the next 10 years or more. Of course, if you pay wholesale you will receive a much greater return on your investment.

These properties can also be fixer uppers and instead of flipping immediately for profit, one can hold onto them long term for an even greater profit over the period of years.

Many people have gotten wealthy by buying a lot of single-family residences, renting them out and holding onto them for many years.

Summary

1. What is a motivated seller and how do you find a motivated seller?
 - a. Where to find motivated sellers.
 - i. Foreclosures.
 - ii. Probates
 - iii. Vacants
 - iv. Craigslist
 - v. MLS

vi. Realtors

vii. For Sale By Owner (FSBO)

viii. Newspapers

b. How to calculate Maximum Allowable Offer for wholesale properties.

2. We need sellers that will sell on our terms.

3. Two ways of holding single-family residences (SFR) for income.

4. Fix and flip's.

a. Short sales

b. Pre-Foreclosures

c. Foreclosure Auctions

d. Probates

e. Options

5. Buy and hold for long term.

a. Can purchase wholesale or retail

"Don't wait to buy real estate. Buy real estate and wait." Will Rogers





Chapter 2

"Don't spend so much time trying to choose the perfect opportunity, that you miss the right opportunity." Michael Dell

Commercial Properties

Commercial properties are my favorite. There are many different types of commercial properties but they are all basically the same. It's all numbers and not emotions.

There are advantages to buying commercial property over residential property.

1. The first advantage is they are more profitable than single-family residences. If you buy a 30 unit apartment building, chances are you will make more money than buying a single-family residence.

2. Most commercial property loans are non-recourse debt. What is nonrecourse debt? Nonrecourse debt means if the payments are not made for whatever reason, the lenders have to foreclose on the property to get their money back. The lenders do not have the recourse to go after you personally for the funds.
3. One has the chance of increasing your value of the property by taking a B property and changing it to an A property by fixing it up in an A area or you can take a C property and fix that up in a B area to a B building to lower the Cap Rate and increase the value. I will explain how to identify different types of properties and areas in another chapter.
4. Another way to increase the value of the property is by increasing the rents. Let's say you are receiving \$500 per unit on a 20 unit building. You now increase your rent to \$550 per month over a period of time. You have now picked up another \$10,000 per month in income which is going to increase the value of the building even more.

As you can see if you increase the value both ways that is forcing inflation on steroids!

One cannot do that on Single Family Residences. First of all if you have a single-family residence and your tenant moves out you have 100% vacancy. If you have a 20 unit building and four tenants move out you still have 80% occupancy. Big difference.

There are some disadvantages:

1. Commercial properties usually take longer to sell then residential properties. For example, a house can be sold to a homeowner, and Investor. There are different choices of buyers for you. However if you are selling an apartment building, there are not as many apartment building buyers out there especially if to are selling a large building with a lot of units. The more units in your building, The harder it is to find a future buyer.

2. There are higher costs involved with commercial property versus residential property. For example the down payment might be a little higher, the interest-rate might be a little higher, the due date might be a little shorter.
3. The good deals are hard to find. Investors, unless they are in trouble, are not trying to sell their properties at fireside sales. Most of them hold out for retail. Again remember, we are looking for motivated sellers, that is the key! One has to go and find the best deal and that takes a lot longer.

I think the advantages outweigh the disadvantages with commercial property.

For our purposes I'm going to discuss four major commercial property types. There are many subtypes, but we will discuss the major four. When calculating your returns on all of the commercial types of properties, the numbers are basically the same. And we buy commercial property off the numbers.

1. Apartment buildings or multi units. These are properties that are five units or more.
2. Office buildings. These can be small buildings or large buildings, however they are used mainly for leasing out to tenants. The tenants could be either small mom and pop operations to a large corporate conglomerate.
3. Retail building. This could be a single use building such as a doctor's office or it could be a regional shopping center which would have a large anchor tenants.
4. Industrial properties. I happen to like industrial properties because you have a lot less tenant issues and a lot less plumbing issues. No tenants, no toilets.

Now there are also sub types of commercial properties such as:

1. Self storage
2. Healthcare/hospitals
3. Hotels/Motels

4. Senior living centers
5. Mobile home parks
6. Special purpose properties
7. Sports or entertainment properties

This gives you an idea of what sub type properties are out there, but I'm going to stick to the main four.

4 Types of Commercial properties:

1. Type A - These are newer type properties usually built within the last 10 years. These would be in your best neighborhoods, the maintenance would be all kept up immaculately, very expensive. They are very nice properties but you do not make much profit on them. Unless you're like Donald Trump and selling your condos for millions. They usually have white-collar workers. The rents are very high. When tenants move out of these properties, they usually buy.
2. Type B - these properties were usually built within the last 10 to 20 years. They usually need a little bit of work but usually they are in great shape. The tenants are usually a mixture of white-collar and blue-collar. When the tenants leave they usually buy a house or if they don't leave they are usually long-term tenants.
3. Type C - these are usually fix up properties. They are usually built 30 or 40 years ago. They almost always need repair, unless you're buying from somebody who just finished fixing it up. You will also start seeing section 8 tenants. For those who do not know, those are tenants that have most of the rent paid by the government. The tenants will usually stay in the building as long as they are treated fairly. They usually do not buy.
4. Type D - this is the lowest man on the totem pole. These are the properties that are found in the poorest neighborhoods. The buildings are usually well over 40 years old.

They are you usually in need of repair. They will have bars on the windows, selling drugs out of the property, maybe even in a war zone. Tenants do not purchase homes.

I like the Type B properties and the Type C properties. With a B property you can go in and try to turn it into an A property. The same with a C property. You can turn it into a B property. You can make more money by doing that which changes the cap rate on the property which changes the value.

Then lower expenses, and raise rents.

Now about Cap Rates. A lot of brokers like to quote cap rates. But you have to be careful. Different areas have different Cap Rates. For example, Beverly Hills would have a low cap rate. South-central Los Angeles would have a high Cap Rate. What Cap Rates would you expect for each type? Cap Rates help you identify the type of property. If your Cap Rate doesn't match the price, then the property is overpriced.

Here is what I use:

Type A - 7% or lower

Type B - 8-9%

Type C - 10-11%

Type D - 12+%

Some people, especially brokers, will disagree on my percentages; however those are the numbers that I use.

Remember the higher the Cap Rate the lower the value.

How do we determine the value of a commercial property?

There are actually a few different ways that people use and I will show you some. It doesn't make any difference whether we are figuring out the value of an apartment building, self storage, mobile home park, or office building. The formula is basically the same.

1. Cap Rates - A cap rate is a cash on cash return on your investment as if you didn't have a mortgage at all. To find the Cap Rate you will need to know what the Net Operating Income or NOI is.
2. To find a NOI we have to start with the Gross Schedule Income. That could be rents, laundry, vending machines, parking or any other income that would be coming into the property. From that we subtract a vacancy factor. I usually use 10%. If they tell me there are no vacancies, I still use 10%. If their number is higher then I use that percentage.

I subtract the vacancy factor from the Gross scheduled income and that gives me the net scheduled income.

From the net scheduled income I subtract the expenses of the property. If I have the true expenses, I will use those. However if they don't give me the expenses I will use approximately 50% if the tenant pays the utilities and 55% if you pay the utilities. If their numbers are higher, then use theirs!

What expenses do we have?

We have taxes, insurance, utilities, gardening, management, repairs, and maintenance. That is why I use approximately 50%. I also use this number from experience.

I will then subtract the expenses from the Net Scheduled Income and that gives me the net operating income.

All numbers are based on annual numbers.

Example:

\$100,000 Gross Scheduled Income
- 10,000 10% vacancy factor
\$90,000 Net Scheduled Income
- 45,000 Expenses (50%)
\$45,000 Net Operating Income

We now have found the net operating income or NOI. Now apply the Return On our Investment (ROI) that we need to figure out what price we should pay.

Here's an example:

\$100,000 NOI

Divided by

8.5% = \$1,176,470 Maximum Allowable Offer Price

\$100,000 NOI

Divided by

7.5% = \$1,333,333 Maximum Allowable Offer Price

As you can see, there is quite a difference in price. \$156,863 difference. That's a lot.

Someone looking for an 8 1/2% cap rate can only pay 1,176,000. Someone else looking for only a 7 1/2% cap rate, can pay up to 1,333,000.

Another way to calculate is to use the Cash on Cash return. This is how we calculate the Cash on Cash return:

Net Cash Flow/Net Cash Invested =
Cash on Cash return

Example:

Gross Income \$1,000,000

- Expenses \$500,000

- Debt Service \$400,000

= Net Cash Flow \$100,000

Now we have to figure out what our total money invested is in the project.

Down payment \$250,000

Closing costs \$50,000

Total Costs \$300,000

Now we have both the Net Cash Flow and the Net Cash Invested.

$100,000/300,000 = 33.3\%$

Cash on Cash return

This is a ridiculously high example and I would probably run from somebody who said I would be getting a 33.3% cash on cash return. But sometimes returns like these happen.

Now that you know how to figure out the value of a commercial property you can plug-in any Cap Rate you want to use. If you want to use 3%, 5%, 15%, whatever Cap Rate you want.

How do we finance a Commercial Property?

1. The best and easiest way is seller financing. Ask the seller to finance as much as he will so all we have to do is get the down payment together. If he will finance 70%, now we are only looking for our 30% down. Usually with this type of financing there are no points or garbage fees. You might get a better rate than at another type of lender.
2. Institutional lenders such as Bank of America or Wells Fargo. You will have to pay points and garbage fees but the interest rate should be reasonable. With these lenders, you need to know your Debt Service Coverage Ratio (DSCR).
3. Private money can be found also. These are individuals that have the capital and have lent on property before or would lend the money to you at a reasonable rate because it is relationship capital. This is not hard money.
4. Hard Money is another way of getting money. It will only lend about 65% of the loan to value ratio. However use this money wisely. It should be for short-term only. It will kill you if it's long-term. It has high points and fees and high interest-rate.

Debt Service Coverage Ratio

Anyone who has bought commercial property or will be buying commercial property in the future has run across the debt service coverage ratio especially if you have to get a loan.

The Debt Service Coverage Ratio is a way to measure Cash Flow. A ratio of 1.0% means that all of the income will go to pay all of the expenses and there will be nothing left. A ratio of 1.2% means that the income is 20% more than all the expenses going out. Different lenders have different ratios, but almost all lenders have at least a 1.2% minimum ratio. Some lenders have a 1.25% ratio which means that you must have 25% cash over all of the expenses. Some more conservative lenders might even have higher ratios. The higher the number the more cash flow on the property.

This is how we calculate the Debt Service Coverage Ratio.

Monthly gross rents ÷ Principal, interest, taxes, insurance, and association dues

$$10,000 \div 8000 = 1.25\%$$

Places to find Commercial Properties to purchase.

1. www.Loopnet.com. - a website for commercial properties. Anybody can join. It cost about \$250 per month. This is a great source for finding commercial properties all over the country. They also have a free option, however you only get a certain number of listings to look at, not all of them.
2. REO from banks - they have a huge number of assets that they have to get off their books. They have great deals to attract investors. You can make money on acquisition fees right away especially if you're going to wholesale them out.
3. Commercial Real Estate Brokers - call all commercial brokers in the area you were looking at and get on their list. As soon as they list one they will call you among other people.
4. Craigslist - go to the area you're looking for, go to housing, go to real estate for sale, click on apartments.
5. www.propertyline.com
6. Facebook real estate groups

Summary

1. Commercial properties are my favorite.
2. Different types of commercial properties.
 - a. Apartment buildings or multiunit buildings.
 - b. Office buildings.
 - c. Retail buildings.
 - d. Industrial properties.
 - e. Subtypes of commercial properties.
 - i. Self Storage.
 - ii. Healthcare/hospitals.
 - iii. Hotels/motels.
 - iv. Senior living centers.
 - v. Mobile home parks.
 - vi. Special purpose buildings.
 - vii. Sports or entertainment properties
3. Four Classes of commercial properties and how to identify these property types.
 - a. A buildings
 - b. B buildings
 - c. C buildings
 - d. D buildings
4. Cap Rates; they help you identify the class of the property. If your Cap Rate doesn't match, then your property is overpriced.
 - a. Class A - 7% or lower
 - b. Class B - 8-9%
 - c. Class C - 10-11%
 - d. Class D - 12% or more

5. How to determine the value of commercial properties.
 - a. Cap Rates
 - b. Cash on cash returns
6. Financing commercial properties.
 - a. Seller finance
 - b. Institutional lenders
 - c. Hard money
 - d. Private money
7. Debt service coverage ratio (DSCR)
 - a. Annual gross income/(Principal + interest + taxes + insurance + association dues)
8. Where to find commercial properties.
 - a. www.loopnet.com
 - b. REOs
 - c. Commercial real estate brokers
 - d. Craigslist
 - e. www.propertyline.com
 - f. Facebook real estate groups
9. Advantages to commercial properties
 - a. More profitable
 - b. Non-recourse debt
 - c. Increase values with B to A properties or C to B properties
 - d. Increase value with increased rents (income)
10. Disadvantages of commercial properties
 - a. Take longer to sell
 - b. Higher costs
 - c. Good deals are difficult to find

“Educate yourself. When a certain topic pops up, Google it. Watch movies and documentaries. When something sparks your interest, read about it. Read, read, read. Study, learn, stimulate your brain. Don’t just rely on the school system, educate that beautiful mind of yours.” Unknown





Chapter 3

"Wealth is a way of life... Regardless of your financial position."
Hollis Norton

Probates

When someone dies, the estate has to be administered to take care of the assets and liabilities. Usually you have to go to probate court for it. If there is a will involved, then the will, will have an Executor or an Executrix named. If someone dies without a will that is called intestate and an Administrator will be appointed by the court.

If it does go to probate court, this is not a fast process usually take at minimum six months and can take up to two years. Someone has to administer the probate such as an Executor or an Administrator. An Executor would be appointed by the Will. The Administrator would be appointed by the court if there is no Executor. If there is real estate involved, then the court will

have to have the property appraised and the sales price must be at least 90% of the appraised value. The court also requires a 10% cash down payment. Sometimes the down payment can be steep because of the price of the property. The court is also subject to an over bidding process. I can write the offer to take it to the probate court; however, anybody can show up at court and overbid me. The court will go with the highest bidder.

The Over Bidding Process

We will use a bid of \$100,000 for an example. I work in Los Angeles county, so I am going to use the rules of Los Angeles county. Every county in America has their own rules to the probate court. So be sure to check whatever county you are working for their rules.

The first \$10,000 of the bid price has to be 10% more. That is \$1000.

The next \$90,000 of the bid price has to be 5% more. Any more increases have to be set by the court. Here's an example:

Original bid = \$100,000

10% of \$10,000 = 1000

5% of \$90,000 = 4500

Minimum bid. \$105,500

Do you have to go through the court process?

No. There is a process called the "Independent Administration of Estates Act".

Most probates in California go through this act. The Executor does not need the court's permission to sell the property. They only need to approve the sale. Advantages are:

1. No over bidding process. You will not lose the property to someone else at the court.
2. No 10% earnest money to the court.
3. No 90% of appraised value rule.

4. The Executor only needs to file a “Notice of Proposed Action” to sell without court supervision. This notice must be filed.

What I like with probates is that the sellers are usually heirs and they are not married to the property. They didn't work hard to get that property.

How do we find these properties?

1. We can always go down to the local courthouse and pull the probate files. Find the files that contain real estate. Find out who the executor is and mail a letter to the executor and all of the beneficiaries. Make sure the property does not have a surviving spouse. If it does, then don't send a letter to the surviving spouse.

2. Probate attorneys

- a. Send mailers to the attorneys letting them know that you buy probate properties.
- b. Follow up the mailers that you sent to the attorneys with a telephone call. Most people will not do this and this makes a big difference. If you need to find the attorneys telephone number and you don't have it, then you can look it up in www.superpages.com or Google it. Building a network of probate attorneys who consistently send you probate deals is a gold mine.

3. www.probatedata.com or www.probatesdaily.com

- a. These are probate data services that I use. I find it a lot easier than going to the courthouse. But years ago, we could only get this information by going to the courthouse. Now we can get this information without leaving our desk.
- b. I then send out lots of mailers; However, I don't have time to do all these mailers, so I hire somebody to do the mailers for me.

Make sure you're dealing with the Executor or the Administrator. Don't waste your time talking to beneficiaries! They don't make the decisions, the Executor and the Administrators do!

The California Probate Timeline:

1. File the "Probate Petition" at the courthouse.
2. Immediately after filing the Probate Petition, a notice of the first court hearing date will be published in the newspaper of general circulation in the decedent's resident city and notice will be mailed to all heirs and named beneficiaries.
3. First court hearing date is approximately 5 to 7 weeks after filing the probate petition.
4. Issue a bond if ordered by the judge. (2nd to 3rd month)
5. "Letters" and "Order" appointing the personal representative is issued (2nd to 3rd month).
6. Executor opens an estates bank account with the estates EIN tax number (2nd to 3rd month).
7. Executor gathers all the assets and inventories for safe-keeping (3rd month).
8. "Notice to Creditors" form sent to all reasonably known creditors and the applicable government agencies (2nd to 4th month)
9. Real estate properties are sold (3rd to 4th month if full)
10. Authority is granted under the Independent Administration of Estates Act).

What is the difference between full authority and limited authority under the Independent Administration of the Estates Act?

With full authority all you have to do is file a "Notice of Proposed Action". Then you have to wait 15 days or you can get a "waiver" to avoid the 15 days. Then close escrow.

With limited authority (4th to 5th month) you must:

1. Published in the newspaper.
2. Get the offer.
3. Petition the court for confirmation.
4. The court will have a hearing for the Over Bidding Process
5. Close escrow

Summary

In dealing with probates there are two processes that can be used.

1. Go through the probate court.
 - A. There will be an over bidding process.
1. Use the Independent Administration of Estates Act and go around the court legally.
2. How and where to find Probates.
3. California Probate Timeline.

"Broke is a temporary condition, poor is a state of mind." Hollis Norton

FLOYD W BROWN





Chapter 4

"If you want happiness for an hour—take a nap. If you want happiness for a day—go fishing. If you want happiness for a year—inherit a fortune. If you want happiness for a lifetime—help someone else." Chinese proverb

Pre-foreclosures

In the United States, individual states follow either a judicial or a nonjudicial foreclosure process. Typically this depends on whether it is a mortgage state or deed of trust state.

States that have mortgages have judicial foreclosures. In a judicial foreclosure the lender seeks to foreclose by filing a civil lawsuit against the borrower and serving the borrower with a formal summons and a foreclosure complaint. This foreclosure is handled through the court system, where the court appoints a referee to conduct a foreclosure auction on the courthouse steps.

The lender then records a “Lis Pendens” in the county where the property is located. This Lis Pendens becomes a lien on the property and gives notice to everyone about the foreclosure auction. The court then grants a judgment permitting the lender to conduct the foreclosure auction.

The Notice of Foreclosure sale (NFS), is then published for a certain period of time prior to the auction. The borrower can stop the foreclosure by just repaying what he owes up to the moment of sale.

The process can take from anywhere from 4 to 12 months to complete if there are no legal objections to the foreclosure.

States that use Deeds of Trust use Non-Judicial foreclosure.

A Deed of Trust conveys an interest in real property to a third-party (the trustee) to hold as security for a repayment of a debt. The trustee has the authority to initiate foreclosure proceedings by virtue of a “Power of Sale” clause included in the Deed of Trust.

The trustee records a Notice of Default (NOD) with the County Recorder where the property is located. This process starts a three month period in which the borrower can bring all of the arrearages current. After this three month period, the trustee records a “Notice of Trustee Sale” (NTS) with the County recorder. The borrower then has 21 days to cash out the entire loan.

Pre-foreclosures are properties that a Notice of Default and/or a Notice of Sale has been filed on the property, but it has not yet actually gone to Auction.

The next three chapters are all on the foreclosure process; therefore, I am going to explain the foreclosure process before I explain how I handle pre-foreclosures.

I am going to use California as an example. All states have their own laws. Since I do most of my pre-foreclosures in California, I

will use California as an example. If you live or work in other states, be sure to check their foreclosure laws.

Most lenders will give you a three-month grace period before they actually file a "Notice of Default". If the borrower does not bring the payments current at the end of the three month period, a "Notice of Sale" is filed. The borrower now has 21 days to pay off the entire loan. The reason for 21 days is you have to advertise the property once a week for three weeks in a paper of general circulation. This "Notice of Sale" will have an auction date in it. On the auction date, the auction can be held and the property can be sold to either to the highest bidder or it could go back to the lender. However it does not always go to sale. There are lots of postponements for many different reasons.

Here is an example:

February 1	Notice of Default filed.
May 1	3 month reinstatement period over.
May 2	Notice of sale filed.
May 23	Notice of sale up.
Auction can be anytime after May 24th.	

Now that we understand the foreclosure process, it's time to locate them.

How to locate Pre-foreclosures.

In the old days before technology, we would have to go to the county courthouse and read the filings, copy them down, and take them back to the office. It took all day. Then companies started doing it and you could buy their lists. Now we can print out on the computer every day or even have it sent to your email address.

The company that we use is called www.propertyradar.com. We pay a monthly fee to get the information. However we now have it every day at our computer and at all times. However, this website only works in the western seven states. I do not believe it is anywhere on the East Coast or the Midwest. In other states,

you contact your title company and ask to be put onto their foreclosure list. They will email you weekly.

Now that we have our leads coming daily, we can now decide on how were going to contact the borrowers. Here are some of the ways to do it:

1. Knock on doors
2. Send a mailer
3. Phone
4. Advertise on social media
5. Website

Knocking on doors is the best way to contact the owner. You can get face to face with them immediately. If they are not there you can leave a Foreclosure package with them. If the property has a “for sale” sign on the property, then keep on driving. A real estate agent has already poisoned their mind by telling them they can get too much money for the house while they are in foreclosure. You don’t want to waste your time and energy with that.

Most of the properties will not be for sale. The owner thinks he’s going to solve the problem. They almost never do. You have to knock on their door and try to buy the property from them. At least plant the seed in the first meeting about selling. If you are not a real estate agent, then go ahead and talk directly to the owner. This is an advantage for a Non-Real Estate Agent. A real estate agent will have to go through the other real estate agent (listing agent) and that is going to be much tougher. If the owner tells you to work through the real estate agent, then you will have to work with the agent. The longer the process takes the better it is for the buyer and the worse it is for the seller.

However if it is a short sale, this is different and will be explained in a later chapter.

We also send out mailers. Sometimes we send it to different areas that we are not going to knock especially if it’s out of our

area. Other times we send it out to the same properties that we knock unless we already knocked on the door and have spoken to them.

If the list has telephone numbers, we will call them by phone, especially if it is out of our area.

Phone is pretty quick. You can knock out 50 calls a day easily.

You can advertise on social media and/or find properties that might be advertised as Foreclosures.

One could put up a website and have all of the advertisement route to your website.

It is critical to remember that the owners still own the property up until the very time that it is sold at auction. Most owners should be very motivated to sell the property. However in reality most owners think that they are going to save the property, or just by magic they will never sell and they can live there for free forever. If the owner does not sell or reinstate by the sale date, than the trustees sale will take place. Usually the owner then loses everything. It is always in the owner's best interest to sell the property before the auction date.

In California, if you are buying the equity from someone, you must use an equity agreement instead of the regular purchase agreement. This equity agreement must have a five day cancellation how attached to it. After you write the contract with the owner, you can't speak to him for five business days. That is one calendar week. So go work on some other foreclosures during this week. Most states will have different contracts for foreclosures. Check your state for their laws and contracts.

When buying directly from the owner during the default, usually the buyer simply takes over payments by taking title "subject to" existing loans (as opposed to assuming the loans) by reinstating the back payments. After making an agreement with the owner, open an escrow and they will process all the paperwork. That is how easy it is.

When there is a lot of equity in the property, approach the owner during the default stage with an offer. It is in his best interest to accept the offer to get out before losing everything at the foreclosure sale.

When a property has little equity or no equity you can simply step back, be patient and wait for the trustee sale. The trustee sale will wipe out all junior liens creating instant equity. You must have all cash to do this procedure.

Summary

1. Know what type of foreclosure it is. Is it a judicial foreclosure or a non-judicial foreclosure.
2. Learn the foreclosure timeline and laws for your state.
3. How to locate the properties.
 - a. [www. Propertyradar.com](http://www.Propertyradar.com)
 - b. Title companies
 - c. Courthouse
4. Buy directly from the owner, if possible
 - a. Make sure you use "Equity Contracts" if the property is in foreclosure. If the property is not in foreclosure, then use the regular purchase contract.
5. Marketing to Foreclosures
 - a. Door knocking
 - b. Mailers
 - c. Phone
 - d. Social media
 - e. Websites

"Hope and fear cannot occupy the same space. Invite one to stay."
Maya Angelou





Chapter 5

"My greatest point is my persistence. I never give up in a match. However down I am, I fight until the last ball. My list of matches shows that I have turned a great many so-called irretrievable defeats into victories." Bjorn Borg

Foreclosure Auctions

When a borrower doesn't pay after receiving the "Notice of Default" (NOD) and the "Notice of Sale" (NOS), the next step is the foreclosure auction.

The auctions are usually held at a Courthouse. In Los Angeles county there are two main locations; one is the Pomona courthouse and the other is at a hotel next to the courthouse in Norwalk. It used to be at the courthouse in Norwalk, but a judge made a ruling and there are no more foreclosure sales at the

courthouse. So, they moved the operation next door to the hotel. At this time, it is at the Doubletree.

The auction dates and corresponding information can be found in a couple of sources. One source that we use is www.propertyradar.com. You can pull up all of the auctions by day or week or month. Another way we find the auctions is when we are working on the pre-foreclosures, we keep track and follow the process all the way down to the line. The NOS will have the auction information on it. Go to the Trustee's website to get sale information on particular properties. They will update their information either daily.

You must have patience with the Trustee sale game. There are a lot of postponements for many different reasons. Two of the common ones are bankruptcy and beneficiary request.

However, if it is a day that the property is going to Auction, then you will have to check in with the Trustee that is holding the auction. They will want to verify your funds, either Cash or Cashier's Check. Make the Cashier's Check out to yourself in different denominations. That way if you do not get the property you can redeposit the money back immediately into your bank account. If you do win the bid, you will sign over the checks to the Trustee. The reason for different denominations are if you win, you will have to wait a couple of weeks to get whatever overage you give to the trustee; therefore, if you want to give them as little overage as possible. For example, you are prepared to purchase the property for \$100,000.00. You will bring a check for \$50,000.00, \$20,000.00, \$20,000.00, and \$10,000.00. You win the bid at \$83,000.00. You will sign over all the checks, except the \$10,000.00, to the Public Trustee. Now, you can deposit \$10,000.00 back into your account. You will have to wait for the remainder of the money to be mailed back to you. I would rather wait smaller amounts. In addition, if you choose to purchase multiple properties, smaller denominations make it easier.

In Los Angeles county, the Trustees auctions off about 100 properties a day. You might have to sit and wait an hour or two until your property comes up for bid. If you are bidding on a certain property, you are hoping nobody else shows up at the auction to bid against you on that property. I have seen some properties go off at the auction and nobody shows up. I have also seen the opposite end of the spectrum where 50 people or more show up for one property. Please remember to know your numbers. I have seen properties go for more than it is worth because people do not know their numbers. You need to know how much it is worth because people get into the auction frenzy and spend more money on it than what is worth.

If the buyer doesn't have enough cash or perhaps no cash at all, he will need a source for funds to purchase these auctions. I suggest finding a partner or partners to help you with the transactions.

Summary

1. Usually held at Courthouse steps.
2. Two ways to find properties
 - a. Paid websites i.e.. www.propertyradar.com
 - b. Following a property through Trustee's website and/or local newspapers required legal notices.
3. Must have verifiable funds
 - a. Cash
 - b. Cashier's Check made out to yourself
 - i. Bring multiple checks in different denominations

"A man who wakes up and finds himself a success hasn't been asleep." Dave Thomas





Chapter 6

"What people don't realize is that successful people often have more failures than failures do. But they keep going." Herb True

Short Sales

A Short Sale is the sale of real estate in which proceeds from the selling of property fall short of the balance of the liens on the property. In short, selling a property less than what is owed against the property.

Let's say the property is for sale at \$100,000 because that is the current Fair Market Value (FMV); however, the liens on the property are \$150,000. That is a short sale.

Short sales are not quick. They can be anywhere from 90 days to years depending on who the servicer and who owns the note. These can and usually are two different entities.

Here are the steps to the Short Sale process:

1. Homeowner agrees to sell the property.
2. Paperwork from the sale and the seller's financials have to be sent to Loss Mitigation department of the lender.
3. The lender orders a BPO or an appraisal.
4. Send a hardship letter to the lender.
5. Bank will accept the offer or give a counter offer.
6. The lender wants all cash.

The homeowner has to agree to sell you the property. If the homeowner does not agree to sell the property, you can't go any further. Assuming the seller agrees to sell the property to you, now you have to fill out the paperwork with them.

After all of the paperwork from the Sale and the Seller's Financials are done, then they have to be sent to the loss mitigation department of the Servicer or Lender.

The servicer or lender will then order a BPO (Broker Price Opinion) or an Appraisal. This is a good sign. The lender is going to want to get a general idea of what the property is worth. There is a difference between a BPO and an appraisal. A BPO is done by a real estate broker and they get paid approximately \$50. A lot of the brokers don't even go look at the property. They just send someone out, usually a teenager, to take pictures of the outside of the property. An appraisal is done by a professional appraiser and will probably be anywhere from 12 to 30 pages depending on the type of property. It will be much more thorough. They also cost between \$400 and \$600 depending on the property. If the property is over \$1 million they probably will want 2 appraisals.

In addition, we send a Hardship letter to the Lender. The lender, for their file, wants to know why the borrower cannot make the payments on the loan. This is why they require the Hardship Letter. I am not even sure if the lenders actually read the

hardship letter or they just file it away, like a checkbox required on their list to complete a Short Sale.

When the lender gets the BPO back from the Broker or the appraisal back from the Appraiser, they will give us a counter offer or accept our offer. In my case, they never accept the first offer because it is always too low for them. If your offer is accepted the first time, then you offered too much money!

Assuming the lender gives us a counter offer and we accepted it, then it is time to go to Escrow. During the Escrow process the lender will want all cash. They already have gave a loan on this property and the payment did not come in on a timely manner.

The Bank will be the one who is making the decision on the price of the property. I always try to grind the lender as low as possible because we are trying to get this at a wholesale price. If the lender comes back at a retail price, then we probably will not take it!

Summary

1. Short Sales are selling the property for less than what is owed against the property.
2. They take from 90 days to years to complete one Short Sale
3. Short Sale process
 - a. Homeowner agrees to sell the property.
 - b. Fill out and send Sales paperwork and Homeowner's Financials to Loss Mitigation Department
 - c. Lender orders a BPO or an Appraisal.
 - d. Send Hardship Letter to Loss Mitigation.
 - e. Bank Accepts Offer or Counter Offer.
 - f. Lender wants all cash.

"Persistence and determination alone are omnipotent. This slogan press on has solved and always will solve the problems of the human race." Calvin Coolidge





Chapter 7

"A man who wakes up and finds himself a success has not been asleep." Dave Thomas

Wholesaling

This might be the best way to get into Real Estate. If you have never been in Real Estate before and you have no capital.

Wholesaling is like any other business. I will use a grocery store as an analogy. The store buys their products wholesale and then puts them on the shelf and sells them retail to us, the general public. We are doing the same thing in real estate. We are going to line up properties under contract, and then we can either wholesale it off to someone else for a small fee or resell it retail just like the grocery store.

Why Wholesale?

1. This is an easy way to start with no capital.
2. We are not going to buy the property.
3. We will lock up the property under an Option Contract.
4. We will assign the contract to an end user for a fee.
5. One does not have to be licensed to wholesale.
6. One can sell it retail and pocket the spread.
7. Get there before a real estate agent.

This is an easy way to get started without any capital. The reason for that is we are not really going to buy the property. We will need a small option consideration, but I'll get to that later in the options chapter.

We are not going to buy the property. We will option the property. We can then option the property to someone else or sell our option, or sell it for retail. We have a few choices after we lock it up under the contract. This is why we don't need any capital because we are not going to be the end-user. The end-user will be coming up with all the money.

We are going to lock it up under a contract. In this case we will use an Option Contract.

We will then assign the contract to an end-user for a fee. This could be a small fee or could be a large fee depending on the size of the transaction.

You do not have to be licensed to wholesale. The reason for this is you have an Option to Purchase the property which gives you control of the property. You do not own the property, but you have control over the property. If you do have a license and charge a fee like this, it is called a commission.

You can also sell it retail and pocket the spread between the wholesale price and the retail price. It might be as much as 20 to 25%. This is the way we try to do the transaction. We would rather get a spread than a commission; however, both together is like playing the game on steroids.

But sometimes, it is better to take a quick \$5,000 or \$10,000 fee and move on quickly. This depends on the property and how much money we could make after analyzing it. We will determine if we want to make the spread or the quick cash.

Another trick is, you must get there before the Real Estate Agent! If you do not get there before the agent, the agent will pull out a Listing Form and list the property for as high as he thinks he can sell it to make the highest commission. This will be a Retail Price and will blow us out of the water! Remember, we are trying to get this for wholesale price. I am a Real Estate Broker myself; I understand what he is trying to do, but I believe there is more money in spread than there is in commissions.

Where are we going to find these wholesale properties?

1. Look for Distressed Properties

- a. Property distress

- b. Owner distress

2. Foreclosures

3. Trustee Sales

4. Probates

5. Bankruptcy

6. Divorces

7. Code Violations

We are going to look for Distressed Properties. There are two types of Distressed Properties. There are Property Distresses and Owner Distresses. They are two different things. A Property Distress is one where there are problems with the property. Maybe the property needs a lot of fixing and the owner does not have the money to fix it up or is not willing to fix it up. The next distress might be an Owners Distress. That could be something that has happened to the owner; whereas, the property is in great shape, but the owner is not in great shape. He may be in Bankruptcy, he might have another business that is not doing

well, or maybe his income stopped for whatever reason. This is an example of owner distress.

Another type of stress would be a Foreclosure. You can go down to the county Courthouse and look up the records or you can sign up with a service to save time. They list these daily and then you can knock doors, send them letters, call them on the phone or whatever way you want to contact them. I use www.propertyradar.com.

Another place to find them are at Trustee Sales. Trustee sales, especially in California, are all cash. For these sales you'll need capital. If you don't have any cash, you will need to find a partner who does have cash. One place to find these partners is at the actual auction. Theoretically, all bidders at the auction should have capital. Get to know these guys. Some of the regulars are known as the 40 thieves. They steal the property at the auction every day. Again you can get a steal deal there; however, you have to have the cash.

Another way of finding a deal is through a probate. There are two ways of buying a probate; one is going through the courts and the other is going around the courts. You do not want to go through the courts. If you do, you will probably pay retail! Your bid will open the Probate Court. You probably will want to use the "Independent Administration of Estates Act". By using this act you can go directly to the heirs and negotiate with them. You might be able to get it at a wholesale price by dealing directly with them, especially if they're out of state and do not want the property.

Another place to find the properties is Divorce Court. You can go down to the Divorce Court and read documents; however, only read the ones that contain Real Estate. Another great source for finding divorces is Divorce Attorneys. Google them and send them a letter to introduce yourself.

Bankruptcy Court is another place to find properties. Approach the owner, write him an offer and if he accepts it, take it to the

Bankruptcy Court and let the Judge or Trustee either approve it or deny it.

Another source is Code Violations. This is an example of a Property Distress. Approach the owner with a Wholesale Offer and if he accepts it, then purchase the property and fix up all of the code violations. Be careful, make sure you know how much the repairs are going to be! This has to be factored into the purchase price. Many buyers get into trouble when they do not know their numbers! You can lose money when you do not know what it will take to repair and/or bring the property up to code. Sometimes, it can be the amount of time to complete the rehab and not just the rehab itself that will get you into trouble. Don't forget about holding costs. Be careful. Do your homework before getting into one of these properties.

How do we wholesale these properties?

We use an Option Agreement. Make sure you record your option so everybody knows about it. That is called Constructive Notice. The Option Agreement is still legal without recording it, but to protect yourself, I suggest you record it.

The option agreement is going to have six main parts to it.

1. Wholesalers name and Seller's name.
2. Property address.
3. Option price.
4. Option period
5. Option fee or consideration.
6. Option Provisions.

The Wholesalers name is the Buyers name. Make sure you have the Sellers name too. There must be a Property Address in the contract. The option period must be spelled out. Is it a three month option, six-month option, one-year option, or five-year option? This is also very important. It tells you how much equity that you will need before you sell it off to an end user. Now you

will have to pay option consideration to the seller. Option consideration does not have to be money. It can be something else such as management of a building or taking care of the landscape or some type of work instead of money; however, most option consideration is capital of some kind. A lot of times, it is equal to 1% of what the selling price will be.

You will also receive an option consideration when you reoption the property to someone else. That should cover your option consideration that you had to put up. As you can see, there are two option considerations here. One you are going to receive and the other you are going to give up.

The last part of the option agreement is your option provisions. Any extra provisions you want to put into the agreement, this is where they go.

I will cover more of this in the options chapter.

Summary

1. Wholesaling is buying your property at a discount (wholesale), sell it to the general public retail.
2. Find wholesale properties
 - a. Distressed Properties
 - i. Property Distress
 - ii. Owner Distress
 - b. Foreclosures
 - c. Trustee Sales
 - d. Probates
 - e. Bankruptcy
 - f. Divorces
 - g. Code Violations
3. Option Agreements

- a. Wholesaler's Name and Seller's Name
- b. Property Address
- c. Option Price
- d. Option Period
- e. Option Fee or Consideration
- f. Option Provisions

"Talent wins games, but teamwork and intelligence wins championships." Michael Jordan





Chapter 8

“Happiness is when what you think, what you say, and what you do are in harmony.” Mahatma Gandhi.

Options

When you buy a real estate investment it usually involves a high cost of entry (down payment), a loan with interest, and a long investment period. Instead of buying the actual property, consider buying a real estate option as a way to invest at a lower cost and with lower expenses.

An “Option Agreement” is the right to buy a property at a specific price within a specific period of time. Even though you have the right to buy the property during that time frame, it does not mean that you have an obligation to buy that property, if you choose not to exercise your option. This type of option is called a “straight option”. This is a unilateral contract because only the seller is bound by it. An option obligates the seller, not the buyer.

What is a Real Estate Option?

A Real Estate Option is a contract between two parties, a Buyer and a Seller. The seller offers the buyer the option to buy the property, for a specific specified period of time at a fixed price. For the right to this option, the Buyer pays the Seller an option consideration. If the buyer decides to buy the property, exercising his option, the seller must sell the property to the buyer according to the terms of the pre-existing contract. Real Estate Options are commonly used by Developers and/or Investors on commercial properties. Options provide more flexibility and lower costs to the Developers.

How is an Option Contract used?

Developers do not want to purchase raw land only to find out it cannot be built on or that approvals to change zoning or to subdivide the property won't go through. The developer does not want to pay a lot of money doing feasibility studies only to find out the seller sold the property to someone else. So the developer uses a "straight option ". The developer gives option consideration to the Seller which is usually money; however, consideration does not always have to be money. You can use other types of consideration such as work for the seller, manage the properties for the seller or whatever you can work out. This consideration is nonrefundable for the right to tie up the property and lock in a purchase price at a future date.

Example:

A builder has \$500,000. He wants to purchase land for \$2 million from the seller. However, he is unsure of a few things:

1. Can the builder raise \$1.5 million from the bank or other sources?
2. Will the government give him his permits to build the project?

This is the perfect example when to use a Straight Option. The option allows the builder to lock down the property sale price at \$2 million over a period of six months. During this time, the builder can raise the money, obtain permits and either buy the

property, walk away from the property or sell the option to another buyer. Either way, the Seller will keep the Option Consideration.

During the six-month period, there are four possible scenarios.

1. The Builder acquires his loan, and obtain the permits. He follows through with the purchase.
2. The Builder does not get his permit. He finds another party willing to buy this property for the same price. He charges the new Optionee a little bit more than the Option Consideration he paid. If he paid \$25,000, he'll probably charge \$30,000.
3. The Buyer is an Option Buyer looking to benefit from price appreciation of the property. He sells the property to the new Option Buyer and pockets the profit.
4. The Builder cannot get a loan or permits. He also cannot find a new buyer for his option. He lets the option expire and loses his consideration.

Some Real Estate Investors will use a Straight Option to hold onto the property for future appreciation. They know the potential of the area and want to lock it in at today's value. Other Investors will get an Option and sell that contract to another Real Estate Investor.

The option gives you control of the property without having to purchase it. You could make a profit without using any of your own money. You can turn a property and make fast investing profits just like when you wholesale any real estate investment.

Most Homeowners and Real Estate Agents are not familiar with Options and often times, it needs to be properly presented to them and communicated face-to-face. Otherwise, your offer will not be accepted.

Six key elements of a Real Estate Option:

1. Optionee: Optionee is the party buying a Real Estate Option.

2. Optionor: Optionor is the party selling a Real Estate Option
3. Consideration: the amount of money paid by an Optionee to buy a Real Estate Option from an Optionor.
4. Location of the property.
5. Option period: The specific period of time stated in the Real Estate Option Agreement in which the option is in effect.
6. Purchase Price: must be stated to be a valid contract.
7. Contract must be in writing.

What are the best types of properties for an Option Strategy?

1. Properties that can be up zoned to use for highest and best use.
2. Mismanaged rental properties that can be turned around.
3. Rundown properties that can be fixed up.
4. Properties with Functional Obsolescence that can be put to other use.

You need to develop a strategy to find sellers that would consider option strategies. I would recommend? following ways:

1. Classified ads
2. Direct mail
3. Internet marketing
4. Multiple Listing Services (MLS)

Options can also be used by Investors to tie up a nominal priced property they expect to rise in value, then sell the property in the future to another buyer, without a significant capital outlay.

There are three types of Options that I will cover:

1. Basic option
2. Lease Option
3. Lease Purchase Option

Basic Option

The Buyer pays the Seller some amount for the right to buy the asset at a later date. The price may be the current market value or negotiated future value. Most buyers will want to lock in the price at the execution of the Option Contract. The Buyer can sell the Option to someone else if it is allowed by the Contract. This allows a Real Estate Investor to hold an interest in the property without holding title.

Lease Options

There are basically three types of Sellers.

1. Sellers who are upside down with the property. They owe more than what the home is worth. This situation is only good if you want to do a Short Sale.
2. Sellers who have little or no equity. You have to use what is called a Wholesale Lease Option. On a Wholesale Lease Option, you will be wholesaling to another Buyer with both the Buyer and the Seller cooperating. This is different than a Sandwich Lease Option which is when you find another Buyer who will buy from you on the lease with an option to buy. You are in the middle, that is why it's called a Sandwich Lease Option.
3. Sellers who have equity in their homes. They are the best category for putting together a Lease Option. If there is equity then you can ask the Seller for option credits each month. Option clients give you equity each month from the rental payment you're making. You can even ask to have your entire monthly rental payment credited towards the Purchase Price. This is rare; however, most sellers will give you a portion of the rental payment. Free and clear properties work the best for this.

What Are lease options and how can I buy property with them?

As we have said earlier, and "Option" is the right to buy a property at a specific price within a specific period of time.

Leasing property is renting for a certain period of time for a certain amount of money.

Lease Options is marrying both Leases and Options together.

If you're buying on a lease option, then the tenant is in a position to ultimately own the property that they are renting. If it's a three-year lease option then the tenant has three years to exercise the option to purchase or lose the option.

The tenant will also have to put up option consideration. This consideration can be money or could be work for the owner or whatever is agreed-upon with the owner and the tenant.

As a buyer this is an easy way to get into a piece of property. If you can't qualify for a new loan right now and you get a three-year option it gives you three years to try to get a loan.

As a seller, you will get upfront cash usually for the option consideration, monthly cash flow from the rental income, and a large chunk of cash when your Lease Option tenant exercises the Option to buy. If the tenant does not exercise the option to buy during the option period, you still keep the option consideration, monthly payments, and go find a new Lease Option tenant.

There are techniques that investors use to make money on Lease Options. One of those techniques is, find a seller who wants to sell on a Lease Option. Then lease it for \$1000 a month with a five-year option. Then give a one year lease option to another tenant at \$1500 a month and a one-year option. If the tenant exercise the option, use that money to pay off the seller. You are the middleman. If the tenant does not want to exercise the option, give another one year lease option to either the same tenant or a new tenant. Either way you get another option deposit and more rental income with the possibility of getting paid off with this tenant.

As with anything else there are advantages and disadvantages. For the advantages:

1. High leverage
2. Little to no money down
3. Flexibility, you negotiate between seller and buyer.
4. Financially it's low risk with option.

Some disadvantages:

1. The tenants default on monthly rental payments.
2. The investor failing to do "due diligence."

However, if you do your due diligence and pick the right tenant/buyer you should get over these difficulties. The advantages will outway the disadvantages.

There are three profit phases.

1. Non-Refundable Option fees.
2. Monthly cash flow from rental payments.
3. When the Tenant/Buyer pays you a higher price than you paid the seller.

Despite the few disadvantages, Lease Option real estate investing continues to be an excellent way to invest in real estate with little or no money and low financial risks. It also remains an excellent way to gain control of the property you don't own, to generate cash flow now, and possible future profits on the sale of the property.

Lease Purchase Option:

The buyer rents the property, and is required to purchase the property within the negotiated contract period. With this option, the purchaser rents the property and incurs all expenses and responsibilities as if they were the titled owner. In this case, rents are usually at market rent. The seller usually negotiates a purchase price that is higher than the current market value. Buyers will usually have to pay a premium for this option that is not considered part of the down payment and is not refundable if the buyer defaults on the contract.

The benefits to the buyer is the ability to control a property with the limited Capital Investment. It is particularly useful where the buyer flips the property to another buyer in a (double close) and pockets the difference between the Option Price and the Sales Price.

The benefits for the Sellers can be significant. An owner selling a Purchase Option when they are not expecting considerable value growth is benefited by the eventual sale, and the option premium, if the option is not exercised. Most options are not exercised; therefore, this can lead to higher profits for the Real Estate Investor by receiving Option Considerations. These options usually target young, first time buyers that do not have the financial capacity to buy the property or can't qualify for the required mortgage.

Sellers using these options should consider that there's a good chance that the option will not be exercised. For Real Estate Investors who have located and targeted these markets, these options can be a method for creating significant wealth with a relatively small amount of capital compared to what would be needed to purchase these properties outright.

Some Real Estate Brokers use options to get prospective Sellers the confidence that they will sell their homes, by contracting to buy them at the same amount if the broker fails to sell them during the listing period.

Lease Options also work on Multi-unit buildings as well as Single Family Residences (SFRs). If a seller is having trouble finding a buyer for an apartment building, he may be willing to Lease Option it to you. You get into the property for a smaller than normal amount of down payment and you benefit from the cash flow while you're working on the financing during your option period.

Summary

1. Option is the right to buy a property at a specific price within a specific period of time.

2. Commonly used by Developers and/or Investors on Commercial properties
 - a. Provides more flexibility and lower costs to the Developers and/or Investors
 - b. Four possible scenarios
3. Six key elements of a Real Estate Option
 - a. Optionee
 - b. Optionor
 - c. Consideration
 - d. Property Location
 - e. Option Period
 - f. Purchase Price
 - g. Contract must be in writing
4. Best types of Properties for an Option
 - a. Properties that can be up zoned
 - b. Mismanaged rental properties
 - c. Rundown properties
 - d. Functional Obsolescence
5. Find Sellers
 - a. Classified Ads
 - b. Direct Mail
 - c. Internet Marketing
 - d. MLS
6. Three types of Options
 - a. Basic Option
 - b. Lease Option
 - c. Lease Purchase Option

7. Advantages of Options

- a. High Leverage
- b. Little to no money down
- c. Flexibility
- d. Financially low risk

8. Disadvantages of Options

- a. Tenant defaults on monthly rent
- b. Investor fails to complete “due diligence”

9. Three profit phases

- a. Non-Refundable Option fee
- b. Monthly cash flow
- c. Tenant/Buyer pays you higher price than you paid the Seller

“A dream written down with a date becomes a goal. A goal broken down into action steps becomes a plan. A plan backed by actions makes your vision come true.” Guillaume Marais





Chapter 9

"Educating the mind without educating the heart, there's no education at all." Aristotle 322 BC

Buying Notes

There are many Real Estate notes out there. Many sellers carry back notes for different reasons. Some sellers require you to get a bank loan for a first Trust Deed and they will carry back part of the sale with the second trust deed.

A lot of older people such as Seniors, want to carry the financing when they sell the property. This is an extra Social Security payment coming in for many years in the future for them.

Notes are basically broken down into three categories:

1. Performing notes. These are notes that the borrower is paying as agreed.
2. Sub-performing loans. these are often called “high maintenance” accounts. The lender has to have a tremendous amount collection effort in order to get the tardy borrowers to make their payments month in and month out.
3. Non-performing loans. These loans are not receiving any payments at all. Often these sellers (lenders) will be in a cash crunch and will be selling their notes at a discount. For the experienced real estate investor, opportunities can be created by acquiring these loans. They can turn them into performing loans again or simply foreclose and repossess the property that is securing the loan.

This is also the perfect way for an investor who does not want to be a landlord and/or a fix and flipper. You also don't have to worry about the three T's (Tenants, Toilets, and Taxes).

It is important to educate yourself first, because notes are completely different than just buying a piece of property, fixing it up and selling it, or buying it to rent. There are more exit strategies. These are a few strategies:

1. Deed in Lieu of foreclosure - the borrower gives the property back to you because he cannot make the payments anymore.
2. Cash for keys - the borrower moves out of the house and deeds the house back to you for some immediate cash.
3. Loan modification - you (lender) work out a modification agreement with the owner.
4. Foreclosure - if all else fails's, your recourse is to foreclose on the property. You get the property back as collateral.

What is the difference between a first lien versus junior liens?

A first (or senior mortgage) has priority in the foreclosure process. Junior liens follow the senior lien in the foreclosure process. If a borrower defaults on the senior lien, then the junior liens have to make a decision. Are they going to bring the payments current on the first or will they be wiped out in a foreclosure process?

For a note buyer, it is always easier to raise capital to buy a senior lien than it is to buy junior liens. The concern with buying junior liens is that the senior lien may have to foreclose. If that happens, then the Junior Lien has to bring the payments current on the underlying Lien, then foreclose himself to get his funds back.

Once the note is purchased, the investor now own the note, literally becoming the bank. The investor can now approach the borrower directly and offer to work out a Loan Modification or in the worst case scenario, the Investor can always foreclose and either sell the property or keep it as a rental.

The reason people buy (non-performing notes) is for two reasons:

1. To acquire the property - use the note as leverage to either negotiate a Deed in Lieu or foreclose and take the property.
2. The second reason is to create a very high yielding passive investment. In that case, you can do a forbearance and modify the mortgage. You restructure the amount the borrower can afford to pay. Once it is seasoned for at least 12 months, now it can be sold as a performing note.

Where do you find these notes?

You have to target the market. We do this by five different ways.

1. Ads - use ads to find people receiving payments on real estate notes.

2. Direct mail - send letters or postcards to a verified list of note holders. You can get those from your local Title Company or a list service.
3. Referrals or Networking - networking with professionals to obtain referrals.
4. Online - websites and SEO
5. Build your brand - establish yourself as an expert in your local area.
 - a. Budget - how much are you willing to spend on marketing?
 - b. Time - how much time can you devote to the business?

When you are dealing with Seller Financing, you also have to be concerned with the Dodd Frank mortgage laws. This is the law having to do with Seller financing. Here is what the law states:

“seller financiers that engage in a minimum number of transactions are considered creditors under the truth in lending act (TILA) and regulation Z. Specifically, seller financiers would be considered creditors under regulation Z if they extend credit secured by a dwelling (other than high cost mortgage is subject to 1026.32) six or more times in the preceding calendar year, or extend more than one high cost mortgage in any 12 month period. Accordingly, such seller financiers are excluded from the definition of loan originators for purposes of the compensation provisions unless they use table funding. In addition, the rule contains two additional special exclusions from the compensation, steering, qualification, and identification provisions for certain seller financiers.”

These exceptions are:

1. You are a natural person, estate, or trust and you provide seller financing for only one property in any 12 month period.

2. You are in a type of seller financing entity and you finance the sales of three or fewer properties and any 12 month period.

However, we are not attorneys; therefore, if you are going to draw up a contract for seller financing, please have an attorney check it out to make sure it follows all the laws!

Junior Liens

When properties have no equity, another option is to approach the junior lien holders and offer to buy their notes at a discount.

The law requires that when the first lender records his Notice of Default (NOD), the Trustee must send notices of the NOD to all junior lienholders within 30 days. You now have three options:

1. You can approach the property owner with a short sale proposal offering a price less than the total amount though. The strategy requires the cooperation of the owner and his acceptance of little or nothing at the close of escrow and the holder of the second to accept a deep discount on his note.
2. The investor can wait until the property goes to a Trustee Sale and eliminates the second loan completely. Of course, this plan requires all cash to bid at the sale.
3. The third option is the Junior lender buyout. This plan requires only minimal investment and no contract with the property owner at all.

Contact the owner of the junior lienholder by calling him on the phone, if you can find his number. If not, write him a letter. Say something like this: "I am contacting you today regarding the note and trust deed that you hold against the property located at 123 Main St. I may be able to help you with the problem there. First of all, I would like to know if you have received your copy of the NOD filed by the senior lender. I want to make sure that you understand the problem that this creates. I may be interested in making an offer on your note and trust deed before

the foreclosure by the senior lender wipes out your trust deed off this property. Have you considered selling your note and trust deed? If so, how much do you have in mind?"

When you reach an agreement to buy the Note and Trust Deed, an "Assignment" of Trust Deed is prepared and recorded and the note is transferred to you which now makes you the holder of the junior Trust Deed and Note. Now that you are the holder of the junior Trust Deed, your first step is to bring current the delinquencies on the senior Trust Deed. That advance to the senior Trust Deed stops their foreclosure and now gives you the right to start your own foreclosure. Even if your junior loan is current, you have the right to foreclose because of the advanced funds to the senior lenders.

Next inform the Trustee that you wish to foreclose to get your money back. When you do this, one of three things will happen:

1. The property owners will find the money to reinstate the loan. If this happens, the return on your investment will be phenomenal on this note that you bought at a huge discount. This probably will not happen.
2. The property will probably go to the Trustee Sale. If this happens, and a bidder buys the property you will be paid in full, interest and all that you bought at a huge discount. This outcome would be fantastic.
3. The most likely outcome is that the property will progress to a trustee sale, no outside bidders will bid, and then the property will revert to you. You now own the property subject to the senior loan.

Summary

1. Perfect Option for Investors who do not want to be landlords and/or Fix and Flippers
2. Three types of Notes
 - a. Performing Notes

- b. Sub-Performing Notes
- c. Non-Performing Notes
- 3. Exit Strategies
 - a. Deed in Lieu of foreclosure
 - b. Cash for keys
 - c. Loan Modification
 - d. Foreclosure
- 4. Difference between First Lien and Junior Liens
- 5. To find Notes
 - a. Ads
 - b. Direct Mail
 - c. Referrals/ Networking
 - d. Online
 - e. Build Your Brand
- 6. Seller Financing: Dodd/Frank Mortgage laws

"Man speak because they have something to say; fools because they have to say something." Plato





Chapter 10

"If your actions inspire others to dream more, learn more, do more and become more, you are a leader!" John Quincy Adams

Raising Capital

To purchase real estate, one thing you're definitely going to need is capital. If you have your own capital and can finance yourself, great! But for most of us, we start with little or no money; therefore, we are going to need capital to work with.

Where do we get the capital?

1. Let's start with good old conventional financing from an institutional lender. The advantages to a conventional loan, is that they are inexpensive and probably the cheapest interest rates.

2. The next type of loan is a Hard Money loan. The advantages with this type of loan is that it is collateral-based. They are usually 65% LTV, possibly 70%. The rest of the money you come up with and they don't care where it comes from. The disadvantage of this type of loan is that they are expensive. They might be 10 to 15% interest and maybe up to five points. These are for very short term loans (6 months). Do not keep these loans long term! The interest will eat you alive.
3. Transactional funding. The advantages to this type of funding is that there are no assets or credit required to qualify. These are relatively inexpensive also usually between 2 to 4%. The disadvantages are these type of loans are only good for one day to maybe 30 days. They are also difficult to do deals on the MLS. You must also have a investor friendly Title Company.
4. The last is Private Money. This is the best money! The advantages are you can provide up to 100% of the cash needed to close. There are no credit requirements. You do not have to close immediately like you do with transactional funding. At this time, I cannot think of a disadvantage.

Where do you find Private Money?

1. Start with family and friends - they know you. And some of them might have some capital that you don't even know about. Write down a list of everyone you can think of. Don't forget your barber or hairdresser. Everybody.
2. MLS - look up all of the properties that have sold in the last year. Then look up and see which ones sold all cash. After that, look up all properties where the financing was privately financed. If the buyer is an individual, then check the www.whitepages.com or www.Spokeo.com or the information might be on the actual deed. If the buyer is a corporate entity, go to the Secretary of State website to search for corporate filings and contact information for officers or managing agents. Contact the private money lenders.

3. Bandit signs. They're tacky. They're ugly. They work!? Use a bright yellow 18" x 24" corrugated plastic sign, hand-written in wide black magic marker.
4. Craigslist. Look under housing for sale. Look for "I buy houses". Contact those numbers. Ask them if they want to get on your buyers list.

If you are going to use private money, you have to create a program to give to your potential investors. To create this program you will need a 29 second elevator speech. You will also need an information kit. Keep these questions in mind while you're creating your program.

1. Will you pay simple interest or compound interest?
2. Will you pay a higher interest for no monthly payments? Will you do second liens, and if so what you charge for seconds?
3. What day of the month will you make payments on all your notes?
4. What will your minimum investment be?
5. Will you have a prepayment penalty?
6. How will you handle a lenders request for early payoff?

You will need a 29 second pitch. Here is mine.

"Are you receiving a safe 6 to 9% return on your idle cash or retirement funds? I am the senior managing partner of a private equity firm. We are Real Estate Investors who buy undervalued properties. We use investor funds to purchase these properties. If you are not receiving that type of return on your money, I would be glad to give you the details. How do you feel the commercial real estate market will be in the near future?"

That is my 29 second pitch. You will have to make up your own.

Next you will have to build a credibility kit. In this case you will need:

1. A personalized cover letter.
2. A biography of yourself.
3. Have a mission statement.
4. Testimonials.
5. Show actual deals with photos if you have them.

How will you present your credibility kit?

1. Deliver one on one presentations
2. Deliver group presentations
3. By email presentation or webinars

Be sure to ask each prospect of lenders these questions:

1. How much do you have to work with?
2. How liquid are the funds?
3. Are the funds in a retirement fund?
4. If so, is it in a self directed fund?
5. How long do you want to invest the funds?
6. How much of a return are you looking for?

If they do not have liquid funds at this time, tell them you will put them down as one of your investors and call you on the next deal.

Summary

1. Where do we get the capital?
 - a. Conventional financing
 - b. Hard money loan
 - c. Transactional funding
 - d. Private money

2. Where do we find private money?

- a. Family and friends
- b. Cash buyers and cash lenders on the MLS
- c. Bandit signs
- d. Craigslist

3. Create a lending program

- a. 29 second elevator speech
- b. Credibility kit

4. Where to do your presentations

- a. One on one
- b. Group
- c. Email or online

"Your life is your autobiography. Write an epic." Robin Sharma

