

THE ROBERT G. ALLEN'S NOTHING DOWN TECHNIQUES

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“Don’t wait to buy real estate. Buy real estate and wait.” The world of real estate has been governed for years by one dominant strain of thought, i.e., in order to buy and hold property successfully, the average person must have excellent credit, a strong financial statement, good income, lots of money for a substantial down payment, and strong collaborative support from the hard-money lenders.

Those who agreed that income property was the finest investment found they could not hope to participate in owning a larger piece of America under the dominant rules that had obtained hitherto. New patterns were needed if the cash-poor but creative individual was to break into the world of property ownership.

This report outlines my 50 favorite nothing down techniques, organized into 10 separate areas:

1. The Seller
2. The Buyer
3. The Realtor
4. The Renters
5. The Property
6. Hard-Money Lenders
7. Underlying Mortgages
8. Investors
9. Partners
10. Options

1. THE SELLER

Among the nine major sources of down payment funds for property acquisition, the seller is no doubt the most important. If the buyer has done his selection job well he will be dealing with a person who is anxious to sell and therefore flexible with financing arrangements. The seller will need to take on a role that might be new for him - that of lender. But if the buyer is sensitive to the needs of the seller, he will foster trust and see to it that both parties win. (Lending can, after all be a lucrative business with its own slate of benefits, even for property sellers.)

This section reviews eight nothing down techniques involving seller financing.

Technique No. 1 The Ultimate Paper Out

An investor in Milwaukee was able to acquire a \$480,000 triplex from a banker who not only arranged for a new low-interest first mortgage, but also carried back virtually all the remaining equity in the form of second at below-market rates. Another investor in West Palm Beach, Florida, picked up a single family home for \$660,500 by putting on a new first and having the anxious seller carry back all the rest of his equity (\$360,500) for five years, no payments, no interest. Both of these investors were using the technique known as - "The Ultimate Paper Out". Here is how it works.

When we are talking about buying or selling a piece of real estate, we are really talking about the problem of defining and dealing with the seller's equity. Equity as a concept is straightforward enough. Everyone knows that it represents that portion of the value of a property that is not encumbered, that belongs lock, stock, and barrel to the owner. But equity is a fluid concept. It can be specified only in relation to that mysterious and shifting quantity called the "fair market value."

The owner has dreams about equity of such and such - usually an optimistically high number. But the truth of the matter is that market forces determine his equity by determining how much his property is really worth at any moment in time. The members of the market club - you and I - gang up on the poor old seller and say collectively, "You have a nice little place, but we've taken a vote around town, and the best we could come up with is a price of such and such." At that moment in time, the seller's equity is defined, and the problem becomes how to transfer to him value equal to the equity involved.

The majority of sellers, of course, will want to hold out for a selling price at the high end of the scale. They want their equity to be overweight. No one can blame them for that but among the army of sellers in the marketplace at any given time, there are always a few - perhaps five percent or less - who say to themselves, "We like our equity and want to preserve it and derive benefit from it, but we are very anxious to sell. So anxious in fact, that we might give up some of that equity in order to get rid of the property quickly." Alternately, these don't-want sellers might be thinking - I don't really feel like discounting my equity for a quick sale, but I would be willing to wait until later for a part or all of my equity to be converted to cash."

And that is the issue when it comes to "papering out" a deal. After the seller and the buyer have determined what equity is involved, the next step is to decide how soon the equity is to be converted. It all boils down to a matter of patience. The seller with infinite patience (and infinite desperation) will say, "Here's my equity, take it all and just get me out of this place." In a case like that the selling price is equal to the liens. But such cases are rare.

The next best situation is the case in which the seller says, “Here’s my equity, pay me for it when you can. Let’s work out the schedule.” That is the technique referred to as - The Ultimate Paper Out”. All of the seller’s equity is converted to paper before it is converted to cash. When the buyer takes over the property, he gives the seller paper for his equity and obligates himself to redeem the paper according to mutually agreeable terms.

Not all sellers will agree to an “Ultimate Paper Out” But creative buyers should always ask. You never know exactly what the seller is thinking or how anxious he really is to sell. Perhaps only one seller in twenty will be willing to enter into a nothing down deal and of these, perhaps only one in ten will agree to an “Ultimate Paper Out” That means that Technique No. 1 will show up in only one out of every 200 creative deals. But it does happen from time to time - much to the surprise and delight of the creative buyer.

Technique No.2 The Blanket Mortgage

The key to using the seller as lender in a real estate transaction is trust. The seller has to trust us to pay him his equity according to the terms of the agreement we work out with him. The conventional way to “buy” trust is to give the seller a large cash down payment, that way he knows that we will not likely walk away from the property. We are going to stay around and take care of our obligations. Otherwise the seller will be able to take back the property, and we will lose not only that big cash down payment but also any appreciated value above the seller’s equity.

But how do we develop trust when there is little or no cash put down on the property? How does the buyer make the seller feel secure in such cases? Often the buyer can develop personal trust with the seller simply on the basis of personal qualities and win/win attitudes. In such cases, the equity of the subject property itself is sufficient to close the deal.

In some instances, however, a little extra is needed to remove lingering suspicions on the part of the seller. That is where the blanket mortgage comes into play. In any mortgage or trust deed arrangement, there are two basic documents that are prepared. One is a note given by the buyer to the seller setting forth the terms for converting the equity to cash, the other is a security agreement in which the buyer says to the seller, in effect, “If I don’t perform according to the terms of the note, then you can take back the property.” In a cashless or near cashless transaction, the security of the subject property may not be enough to satisfy the seller. Therefore, the buyer may choose to secure the note with additional collateral - not only the subject property but also additional property (equity) he may have in his portfolio. .

The note itself stays the same, but the security agreement is changed to increase the collateral and build trust with the seller. Naturally, the buyer will want to arrange to have the seller release the additional collateral as soon as the subject property appreciates to a predetermined value or as soon as the buyer has proven himself to be dependable and prompt in making his payments. The blanket mortgage technique is not among the most frequently used in creative finance. The buyer hopes to build trust without having to tie up his other equities. Still when a seller needs that extra bit of persuasion, the blanket mortgage technique can come in handy.

For example, one creative investor we know of acquired a nice four-bedroom, three-bath home for \$750,000. The investor put a new first on the property (which was nearly free and clear) and had the sellers move their remaining equity (\$350,000) to another property owned by the investor. To build trust with the sellers, the buyer granted them a blanket mortgage that also included his equity in another rental

property he owned. Although the buyer did not put any of his own money into the deal (the bank provided all that was needed), he was able to persuade the sellers to agree on the basis of his neck being on the line with the blanket mortgage.

Technique No.3 Life Insurance Policy

There is another strategy the buyer can use to persuade the seller to play lender in a transaction. As in the case of the blanket mortgage, the key is building trust. What if you say to the still somewhat incredulous seller, "Since you are permitting me to payoff your equity in cash over a period of time, how would it be if I took out an insurance policy in the amount of the note and made you the beneficiary? That way you will feel secure that the note will be paid off no matter what."

This technique is not usually necessary. Still it is an inexpensive way to build trust if the seller cannot quite see it your way and needs just a bit more persuasion.

Technique No.4 Contract or Wraparound Mortgage

An Albuquerque investor bought a triplex for \$690,300 by putting down \$10,000 and having the seller accept a contract for the remaining \$680,300, 10.75% interest for 35 years, and payout after 12 years. The contract wrapped around a small underlying first mortgage. Similarly an investor in Springfield, Massachusetts acquired an \$800,000 free and clear single-family house by putting a small sum down and having the seller carry back the rest in the form of a contract. These are variations of the technique referred under various names such as "contract, wrap-around, or owner carry back".

This technique is one of the most frequently used creative finance tools. It is the foundation of seller financing rather than refinancing the property or formally assuming the existing mortgage. The buyer uses a contract as the purchase instrument. Technically he does not get title to the property until he has performed according to the provisions of the agreement. In effect, he says to the seller, "I'll pay your equity off in installments over time. And as soon as I have paid everything off, you will give me the deed for the property, and it will be mine. In the meantime, I will act as the owner by taking over the management and getting all the tax benefits and the appreciated equity above what the property is worth at the time of purchase. Of course, all the expenses in the meantime are mine as well."...

If the property is free and clear at the time of purchase, the seller pockets all the installment payments on the contract if there are existing encumbrances on the property. Then the contract is referred to as a wrap-around contract or wrap-around mortgage. It "wraps around" the existing first and subsequent mortgages or trust deed. When the seller receives the installment payments, he has to first make payments on the existing notes before he can pocket the rest. The advantage to him is that the interest rate on the total wraparound contract will be higher than on the underlying loans. Therefore, he will be making an interest spread on the underlying part of the note - not a bad deal for a seller-turned-lender. In addition, he will be able to spread his capital gains profit out over time rather than receiving all of it during one year. The tax advantages are considerable. With the recent liberalization of installment sale provisions by the IRS, sellers have great leeway in how contracts are set up for maximum tax benefits. A competent tax accountant can spell out the detail.

The advantage to the buyer is that he does not need to come up with a large cash down payment. Frequently a moderate amount down will close the deal. In addition, the interest rates acceptable to sellers are usually far below conventional market rates for new financing.

In practice, a contract sale is bandied by an escrow company, which holds the pre-executed deed from the seller in favor of the buyer until the latter satisfies the terms of the contract. Generally the escrow or title company will also hold a quitclaim deed made out by the buyer in favor of the seller, which is to be released to the seller in case of default. It is in the best interests of the buyer if the escrow company is also empowered to receive his installment payments and take care of making the payments on the underlying loans before disbursing the balance to the seller. That way the buyer can be assured that his money winds up in the right places.

An alternative form of the “contract wrap” technique is the situation where a buyer takes title subject to the existing financing (agrees to take over the seller’s obligations) or goes through the formal procedure of assuming the existing financing (qualification, credit checks, transfer of title). The buyer then signs a contract with the seller for the equity above the existing loans and makes payments according to a mutually agreeable schedule. A note secured by the property itself covers the seller’s equity. The usual term for this arrangement is “owner carry back”. The term refers to the fact that the seller carries back paper to cover the unpaid equity on his property. Terms on the paper are negotiable and vary from case to case.

Technique No.5 Raise the Price, Lower the Terms

Seller financing became a convention for real estate transactions in the decade of the 1980’s. Tight money conditions always foster seller financing of this type. Yet even though the concept of “seller as lender” is no longer foreign to the American way of real property transfer, there are variations to the transaction that give creative buyers the advantage over the competition.

One such variation is the important technique called “Raise the Price, Lower the Terms.” Simply put, this technique calls for the buyer to offer the seller more than he is asking for the property in exchange for flexibility with the terms. For example, one investor we know of took an interest in a Jacksonville, Florida estate house with adjoining triplex. He offered to raise the sales price by \$50,000 if the seller would lower the down payment requirement and accept payments over 15 years. By using this technique, he outaced the competition and won over the seller despite the hue and cry of all the relatives in the background.

Technique No.6 The Balloon Down Payment

An investor in Milwaukee bought a small rental home for \$350,000 by putting on a new first of \$150,000 and having the seller “carry back” the rest (no payments, no interest) after a small down. The seller would do so only after the buyer agreed to payout the indebtedness after five years. The buyer of a \$2,450,000 7-plex in Lake Worth, Florida, assumed the existing first and induced the seller to carry back the remainder of his equity after the \$500,000 down payment (obtained from a partner) in the form of a second at 12%. The seller agreed, but only on the basis of a ten-year payout of the balance of the second.

Both of these investors were using the technique referred to as a “balloon mortgage”.

It is not uncommon for seller-financing arrangements to include provisions for a balloon payment in the future. In fact, balloons are an important inducement to get the seller to play the part of the lender in the first place. Knowing that the major part of his equity is coming in the near future, the seller is willing to carry the financing at rates below the conventional market. Occasionally a seller is willing to amortize the entire amount of the carry back over a long period of time - fifteen or twenty years or

longer. Most of the time, however, the seller wants to be paid off sooner, in fact, as soon as possible. And that is the danger the buyer must beware of - short-fuse balloon notes can rob the buyer of health, sleep, and sometimes the property itself. In theory, the time of the balloon payment should be far enough away to take advantage of interim appreciation. Property values and rents must grow enough to permit a refinance solution to the balloon payment. But what if local property values - particularly during a period of sustained high interest rates and sluggish real estate sales - do not grow as anticipated? The buyer may be forced to sell the property, or another piece of real estate in his control to payoff the balloon. Alternately, he may have to bring in an equity-participation cash partner to bail him out, thus giving away important benefits. In the worst case, he might have to give the property back to the seller and lose all his investment.

Despite its liabilities, the balloon payment technique can be a valuable way to get into a property for little or nothing down up front. Buyers should resist pressures to accept anything less than five years for payout, seven years or more would be preferable.

Technique No.7 High Monthly Down Payments

This technique is a variation of Technique No.4, "Contract or Wraparound Mortgage". Usually a contract sale requires at least a token down payment to substantiate the good faith of the buyer and put a little cash into the pocket of the seller. Sometimes a hefty down is required, in which case funds have to be "cranked" out of the property (Techniques 32 and 33) or a cash partner must be brought in (Techniques 43,44, and 45).

But what if the buyer has nothing at all to put down except an income that gives him the ability to make monthly payments of several hundred dollars toward the purchase of a piece of property? Perhaps the seller would permit him to purchase the property now and make high monthly payments over a couple of years until a mutually acceptable down payment had been constituted. It never hurts to ask.

Technique No.8 Defer the Down Payment with No Mortgage Payment

There are endless variations of how seller financing might be set up. Here is one more, which could prove useful under certain circumstances. A seller of a free and clear property who needed cash down only to build trust in his buyer might be induced to forego rental income for a few months while the buyer accumulated enough to put together the required down.

It is not a common opportunity. But it has happened in the past and will happen again in the future - perhaps to you.

This technique, together with the other seven described and illustrated in this section, should stimulate creative buyers to take advantage of seller flexibilities in financing. Seller financing after all, is one of the major sources for down payment capital.

2. THE BUYER

The second area of flexibility in solving the problem of down payments has to do with the buyer's own resources. "But," you say, "If we are trying to spare the downtrodden, cash-poor buyer from coming up with down payments in the first place. Why bother to look to his personal resources?" The reason is that buyers often overlook valuable resources right under their own noses. They frequently have personal

property, talents, expertise, or equity resources that could be used to acquire desirable income - producing property without the need for cash. And sometimes they even have cash or inheritances that could be applied - there's no shame to that, if you have the money at hand! This section reviews ten techniques in the area of buyer flexibility.

Technique No.9 Using cash resources to borrow down payment funds

Practitioners of the Nothing Down System sometimes get the notion that putting their own money into a deal is somehow tantamount to failure. Nonsense! If you have it, use it, but use it with skill and creativity. The conventional buyer with \$250,000 to spare will go out into the marketplace and plunk the full amount down on a single property. He might find a nice rental home worth \$600,000 with a \$350,000 mortgage. His first instinct is to take his \$250,000 and cash out the seller. There will be no contract payments or balloon mortgages to worry about. Very likely there will be a modest positive cash flow after expenses and debt service are taken care of. He is happy watching his rental unit appreciate in value.

By way of contrast, the creative buyer takes his \$250,000 and distributes it over five rental homes worth a total of \$5,000,000. By using a combination of creative acquisition techniques and strategies for avoiding negative cash flows, this buyer puts down only \$50,000 on each of the homes. He must be careful to structure his deals advantageously, but the outcome is that he controls the growth of five times the real estate for the same amount of investment. His yield will therefore be much greater.

In either case, the best approach might be to use the cash resources as collateral to borrow down payment funds. That way the cash assets can remain in the hands of the buyer and earn a substantial amount of interest. The same might be true of coming inheritances that would be acceptable as collateral on loans.

Technique No. 10 Supply the Seller What He Needs

The question of "seller needs" is a complex one. Often buyers resort to sophisticated psychological observation and strategic interrogation in order to penetrate the seller's wall of secrecy. That is fine as far as it goes. But the best approach is nearly always the direct one in the form of one simple question: "What do you need the money for?" There are more subtle variations, such as, "What do you plan to do with the proceeds of the transaction?" But it all boils down to the same thing - letting the seller know that you can solve his problem best if you know what he plans to do with the cash coming to him as a result of the sale.

Often the seller has consumer needs that the buyer could satisfy by carrying the necessary amounts on charge accounts or credit cards. In this way, the immediate up-front cash needs are spread out over time. Frequently the seller will be anticipating financial obligations that will require a set amount of cash each month beginning at some time in the future. If the buyer is on his toes, he can help the seller translate the down payment into installment payments that can be taken over by the buyer in lieu of a heavy cash down payment.

One buyer we know of in Stanford, California, gained insight into the seller's need for future day-care funds and persuaded her to reduce the down payment by \$13,500 in exchange for his providing monthly payments toward her day care for the next thirty years at very low interest. He was able to supply the seller what was needed and spare himself a heavy down payment obligation.

Technique No. 11 Assume Seller's Obligations

Often a seller is planning to apply down payment funds to debts he has or payments that may be overdue. If the buyer can arrange to assume these debts and then pay for them over time, he can avoid having to come up with the down payment funds all at once. One Cleveland buyer of a small rental home was able to take care of the seller's arrears mortgage payments and utility bills and then cover some consumer debt obligations through installment payments. The result was the relaxation of the up-front cash requirements for the transaction.

Technique No. 12 Using Talents, Not Money

A buyer will often have professional expertise that can be "traded" in lieu of down payment funds. Contractors, painters, landscapers, health-care professionals, lawyers, realtors, insurance agents, car dealers, and merchants - all of these can provide valuable services or discounts that could be used in place of down payments. The potential list is not restricted to professional consideration either, sometimes a supply of plain elbow grease can help swing a deal in the absence of funds.

One beginning investor we know of was able to assume a seller's obligations and work off part of the debt by providing maintenance and management services for the creditor. As a result he picked up his first investment property - a mobile home - for nothing down.

Technique No. 13 Borrow Against Life Insurance Policy

In an age of oppressively high interest rates, it is inconceivable why people will leave assets lying around unused in the cash-value accounts of their life insurance policies. But many do it, not realizing that for a pittance (perhaps as low as five or six percent interest) they can pull those funds out of their policies and apply them to other investment.

A Eugene, Oregon, investor used his insurance policy to put together a deal on a duplex by taking the property "subject to" the existing first, having the seller carry back a sizeable second for five years, and generating the \$80,000 down payment by borrowing it from the cash value of his insurance policy at 5% interest. Another investor in San Jose, California, set up a transaction involving a \$570,500 single family house by assuming the existing first of \$250,400 planning to put on a hard-money second in the amount of \$200,000 and having the sellers carry back the rest in the form of a third. However, when he went to put on the second, the lenders required him to come up with 10% down in the form of cash. He solved this problem by going to the cash value of his life insurance policy and borrowing \$5,800 at 5% interest. The amount needed from the hard-money second was now only \$140,200 and everyone was happy. The beauty of insurance loans of this type is that the principal need not ever be paid back (except out of the death or annuity benefits of the policy).

Technique No. 14 Anything Goes

Down payments need not be in the form of cash. We have already seen how professional services can be used in lieu of cash. The same is true of personal property that the buyer might offer the seller to satisfy down payment needs. Cars, boats, furniture, art, clothing, musical instruments - anything acceptable to the seller might be used.

We have even heard of pets such as rare monkeys or valuable cats being used as down payments. One buyer in San Diego acquired a luxurious new home by using gems - diamonds, rubies, and emeralds

- as the down payment. For another investor we know of, five truckloads of topsoil did the trick. Anything goes if it satisfies the seller's needs.

Technique No. 15 Creation of Paper

An investor in Sacramento, California, picked up a clean SFH for \$560,000 as follows: assume existing \$280,000 first mortgage, assume existing \$7,700 second due in 7 months, have realtor carry back a third for \$20,500, have seller carry back a note on another property owned by the investor in the amount of \$110,600, put down \$6,000 cash (borrowed from credit union). By having the balance of the seller's equity carried back in the form of a note secured on the other property, the buyer was able to put his equity in the other property to use and leave himself in the position to be able to refinance the newly acquired property with a new hard-money second in order to retire the existing balloon second and payoff both the realtor and the credit union. In fact, he had a kitty of \$6,800 left over to handle the negative cash flows for several years. The central strategy in this deal was creating paper against the other rental property already owned by the buyer.

Frequently a cashless buyer can solve down payment hurdles by applying the value of his other equities to the deal at hand. If the seller is amenable, it is a simple matter to prepare a note secured by the buyer's equity in other properties and hand it to the seller as all or part of the down payment on the subject property. In effect, the buyer says, "I don't have the cash to give you as a down payment, but I can give you this note in exchange for your equity. The note will generate payments to you on mutually acceptable terms. I will maintain the collateral property in excellent condition as security for the note". Then the buyer has a trust deed prepared in favor of the seller to back up the trust deed note.

What the buyer has done is magic - he has created paper out of thin air. But his paper has value. It is solid consideration for the seller's equity and is used in good faith in lieu of all or part of the cash down payment required. If the seller is dependent on such an exchange to consummate the deal but hungry for the cash just the same, he can always sell the note at a discount for cash. (Technique No. 40, explained later on).

Not only is the Creation of Paper technique valuable in property acquisition, it permits the complete leveraging of a buyer's other holdings. Usually commercial lenders will lend only up to 80% of the value of a collateral property. If an owner wants to borrow against his assets at levels higher than 80%, he can readily create paper against the top 20% value and use it for exchange purposes. Rarely will a seller ask for credit checks or complicated paperwork to back up such a technique.

Technique No. 16 The Two-Way Exchange

In the Creation of Paper Technique, the buyer retains ownership of the property used to secure the note given to the seller as down payment on the subject property. In an exchange, the seller actually receives the buyer's property in exchange for his own. Title transfers, buying property by means of an exchange, if correctly done, provides great benefits in the form of tax deferrals. Section 1031 of the Internal Revenue Service Code permits trading of properties without triggering taxation on the gains. This is one of the single most important strategies in building up a real estate portfolio.

One Milwaukee investor we know of traded his \$170,000 7-plex for a more desirable \$280,000 12-plex by means of a two-way exchange. In another illustration, the owners of a free and clear \$150,000 home in Palo Alto, California, traded their property for three other homes in the area and enhanced their tax and cash flow situation. There are countless variations of this type of exchange going on all the time.

Technique No. 17 The Three-Way Exchange

The principles are the same as in the two-way exchange except that the seller, while anxious to get rid of his own property, is not willing to accept the buyer's property in exchange. However, if someone with a property acceptable to the seller is willing to take over the buyer's property, then everything will fall into place. The end result is the same as a simple exchange except that an extra link is added to the chain. Theoretically any number of links might be added. As a result, the business can get complicated - but the outcomes can be spectacular.

Technique No. 18 Lemonading

In exchanging parlance, lemonading refers to the technique of adding cash to a property that, for one reason or another, has not sold as readily as the seller had hoped (a "lemon"). The new package of property-plus-cash is then offered in exchange for any acceptable package on the market. With the cash sweetener added, the lemon is supposed to become more palatable to the marketplace - "lemonade."

3. THE REALTOR

The third major source of down payment capital is the realtor. By convention, most people assume that the real estate commission for listed properties is a fixed cash element of a transaction and that a seller is responsible for paying it. In fact, the commission is not fixed in any of its dimensions: rate, form, or source.

Like almost anything else, the percentage rate for calculating the commission is negotiable. Indeed, there would be legal problems if the real estate industry were to publish uniform fixed rates. Moreover, there is nothing written dictating that one must pay a commission in cash and cash only. Of course, almost all real estate professionals would prefer cash. It makes a deal clean and tidy and allows one to buy bread for the family table. However, most informed agents know that some transactions may involve commissions in the form of paper - promissory notes that may provide for monthly payments or a single payment balloon note at the end of an acceptable period. Generally the time involved does not exceed a year or two. Occasionally the commission may be in the form of a share of ownership, with cash emerging upon sale of the property down the pike. Still other possibilities include commissions paid in personal property. In Technique No. 14, the agent received a beautiful 0.81-carat diamond for his services. He was delighted, as are most agents who are shrewd enough to realize that a commission in an alternative form is better than no commission at all.

One of the important techniques available to the buyer who is interested in reducing the cash down payment for a deal is the technique of "Borrowing the Realtor's Commission" (No. 19).

Technique No. 19 Borrowing the realtors commission

While it is true that according to current agency practice, the seller pays the commission, the buyer is at liberty to negotiate alternative arrangements with either the listing or selling agents (or both). If the buyer can induce the agents to defer the commission, the down payment can be reduced by the same amount because the seller's immediate obligation is relieved.

Who pays for the deferred commission in the final analysis? It is negotiable. If the buyer can strike a nothing down deal with the seller paying the commission over time, is all the better. In many cases the

buyer himself assumes the seller's obligation (Technique No. 11) and pays the deferred commission. Occasionally they share.

The whole point is that the flexibility of the realtor may be an important factor in whether the deal comes together. Since the commission is usually the largest cash obligation of the seller in a transaction, the power of this technique cannot be overestimated.

There are many examples that illustrate how "Borrowing the Realtor's Commission" works in practice. In one Albuquerque transaction we heard of the seller of an 8-plex arranged to pay \$3,000 of the commission on a note, the balance being paid in the form of a real estate contract invested in the deal by the buyer's partner. The two notes not only constituted the entire commission, but the entire up front cash needs as well. In another deal, this time in St. Petersburg, Florida, a 35-unit motel and restaurant were acquired using, among other approaches, the technique of borrowing \$30,000 in commissions (\$15,000 in the form of a personal unsecured note signed by the buyer, and \$15,000 in the form of a third mortgage on the buyer's home). Similarly, a note for the commissions was instrumental in closing a deal on two duplexes acquired by an investor in Homestead, Florida. This technique is very frequently used. As a matter of fact, our research among the Robert Allen Nothing Down investors shows that as many as 20% of the transactions involve some degree of realtor carry back of commissions.

4. THE RENTERS

In nearly every real estate transaction involving rental property, the renters are instrumental in helping the buyer with the down payment. Of course, they are not aware of it. And few buyers are conscious ahead of time of how important the role of rents and deposits is to their success in reducing the cash down payment.

Technique No. 20 Rents

Since rents are paid in advance, a buyer who closes on the first of the month when rents are due stands to receive the gross rental income for that month. The first mortgage payment is generally not due until thirty days after closing so the buyer has a thirty-day breather. His immediate cash down payment obligation has therefore been offset by an amount equal to the rents.

Technique No. 21 Deposits

The situation with tenant security deposits is similar. It is not uncommon for the landlord to require the tenant to pay an amount equal to the first and last month's rent as a damage deposit. If a property is sold, the deposits are passed along to the new buyer. Unless state law prohibits the commingling of deposit funds with the rental accounts, the buyer can effectively use the deposit funds given to him at closing as an offset to the cash down payment obligation. Of course, when a tenant moves out, all or part of the deposit must be returned. If the new buyer is a wise manager, he will require a buffer period before returning the deposit. This will give him some protection against the possibility that the tenant may have neglected to pay some bills and will allow him meanwhile to find a new tenant who can add to the deposit kitty.

Virtually every real estate transaction involving rental property has the potential of providing access to these two techniques. For example, the buyer of a \$3,250,000 mobile home park in Cheyenne,

Wyoming was able to raise \$80,000 of the \$250,000 down payment from tenant rents and deposits in a recent transaction. We know of another case from our Los Angeles files where the buyer of a 72-unit apartment complex received \$70,000 in rents and deposits at closing to apply to the transaction.

5. THE PROPERTY

The fifth source of down payment capital is the property itself. The buyer who is on his toes learns to recognize aspects of a given property that might be sold off to raise funds for the purchase. The variations are endless - everything from fixtures to parts of the land itself. There are two techniques that belong to this category.

Technique No. 22 Splitting Off Furniture and Other

Several years ago, one of the Nothing Down graduates in Florida was \$50,000 short of funds needed to purchase an option on a valuable tract of land near Orlando. While wandering over the property one day pondering how he might come up with the necessary capital, he noticed a large area overgrown with beautiful ferns of the type one finds offered for sale in florists shops. Since problems often lead to creative solutions, he put two and two together and arranged to split.

Items off the ferns to raise enough money to bring the deal together. Today, the property is being developed into a multi-million dollar recreational park all because of a patch of ferns - and a creative mind.

Technique No. 23 Splitting Off Part of the Property

In some cases a given property is structured so that parts of it - extra lots or individual buildings - can be split off and sold to raise funds for the acquisition. Here is how it worked for an investor we know in West Bend, Wisconsin. He had located an attractive single family home on a large lot with a package price of \$990,000. Since he needed to come up with a hefty down payment - he resurveyed the property and established two lots on either side of the house. By the time of closing one lot had sold for \$150,000 and the other for \$100,000. Contributing the bulk of the down payment to acquire the property in the first place. It was all taken care of in a simultaneous closing.

6. HARD MONEY LENDERS

Hard money refers to funds borrowed from banks under strict conditions of qualifying and repayment, generally at market interest rates. Soft money from sources like sellers comes more cheaply with terms that are generally much more flexible. For that reason creative buyers tend to exhaust soft money sources before turning to the banking industry. Nevertheless, hard-money lenders are an important, if not indispensable source of down payment capital to which buyers, sooner or later, must turn. This section outlines eleven techniques for using hard-money funds in creative ways.

Technique No. 24 Small Amounts of Money From Different Banks

Investors getting started are well advised to cultivate their credit at several banks in their area. Often credit can be built up quickly by borrowing small amounts from different banks and lending institutions

and then repaying the loans promptly, even ahead of time. The strategy is to build up credit in sufficient amounts so that funds will be available when that promising deal suddenly surfaces and cash is needed quickly.

Technique No. 25 Cash-By-Mail Companies

Certain specialized lending institutions and finance companies appeal to executives and other well-qualified borrowers through ads in flight magazines and professional journals. The advantages are privacy and speed.

Technique No. 26 Credit Cards

In the past we have learned of two cases involving small properties (in this case mobile homes) where the buyers contributed the down payments by using credit cards. In one case an investor raised \$5,000 for the down payment on a 12' X 60' Flamingo which then rented out for a \$1,370/mo. positive cash flow. In another case a fortunate buyer in Phoenix picked up a spotless two bedroom Schultz mobile home by putting down \$17,000 borrowed on a revolving charge account. Except in unusual cases where the investor has acquired dozens of credit cards and uses them in a strategic and coordinated way, the amounts of cash generated by this technique are not generally large. However, where the buyer comes up a few hundred (or even a few thousand) dollars short, credit cards can make the difference.

Technique No. 27 Home Improvement Loans

Often hard-money funds borrowed to complete improvements to a property can relieve the pressures on a cash-poor buyer and rejuvenate accounts set aside for down payments and fix-up. Allocation of home improvement funds has to comply with the lender's policy, of course. For example, in a Kansas City, Missouri, transaction we heard of; a \$60,000 long-term Title I Home Improvement loan that was an important ingredient in the over-all acquisitions process of a single-family house.

Technique No. 28 Home Equity Loans

Even in tight-money times, there are mortgage and finance companies willing to make second-mortgage loans secured by the equity in a buyer's home. Often the beginning investor will get his or her start in this way. We know of a couple in Arizona who used a \$200,000 home equity loan to acquire two single family rental homes and get their investment ball rolling. They even came out with a modest positive cash flow.

Technique No. 29 Refinance Boat, Car, Stereo, or Other Personal Property

Hard-money lenders are often willing to loan money secured against valuable personal property. In a counseling session recently, a client was asking how to come up with the last \$20,000 needed to consummate C' deal on an excellent condo. He had no family, no partners to turn to, and no more money in savings that he could use, but he did not want to pass up the deal. I asked whether he owned a car or truck. He replied that he owned a new Datsun pickup free and clear. "Why don't you try to refinance the truck for \$20,000" I suggested. A light went on, and he headed for the banks to see what could be done. Not all lenders will welcome him with open arms, but he will eventually find one who will.

Technique No. 30 VA Loans

For the buyer who qualifies for a Veterans Administration loan, the down payment on a property is quite manageable - zero! VA loans are also possible even if the qualifying borrower is buying a duplex or 4-plex with the idea of living in one of the units. Anyone can assume a VA loan with a minimum of hassle and cost (around \$50). That leaves energy to spare for dealing creatively with the down payment challenge.

Technique No. 31 FHA Loans

Buyers who want to acquire their own residence for little down will find a loan guaranteed by the Federal Housing Administration to their liking. Down payments can be as low as 5%. Although the FHA, like the VA, is particular about the quality of home they will accept, FHA loans are always readily assumable with a minimum of hassle and cost (around \$50).

Investors who are sensitive to the modern problems of negative cash flow will keep their eyes open for properties with assumable FHA and VA loans. Due-on-sale clauses are never a worry with such loans, and the interest rates are usually somewhat lower.

Technique No. 32 The Second Mortgage Crank

This technique is one of the foundation stones of creative finance. Named by Robert G. Allen, the second mortgage crank is a strategy that will work equally well with fussy sellers as well as “don’t wanters.” The term “crank” is an old exchanger’s term that refers to the process of generating hard-money funds by originating new loans against a property. One speaks of “cranking” money out of the property in this way. Here’s how the technique works.

The buyer looks for properties that are free and clear or have relatively low loan to value ratios. A new hard-money first (or second) is obtained in order to generate enough money to satisfy the seller’s needs. The remainder of the seller’s equity is carried back on terms that are mutually agreeable. None of the cash comes out of the buyer’s pocket. Naturally, the hard-money lender’s policies and requirements will have to be satisfied. It may be that the carry back will have to be secured by another property in the buyer’s portfolio in order that the subject property will have no secondary financing (anathema to most hard-money lenders who are asked for refinance funds of this type).

Because of the importance of this technique, let us give you several examples from our files of how it has been used successfully by investors. A buyer in Chico, California, acquired four SFH’s for \$1,590,000 each by taking the property subject to an existing first mortgage of \$640,000 then putting on a new hard-money second for \$550,000 (out of which the down payment was generated), the balance of the obligation to the seller being carried back in the form of paper against another investment property. In another situation, an investor in Oklahoma bought two SFH’s by putting on a new first mortgage (proceeds to the seller) and having the seller carry back the rest in the form of paper secured by the property. In both cases, the down payment was “cranked” out of new hard-money encumbrances against the property, rather than out of the buyer’s pocket. There are countless other illustrations for this technique. This technique becomes especially important in periods of lowering interest rates and easier access to bank funds.

Technique No. 33 Variation of the Crank: Seller Refinance

In some instances it might be difficult to persuade conservative lending institutions to refinance a property or provide secondary financing as part of a “crank” purchase. They may regard the substitution of collateral on the owner carry back as too complicated. To them, it might seem as though the owner carry back still looks suspiciously like an encumbrance against the subject property (even though the mortgage has been moved to another property).

One variation of the second mortgage crank technique calls for the seller to refinance his own property and then pass the new loan on to the buyer. No one at the bank is going to object to his refinancing his own property or putting on a new second mortgage. In this way the seller’s needs for cash can be taken care of, the balance of the equity being carried back in the form of a second or third mortgage.

A case we heard of in Tucson that is a good example of this alternative approach to the second mortgage crank. The seller agreed to obtain a \$120,000 hard-money second to generate needed capital before the property was passed on to the buyer, who in turn gave the seller a third mortgage for the remaining equity.

Technique No. 34 Buy Low, Refinance High

This is the old “buy low, sell high” strategy transferred from the stock market to creative real estate. The basic strategy is to locate a property discounted substantially below market levels and then refinance it with a new hard-money first in order to achieve higher leverage or generate funds to satisfy the needs of the seller (and buyer as well). This technique is particularly suited to tight-money times where negative cash flows can be a deterrent to investing.

A woman investor from California put herself in a position to make \$1.5 million on 180 discounted town homes in Arizona by using the “buy low, refinance high technique.” A buyer in Pennsylvania was able to pick up \$100,000 in instant equity by refinancing a discounted duplex acquired for nothing down. When he goes to sell the duplex, he can “sell high” and convert the equity to cash. Still another investor in Tulsa picked up three duplexes for \$1,650,000. Since they were appraised at nearly \$2,400,000 for all three, he was able to put on a new first mortgage at a high enough level to generate over \$300,000 cash to buyer at closing. When he goes to sell he can convert the rest of his profit to cash. And so it goes with the “buy low, refinance high” technique.

7. UNDERLYING MORTGAGES

The seventh area of flexibility in acquiring property for nothing down is the area of underlying mortgages. Three vital questions for the analysis phase are: What mortgages (trust deeds, liens) are there against the property? Who holds them? Would these holders of underlying mortgages be flexible with their assets? In most cases the mortgagees are banks. For that reason conventional wisdom assumes that there will be no flexibility whatsoever. Hard moneylenders, after all are “tightwads” who never yield on the terms of their loans. Conventional wisdom is usually correct in this, and yet even hard-money lenders can soften up if it is in their best interests to do so. The fall in interest rates and rise in real estate prices in the last few years has caused some agencies and institutions to develop flexibilities with their mortgage holdings that can benefit real estate investors.

With private mortgage holders, the opportunities for creative finance techniques are even greater. The mortgagees may be sellers who have accepted paper back for part of their equity when they sold the property. Now they are receiving payments over time, sometimes at interest rates far below the current market. Often such private mortgage holders realize that their assets are not well invested in relation to current investment opportunities and yields, so they become open to suggestions from creative buyers who present more beneficial solutions to the problem.

This section outlines five techniques from this area of flexibility.

Technique No. 35 Use Discounts from Holders of Mortgages

The basic approach to the private holders of underlying financing is this: Mr. Mortgage, you are receiving monthly payments on this note at a moderate rate of interest, and you must wait patiently until the note is paid off. Would you not rather have this mortgage redeemed for cash right away? If the holder of the mortgage is willing to discount his note for cash, the buyer can look for new financing to put on the property in order to payoff the existing private mortgage. The strategy is to have enough refinance funds to payoff the private mortgage and still have sufficient funds to take care of part or all of the down payment needed to acquire the property in the first place. It might turn out that the private mortgage holder will be willing to discount only a part of his note for cash. Perhaps he would respond to the idea of taking part in cash (at a discount) and the rest in new secondary financing above the refinance mortgage, possibly with an improvement in his interest rate or other terms.

There are many variations to this technique, but the basic idea is to redeem the underlying mortgage at a discount for cash (using borrowed funds), with the balance being applied to the down payment. For example, a buyer of a rental home in Los Angeles had induced a seller to take back a single payment second of \$110,000 for three years. After the closing, the buyer approached the seller and offered to buy back the second for \$70,000 cash. When the seller agreed, the buyer borrowed \$100,000 paid off the note, and had \$30,000 to offset the small cash down payment he had made to get into the property.

Technique No. 36 Moving the Mortgage

A mortgage consists of two basic documents: one is a note setting forth the terms for paying back the funds that are borrowed, the other is a security agreement that provides collateral for the loan in case of default. The security agreement promises, in essence, to back up the performance of the borrower in repaying the note. If the buyer fails to live up to his commitments, then the lender is entitled to the collateral (property) pledged as security for the loan.

What conventional wisdom fails to grasp is the idea that while the terms of the note are fixed, there may be dozens of ways to satisfy the security needs of the seller other than using the subject property itself as collateral. As the procedures of Technique No. 36, "Moving the Mortgage" will make clear it is always wise in negotiating a real estate purchase to include a "substitution of collateral" clause in the purchase agreement. Such a clause allows the buyer to substitute other collateral as security for the note in the future, subject to the approval to the seller. It is sometimes possible, even after the fact, to induce a seller or the holder of an underlying mortgage to "move the mortgage" to another property (substitute other collateral). Frequently sweeteners are needed to get the job done - an increase in the interest rate or the principal amount, an improvement in the position of the note (e.g. from, third to second or from second to first), an increase in the amount or quality of the collateral, etc.).

Why is it beneficial to move a mortgage? The key is this: if property owned by a buyer can be “de-financed” (freed of encumbrances, in this case by having the existing mortgages moved to other properties), then the buyer will be free to put new financing on the property and “crank” out funds that can be used, for example, as down payments. Alternately, the de-financed property can be sold to raise capital for the same purposes. Now here is the twist that boggles conventional wisdom: What if the down payment funds generated in this way are used to acquire the very property to which the mortgages we have been talking about are to be moved? Is it possible to arrange for a simultaneous escrow involving both properties? Certainly!

Here’s an example from the community of Olaho, Oregon – An investor acquired a 10-plex in the following way: using funds he had cranked out of an earlier investment property. He bought a SFH whose owners were willing to accept security for their carry back against the 10-plex our investor wanted to acquire. He then traded the de-financed SFH to the owners of the 10-plex - who in turn put new financing against the SFH to get capital they needed - Brilliant!

In another transaction in Evergreen, Colorado, the problem was not one of generating cash for the down payment but rather in assuming a first mortgage without violating the policy of the lender prohibiting secondary financing on the property. The buyer simply induced the seller to carry back the difference on a note secured against other properties. By moving the mortgage off the subject property, the buyer prepared the way for a future refinance or to raise capital for the next big deal.

Technique No. 37 Creative Refinance of Underlying Mortgage

In general the only flexible holders of underlying mortgage lenders are private parties. Hard-money mortgages are for the most part not cooperative when it comes to techniques discussed in this section. However, there is one aspect of underlying financing where even the hard-money people are beginning to show flexibility: refinance. The up and down flight of interest rates in recent years has left financial institutions holding large portfolios of undesirable low-interest mortgages. With the advent of high yield money market funds, deposits in savings and loan associations have been withdrawn in record amounts, making the situation even worse. The result is that the lenders are desperate to rid their holdings of the older, low interest loans made in yesteryear. A symptom of the malaise is the aggressiveness of many banks in upholding the due-on-sale provisions of conventional loans made during the last decade, they want those loans paid off or assumed at higher interest rates.

This situation brings about a softening of hard-money hearts in the interests of institutional solvency. One major example of this has already become policy. The Federal National Mortgage Association, which holds a vast portfolio of home mortgages acquired from lenders around the country is offering to refinance their own mortgages at rates below the market for both owner-occupied as well as investment situations. Since they will go as high as 90% for owner occupants and 80% for investors, the program offers interesting possibilities for the creative buyer. FNMA calculates the new interest rate on a refinanced loan by averaging the yield on the old amount with the yield on the added amount according to an internal formula. The combination is always lower than the market rate. Although FNMA guidelines must be met, buyers should consider taking advantage of the opportunities the refinance program offers to raise funds.

The Fannie Mae program is not the only “creative refinance” opportunity available. Many primary lending institutions around the country are devising innovative ways to divest themselves of unprofitable low-interest loans in ways that might be beneficial to investors. Investors should explore opportunities

for working creative deals with lenders in their own areas. The next period of time will be marked with increased hard-money flexibilities that could lead to win/win deals for everyone involved.

Of special interest also are the R.E.O.'s - "Real Estate Owned" properties that the lending institutions have had to take back through foreclosure and now want to get rid of. Foreclosure activity increases during tight-money times, and investors should cultivate relationships with lenders who might be very anxious to sell R.E.O.'s to them on soft terms.

In Freemont, California, one buyer used the program to generate \$150,000 toward the down payment on a condo. The existing FNMA first at \$410,000 was refinanced at \$560,000 with the excess proceeds going to the seller. The new interest rate was 12.25%, far below market levels at the time.

Technique No. 38 Pulling Cash Out of Buildings You Own But Don't Want To Sell

Many variations in the basic approach of dealing creatively with holders of underlying mortgages are possible. Here is one other example of how a creative investor might pull investment funds out of a property without actually selling it. Let's suppose that a private party holds a mortgage against a property our investor wants to keep. He needs to raise investment capital but a refinance of the property would not net a large amount of cash because most of the proceeds, let's suppose, would go to payoff the existing private mortgage. What can he do? Perhaps the private mortgage would agree to share the proceeds of the new loan with the investor and take back the balance in the form of a new second mortgage against the property. The investor may have to sweeten the deal (perhaps in the form of a higher interest rate, higher monthly payments, or a shorter payout period), but at least he gets to keep his property and achieve his goal of raising capital.

Technique No. 39 Making A Partner of the Holder of an Underlying Mortgage

What other ways are there to induce a private mortgage-holder to cooperate in creative arrangements such as moving the mortgage? One could offer to give the party one half interest in the property if he would release his mortgage so that a refinance could take place. Out of the refinance would come the funds to buy the property from its owner.

Short of an equity position, one might offer the holder of an underlying mortgage a higher interest rate in exchange for certain concessions that would facilitate the purchase. In a Santa Fe, New Mexico, transaction, one buyer came up against a non-assumable private mortgage on the property he wanted to buy. By giving the holder a three-point interest increase, he eliminated the hurdle and bought the property. In effect - the holder became an investment partner who said, "Help me make more money and I will see to it that you get the property." The variations are endless.

8. INVESTORS

In the eighth area of creative financing flexibility. We turn to investors for help with down payments. Our interest is in a particular kind of investor - the kind specializing in buying and selling second trust notes. When a note is created, it tends to have a life of its own. It can move from master to master as it continues to generate monthly payments in accordance with the terms its originators gave to it. The person to whom it is first given - as for example in a real estate transaction where the seller carries back paper on his equity - can turn around and sell it in the marketplace for cash. In order to convert it to

cash, he will have to sell it at a discount, anywhere from, say, twenty to fifty percent, depending on the nature of the note, how seasoned' it might be, its collateral, etc. But the seller is willing to do this for the privilege of having at least a major part of the face value of the note in the form of immediate cash.

It is the marketability of the note, as well as the difference between its face value and its cash value, that makes it interesting to real estate buyers. There are two major possibilities to keep in mind. If a buyer can acquire second trust notes in the marketplace at a discount, and then use them at face value as down payments on real estate, he has effectively picked up the difference between the discounted value (cash value) and the face value. That difference has now been converted to equity in the property he has purchased and since the note traded into the subject property is secured by another piece of property altogether, he can “crank” funds out of his newly acquired real estate to take care of buying the note in the first place. It is a remarkable chain of events that can yield handsome rewards. The other major role for second trust notes in creative real estate is generating cash for the seller who needs more money down than the buyer can provide. The following technique illustrates the approach:

Technique No. 40 Selling of Second Trust Notes

If a buyer cannot supply the seller with a large enough cash down payment, he can give the seller a note - fully secured by the property - with a face value just large enough to yield the required cash proceeds when sold to an investor in the marketplace. Of course, the buyer has to make payments on the note according to the terms agreed upon, no matter who holds the note. Alternately, the buyer can give the seller a note secured by another property in the buyer's portfolio. The same process of selling the note at a discount can be used to generate the cash needed by the seller. By moving the mortgage, however, the buyer has the advantage of fully leveraging other assets that may have already been encumbered beyond the threshold tolerated by commercial lenders. He also can now “crank” funds out of the newly acquired property more readily since it is left with less secondary financing or none at all.

Here's how it worked recently in a Phoenix transaction: The buyer of a \$65,000 SFH gave the seller two notes for his equity, one of which was sold by the seller at a discount to raise the needed down payment cash. The other note remained as a third with a single payment balloon after three years.

9. PARTNERS

The ninth area of flexibility in creative finance is the use of partners for those who rationalize their investment inactivity on the basis of having no money, no credit, no financial statement, no equity, etc., Robert Allen has the following response: “If you don't have it, someone else does.” The strategy is to make that someone your partner if you cannot bring the deal off in any other legitimate way. Assuming that the buyer has exhausted all other areas of flexibility, there are many quid pro quo arrangements he might use to involve a partner. Five of them are covered in this section.

Technique No. 41 Borrow Partner's Financial Statement

Many investors without strong financial statements feel they must approach sellers with fear and trembling. Not necessarily. If the deal requires partnership support in this area, a successful investor will add to his team the strength he needs and go into the marketplace with confidence. For example, a creative buyer in Albuquerque induced a seller to discount an 11-plex by over 20% and carry most of

his equity on a wrap, largely on the strength of his partners' financial statements. Both of the buyer's partners happened to be millionaires, not bad company to keep when facing an experienced seller.

Technique No. 42 Borrow Partner's Money for Down Payment

Frequently an investment partner can be persuaded to loan the buyer all or part of a down payment. The loan may or may not be secured by a trust deed on the property. In any case, the buyer who is just short on funds for the down payment is probably better off to avoid giving the partner an equity position in the property unless absolutely necessary. Equity sharing partnerships are costly when calculated over the entire life of the investment.

Two case studies in this section show how investment partnerships can contribute to the success of real estate purchases. In one St. Charles, Missouri, transaction, an equity-sharing partner on a 4-plex deal was able to raise \$50,000 of his contribution by borrowing it from his mother. The buyer of a 6-plex in Seattle did a similar thing. His mother came up with \$100,000 as an investment to help him buy the property. (It was not just a case of maternal support -the women were shrewd investors who received a good return on their money.)

Technique No. 43 Borrow Partners Money for down Payment Until Your Money Comes

In this variation, the partner does not have to leave his cash investment tied up in the property in exchange for an equity position: he gets it all back plus interest as soon as the buyer can put together the case. The partner puts his money to good use and still comes out with part interest in the property.

Technique No. 44 You're Cash Flow/My Equity Or Some Combination

Often the partner provides something other than cash to make the deal fall together. There are many illustrations of this technique. For example, a partner in a SFH transaction in Southern Florida recently provided property to which a created second mortgage was moved. In another Florida case involving a large motel a partner was brought into the deal because he had some stock that was used as collateral in order to borrow \$200,000 essential to the deal. Like Bob says: "If you don't have it, someone else does."

Technique No. 45 You Put Up the Cash; I Put Up the Time and Expertise

This is the most common partnership arrangement: In exchange for cash needed at the front end, and sometimes cash to offset negative cash flows and balloons, the partner receives an equity position in the property .

In a case from our Atlanta file, for example, a beginning investor with only \$1,000 rent money in his pocket was able to close his first deal using \$20,000 from a partner. In a San Diego case, a father and son team located a partner with the \$70,000 needed to get into a condo. Somewhat bigger stakes were played for in a Los Angeles transaction completed by one of our colleagues in the recent past: the buyer lined up several partners to provide the cash needed (\$1,480,000) to close on a 72-unit property. Regardless of the amount invested by partners, the principles are always the same.

10. OPTIONS

This final section treats a group of special creative finance techniques that permit a buyer to gain control of significant amounts of real estate with little down, even though ownership may be many months or years away - if ever. The principle is simple: the person buying the option gives the seller a sum of money in exchange for the right to buy the property at a given price within a defined period of time. The buyer then benefits by locking in the price and gaining control of the property without a large investment. The seller also benefits by retaining the tax advantages of ownership while locking in the sale at an acceptable price or picking up the option money in the event the buyer decides to back out. The Nothing Down System includes five variations of the option.

Technique No. 46 The Rolling Option

In this approach, a large tract of land is optioned piecemeal by the buyer. Rather than taking control of the whole package at once, which would be very expensive, the buyer purchases a segment for development or resale while at the same time buying an option on the next segment. The option can then be rolled from segment to segment until the whole package is developed or the option dropped.

Technique No. 47 Equity for Options

Other assets besides cash can be used as an option payment. Personal property (cars, trucks, equipment, collectibles), equity resources, and even services can work just as well.

Technique No. 48 Sale Option Back

What if a property owner needs to sell a piece of property now in order to raise capital but wishes he could eventually have it back to take advantage of predicted appreciation and future growth? What can be done for him? The Sale Option Back technique is cut to order: the seller disposes of his property at a moderate discount but with the option to buy it back within a specified time frame at a price fixed now. Whether or not the option is exercised, the buyer wins: and the seller has the choice of getting his property back if future conditions develop as planned.

Technique No. 49 The Earnest Money Option

Every Earnest Money Agreement is an option. For a short period of time, the potential buyer has control of the disposition of the property. If he fails to follow through as agreed, he loses the earnest money (option payment) as liquidated damages. Meanwhile, if he has executed the offer to purchase in his own name with the additional phrase And/Or Assigns, he can choose to sell his interest in the property to whomever he will. If he has struck a good bargain, it is possible the assignment of the earnest money rights to some other investor could be very profitable.

Technique No. 50 Lease With An Option To Purchase

This is the most common form of the option. Buyers who don't have enough cash for a down payment or who wish to build up a portfolio of properties using this technique can use their available funds as option money and then maneuver for purchase later on. Meanwhile, if monthly payments have been carefully structured, the buyer (option holder) might be able to pick up a little extra cash on sublease payments.

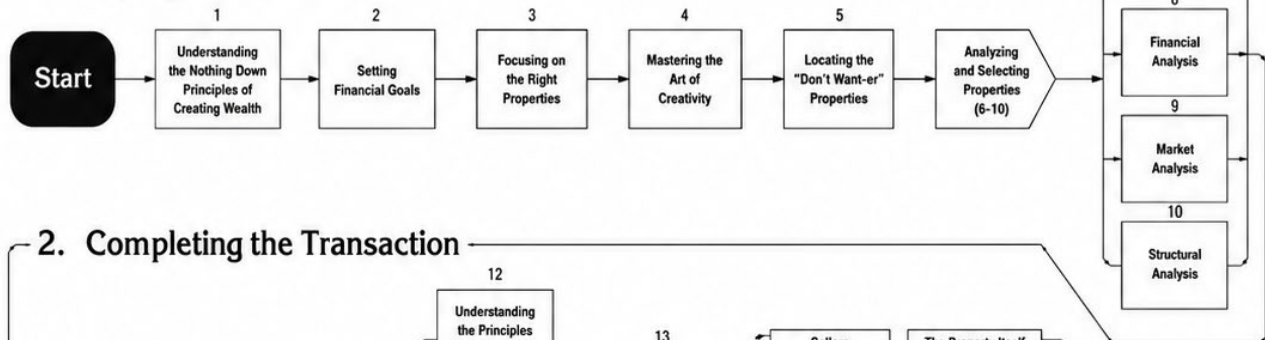
There are numerous examples of this technique, which is used frequently by investors. For example, the buyer of a 14-plex in Bremerton, Washington, initiated his program recently with a six month lease option. The reason? He did not yet have the down payment funds, and besides, the seller needed to hold the property a little longer to qualify for long-term capital gains. In a Nashville, Tennessee, purchase, a home buyer we know picked up an estate property for \$10,000 on a six-month lease option. The breathing room permitted him to get together the down payment needed for closing. And so it goes.

The important thing to remember in applying these techniques to advance your own real estate portfolio is that not all of them are essential to your success. Find the approach that suits your needs and matches your resources and goals. Most purchases we have researched across the country involve combinations of one, two, three, or four of these techniques. Many times an investor will hit on just the right approach for his/her situation and use it over and over again. It becomes a cookie cutter” that punches out the dough” time after time. Best of luck in putting these powerful and effective tools to use!

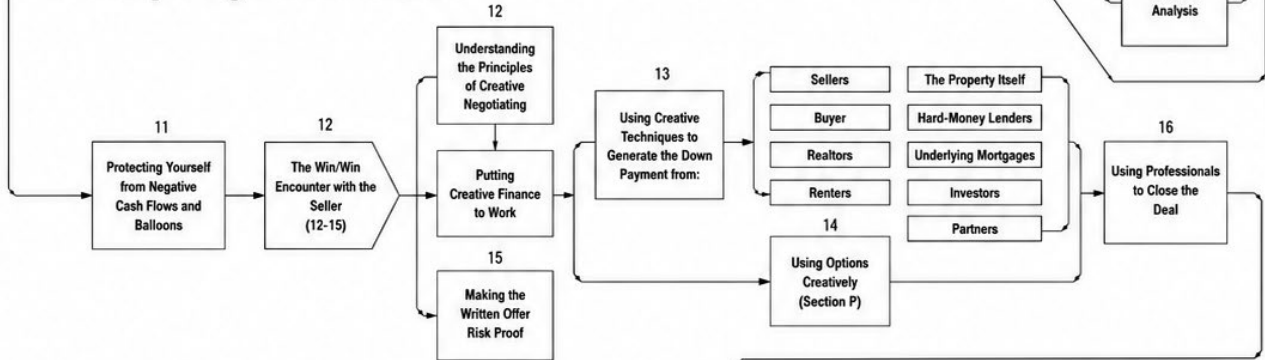
This booklet is provided with the understanding that the author and/or company are not offering their information as accounting, legal, investment, and/or tax advice. Questions regarding the specific accounting, legal, investment, and/or tax needs of the reader should be addressed to their professional advisor. Any testimonials included in this booklet may not represent typical results. Unique experiences and past performances do not guarantee future results.

Robert G. Allen's Nothing Down System of Creative Real Estate Investing

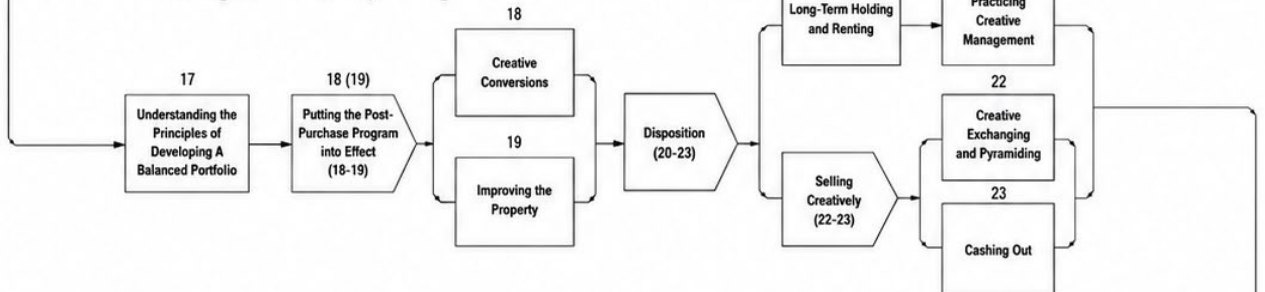
1. Laying the Foundation



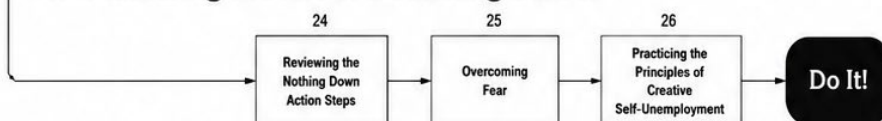
2. Completing the Transaction



3. Harvesting the Money Crop



4. Mastering the Art of Becoming a Doer



"I Agree/You Agree":

How to Write Risk-Free Formal Offers

In our research with the graduates of the now famous Robert Allen Nothing Down Seminar, we have learned that the average Nothing Down investor will have to make five formal offers - usually on five different properties - before achieving one purchase. If the purchase is truly a nothing down purchase where 5% or less of the buyer's own funds are used as a down payment, it takes more like ten formal offers to hit pay dirt. One young man from Southern California who acquired over \$800,000 worth of real estate within two months of taking the seminar (all with nothing down) had to make 50 formal offers to attain his goal.

There is a lesson there. No offers. No purchases. Many offers. Many purchases. Simple! But naturally it is more than just a numbers game. The offers have to be skillful offers, based on careful analysis and astute use of creative finance principles. The buyer and seller have to agree on terms that will lead to win/win outcomes and then find the language to preserve and formalize their agreement accurately.

For some, the challenge of putting their signature to paper is very nearly an insurmountable barrier. There is something awesome and forbidding about that little dotted line just daring you to scrawl your signature along it - daring you to state irreversibly the commitment: "I do!" For those who cannot bring themselves to formalize their commitments, goals will ever remain fantasy. Such people will have to content themselves with dreams of financial independence. The actuality will always remain out of reach.

This book is about people who were willing to say: "I do." The fifty case studies recorded here would never have occurred without a formal commitment to action on the part of both buyer and seller. At some point in the process of fact-finding, analysis, and negotiation, both parties saw things fall in place and signed on the dotted line. For better or worse, they initiated the process by which real property changes hands. Some deals will no doubt turn out to be more successful for the buyer than others. But at least there was action - action based on the best information available and the most skillful planning for the future possible under the circumstances.

Chances are one in five to achieve success and one in ten to achieve a true nothing down deal. Without making the formal offer, his chances of achieving anything are exactly zero.

The same as yours. It's all a matter of making good offers - many good offers - enough offers to achieve your explicit goal. If you want to buy one excellent nothing down property per year, then somewhere along the line you will probably have to make around ten good offers, around one per month. If you want to buy four excellent nothing down properties per year, then get ready to sharpen your pencil at least once a week. It will take that many formal offers to achieve your goal. If you decide to go for broke and buy one million dollars worth of single family homes during the next year without using your own money (around one per month), then you can expect to make a good offer every three days. Of course, if you have the fortune of stumbling across that spectacular multi-million dollar package of

homes just ready for the asking, you can take care of your goal with a single successful offer (have a look at Case No. 34 in this book). However, such luck is rare and is usually the result of countless hours of preparation and searching.

Once the Nothing Down Practitioner is persuaded that there is no alternative but action, that offers HAVE to be made on a regular basis, then the next step is to examine the principles of how to make the offers as risk-free as possible. That is the purpose of this chapter. If we could set up a few safety nets below the cliff, then maybe more people would get up the courage to jump off. It doesn't take much instruction in the art of contingency planning before even the most risk-averse begin to come out of hiding.

The notorious document at the heart of the issue is the Earnest Money Receipt and Offer to Purchase. It has various aliases in different areas of the country, among others: Purchase Agreement for Real Estate, Purchase Contract and Receipt for Deposit, Deposit Receipt and Contract for Sale, Preliminary Purchase Agreement, Sales Agreement and Receipt for Earnest Money, Deposit Receipt and Agreement, Agreement for the Sale of Real Estate, Sale Agreement and Receipt for Earnest Money, Earnest Money Receipt and Sales Contract, Commercial Purchase and Sale Agreement, Deposit Receipt and Purchase and Sale Agreement, etc., etc.

It all boils down to the same thing - a legally binding written agreement signed by both buyer and seller committing them to the sale of a specific piece (or pieces) of real estate according to specific terms. To show good faith in entering the transaction, the buyer pledges something of value that commits him to action and shows his earnestness in the matter.

Even though the intent and substance of the preliminary agreement is the same throughout the country, the form and wording in various jurisdictions can vary widely. Some versions of the document are also protected by copyright. Therefore, we have designed our own version for use throughout this book. Our model may not be a paragon of documentary perfection, but it is at least straightforward and comprehensive enough to serve as an adequate instructional tool for examining the principles of making risk-free offers. Here is the masterpiece we came up with after examining counterparts from all areas of the country and conferring with competent legal counsel:

Universal Earnest Money Receipt and Offer to Purchase

"This is a legally binding contract. If not understood, seek competent advice."

1. Date and Place of Offer

Date and Place of Offer: _____, 19____, _____
(city), _____ (state).

2. Principals

The undersigned Buyer _____ agrees to buy and Seller agrees to sell, according to the indicated terms and conditions, the property described as follows:

3. Property

Property located at _____ (street address),
_____ (city), _____ (state), with the following legal description: _____.

Including any of the following items if at present attached to the premises: plumbing, heating, and cooling equipment, including stoker and oil tanks, burners, water heaters, electric light fixtures, bathroom fixtures, roller shades, curtain rods and fixtures, draperies, venetian blinds, window and door screens, towel racks, linoleum and other attached floor coverings, including carpeting, attached television antennas, mailboxes, all trees and shrubs, and any other fixtures EXCEPT:

_____.

The following personal property shall also be included as part of the purchase:

_____. At the closing of the transaction, the Seller, at his expense, shall provide the Buyer with a Bill of Sale containing a detailed inventory of the personal property included.

4. Earnest Money Deposit

Agent (or Seller) acknowledges receipt from Buyer of _____ dollars (\$ _____) in the form of () cash; () personal check; () cashier's check; () promissory note at _____ % interest per annum due _____, 19____; or other _____, as earnest money deposit to secure and apply on this purchase. Upon acceptance of this agreement in writing and delivery of same to Buyer, the earnest money deposit shall be assigned to and deposited in the listing Realtor's trust account or _____, to apply on the purchase price at the time of closing.

5. Purchase Price

The total purchase price of the property shall be _____ dollars (\$ _____).

6. Payment

Purchase price is to be paid by Buyer as follows:

Aforescribed earnest money deposit: \$ _____

Additional payment due upon acceptance of this offer: \$ _____

Additional payment due at closing: \$ _____

Balance to be paid as follows:

_____.

7. Title

Seller agrees to furnish good and marketable title free of all encumbrances and defects, except mortgage liens and encumbrances as set forth in this agreement, and to make conveyance by Warranty Deed or

_____. Seller shall furnish in due course to the Buyer a title insurance policy insuring the Buyer of a good and marketable title in keeping with the terms and conditions of this agreement. Prior to the closing of this transaction, the Seller, upon request, will furnish to the Buyer a preliminary title report made by a title insurance company showing the condition of the title to said property. If the Seller cannot furnish marketable title within thirty days after receipt of the notice to the Buyer containing a written statement of the defects, the earnest money deposit herein receipted shall be refunded to the Buyer and this agreement shall be null and void. The following shall not be deemed encumbrances or defects: building and use restrictions general to the area; utility easements; other easements not inconsistent with Buyer's intended use; zoning or subdivision laws, covenants, conditions, restrictions, or reservations of record; tenancies of record. In the event of sale of other than real property relating to this transaction, Seller will provide evidence of title or right to sell or lease such personal property.

8. Special Representations

Seller warrants and represents to Buyer: (1) that the subject property is connected to () public sewer system, () cesspool or septic tank, () sewer system available but not connected, () city water system, () private water system, and that the following special improvements are included in the sale: () sidewalk, () curb and gutter, () special street paving, () special street lighting; (2) that the Seller knows of no material structural defects; (3) that all electrical wiring, heating, cooling, and plumbing systems are free of material defects and will be in good working order at the time the Buyer is entitled to possession; (4) that the Seller has no notice from any government agency of any violation or knowledge of probable violations of the law relating to the subject property; (5) that the Seller has no notice or knowledge of planned or commenced public improvements which may result in special assessments or otherwise directly and materially affect the property; and (6) that the Seller has no notice or knowledge of any liens to be assessed against the property, EXCEPT:

_____.

9. Escrow Instructions

This sale shall be closed on or before _____, 19____, by _____ or such other closing agent as mutually agreed upon by Buyer and Seller. Buyer and Seller will, immediately on demand, deposit with closing agent all instruments and monies required to complete the purchase in accordance with the provisions of this agreement. Contract of Sale or Instrument of Conveyance to be made in the name of _____.

10. Closing Costs and Pro-Ration

Seller agrees to pay for title insurance policy, preliminary title report (if requested), termite inspection as set forth below, real estate commission, cost of preparing and recording any corrective instruments, and one-half of the escrow fees. Buyer agrees to pay for recording fees for mortgages and deeds of conveyance, all costs or expenses in securing new financing or assuming existing financing, and one-half of the escrow fees. Taxes for the current year, insurance acceptable to the Buyer, rents, interest, mortgage reserves, maintenance fees, and water and other utilities constituting liens, shall be pro-rated as of closing. Renters' security deposits shall accrue to Buyer at closing. Seller to provide Buyer with all current rental or lease agreements prior to closing.

11. Termite Inspection

Seller agrees, at his expense, to provide written certification by a reputable licensed pest control firm that the property is free of termite infestation. In the event termites are found, the Seller shall have the property treated at his expense and provide acceptable certification that treatment has been rendered. If any structural repairs are required by reason of termite damage as established by acceptable certification, Seller agrees to make necessary repairs not to exceed \$500. If repairs exceed \$500, Buyer shall first have the right to accept the property "as is" with a credit to the Buyer at closing of \$500, or the Buyer may terminate this agreement with the earnest money deposit being promptly returned to the Buyer if the Seller does not agree to pay all costs of treatment and repair.

12. Conditions of Sale

The following conditions shall also apply, and shall, if conflicting with the printed portions of this agreement, prevail and control:

13. Liability and Maintenance

Seller shall maintain subject property, including landscaping, in good condition until the date of transfer of title or possession by Buyer, whichever occurs first. All risk of loss and destruction of property, and all expenses of insurance, shall be borne by the Seller until the date of possession. If the improvements on the property are destroyed or materially damaged prior to closing, then the Buyer shall have the right to declare this agreement null and void, and the earnest money deposit and all other sums paid by Buyer toward the purchase price shall be returned to the Buyer forthwith.

14. Possession

The Buyer shall be entitled to possession of property upon closing or _____, 19____.

15. Default

In the event the Buyer fails to complete the purchase as herein provided, the earnest money deposit shall be retained by the Seller as the total and entire liquidated damages. In the event the Seller fails to perform any condition of the sale as herein provided, then the Buyer may, at his option, treat the contract as terminated, and all payments made by the Buyer hereunder shall be returned to the Buyer forthwith, provided the Buyer may, at his option, treat this agreement as being in full force and effect with the right to action for specific performance and damages. In the event that either Buyer, Seller, or Agent shall institute suit to enforce any rights hereunder, the prevailing party shall be entitled to court costs and a reasonable attorney's fee.

16. Time Limit of Offer

The Seller shall have until _____ (hour), _____ (date), 19____, to accept this offer by delivering a signed copy hereof to the Buyer. If this offer is not so accepted, it shall lapse and the agent (or Seller) shall refund the earnest money deposit to the Buyer forthwith.

17. General Agreements

(1) Both parties to this purchase reserve their rights to assign and hereby otherwise agree to cooperate in effecting an Internal Revenue Code 1031 exchange or similar tax-related arrangement prior to close of escrow, upon either party's written notice of intention to do so. (2) Upon approval of this offer by the Seller, this agreement shall become a contract between Buyer and Seller and shall inure to the benefit of the heirs, administrators, executors, successors, personal representatives, and assigns of said parties. (3) Time is of the essence and an essential part of this agreement. (4) This contract constitutes the sole and entire agreement between the parties hereto and no modification of this contract shall be binding unless attached hereto and signed by all parties to the contract. No representations, promises, or inducements not included in this contract shall be binding upon any party hereto.

18. Buyer's Statement and Receipt

"I/we hereby agree to purchase the above property in accordance with the terms and conditions above stated and acknowledge receipt of a completed copy of this agreement, which I/we have fully read and understand."

Dated _____, 19____, _____ (hour)

Address: _____

Buyer: _____

Buyer: _____

Phone No. Home: _____ Business: _____

19. Seller's Statement and Response

"I/we approve and accept the above offer, which I/we have fully read and understand, and agree to the above terms and conditions this day of _____, 19____, _____ (hour)."

Address: _____

Seller: _____

Phone No. Home: _____ Business: _____

20. Commission Agreement

Seller agrees to pay a commission of _____% of the gross sales price to _____ for services in this transaction, and agrees that, in the event of forfeiture of the earnest money deposit by the Buyer, said deposit shall be divided between the Seller's broker and the Seller (one half to each party), the Broker's part not to exceed the amount of the commission.

21. Buyer's Receipt for Signed Offer

The Buyer hereby acknowledges receipt of a copy of the above agreement bearing the Seller's signature in acceptance of this offer.

Dated _____, 19____

Buyer: _____

Buyer: _____

Commentary on the Universal Earnest Money Receipt and Offer to Purchase

The 21 divisions of the document address the following questions, all of which are centrally important to the transaction:

1. When and where is the offer made?
2. Who is involved in the transaction?
3. Which property is involved and exactly what is included in the sale?
4. What is the amount of the deposit and in what form is it given?
5. What is the purchase price?
6. How is the price to be paid?
7. Can the seller deliver clear title to the property?
8. Can the seller attest to the quality of the property?
9. When and how is the closing to take place?
10. Who pays for what at the closing?
11. Is the structure free of termite problems, and if not, how to proceed?
12. What special conditions of the sale are there?
13. Who is liable for the property from the time of acceptance until the closing?
14. When can the buyer have possession of the property?
15. What happens in case the buyer or the seller fail to comply with the terms of the agreement as promised?
16. How long does the seller have to accept or reject the offer?
17. What general agreements are binding on the parties to the agreement?
18. Is the buyer willing to accept the agreement as stated?
19. Does the seller accept the offer?
20. What commission is involved, and how and to whom is it to be paid?
21. Does the buyer acknowledge receipt of the final signed offer?

If the verbiage to answer all those questions had to be written out and negotiated from scratch every time an offer were made, buyers and sellers would be smothered in the paralysis of analysis and never get much done. Fortunately, a preprinted form such as the one reproduced above takes care of most of the boilerplate basics - all of which are important - leaving spaces for the optional items constituting the heart of the offer. Let's examine the earnest money form step by step and see how it can be filled out using risk-free entries.

1. Date and Place of Offer. Everyone can get this far on their own without the slightest tinge of fear and concern.

2. Principals. Here the name of the buyer is filled out but with the addition of the vital words "or Assigns." If "John Doe" appears on this line, then John Doe must follow through with the purchase. But if "John Doe or Assigns" appears there, then John Doe may, at his option, assign the agreement to someone else prior to closing and let that someone take over the purchase. What if you strike a spectacular bargain on a piece of property and then an associate, to whom you mention it, wants to step

in and take over your interest? With the words "or Assigns" to back you up, you could effectively "sell" him your interest in the property and perhaps realize a handsome profit. Your "interest" in the property is effectively the earnest money you put down and the right it gives you to control the property according to the terms of the agreement. An earnest money agreement is, in fact, a short-term option to purchase: Technique No. 49 in the Nothing Down System of creative finance described below. In most cases John Doe has every intention of following through with the purchase himself, but those two extra little words "or Assigns" enlarge his options and add an element of insurance to the undertaking. It is possible, after all, that circumstances may on occasion prevent John from following through on his plan to purchase the property. He may be forced to assign his interest and needs the legal right to do so.

3. Property. If the legal description is not available to you at the time, you may enter the street address and add the words "to be supplied prior to closing" or "Escrow Agent authorized to add legal description to the agreement." An example of a legal description as recorded in the official records might be: 'Lot 23 in Block 16 of Joseph Strator's 1st Addition to the City of Midvale, as per plat recorded in Volume 7 of Plats, Page 78, records of Everett County.' As you can see, that is not something you might have access to as you are sitting there writing out an offer on a property that is in high demand.

The rest of Item No. 3 is boilerplate identifying as part of the offer anything that might be attached to the property. It is important to list separately any unattached items you hope to acquire as part of the property, e.g., refrigerators, ranges, furniture, wall hangings, and so on. Such personal property might be depreciable for tax purposes at a faster rate than the improvements; therefore, Item No. 3 requires the seller to provide a bill of sale inventorying such items.

4. Earnest Money Deposit. The buyer can use as earnest "money" any consideration acceptable to the seller. The payment is usually in the form of cash (checks). However, many buyers prefer to use noninterest-bearing promissory notes made out in favor of the seller. If the buyer backs out of his commitments, then the seller has recourse through the note, which must be paid according to the terms agreed on. If the deal goes through as planned, the note is retired in favor of the payment schedule agreed to in Item No. 6. Paying the earnest money via a note has two advantages: no cash is tied up during the process of purchasing the property, and the buyer can offer a larger sum. One of the Nothing Down graduates in Los Angeles who specializes in multi-unit apartment buildings, makes it a practice of using \$5,000 earnest money notes when submitting offers. The generous amount of the notes impresses the sellers.

If cash is used (currency, checks, etc.), the buyer should put down as little as possible and still stay within the "trust comfort zone" of the seller. Sometimes \$100 will suffice; sometimes it will take \$500 or more to demonstrate to the seller that there is a sincere desire to follow through with the purchase. The deposit should be held by a third party - in the real estate broker's trust account or in the trust account of an attorney or escrow officer. If the amount of deposit is small and no agent is involved, letting the seller hold it might be a gesture of trust that could elicit similar flexibilities on the part of the seller.

It is also possible to make an earnest "money" payment in the form of personal property: a car, a boat, a stereo, a piece of equipment - anything perceived by the seller as having value. Naturally the buyer will need to measure the value of personal property against the risks involved.

5. Purchase Price. This figure will represent either the outcome of a process of negotiation already completed, or it will represent the buyer's opening figure. Beginning investors will often attach their risk sensitivity to this figure. They prepare to do battle down to the penny in order to feel secure about the

transaction. Actually, the price is in general not as important as the terms of repayment. One of the techniques, in fact, is called 'Raise the Price, Lower the Terms' (No. 5). There is less risk involved if the terms are "soft," i.e., flexible in the interest rate, size, and frequency of the installments, and length of note, than if the price is a bit too high. Of course, in a "wholesale" transaction (one involving a heavily discounted property), the price may be very important if the buyer is cashing the seller out. The buyer has to offset his risk in providing a great deal of cash by insisting on a lower price (as much as 15 to 50% below market). It all depends on the situation at hand.

6. Payment. This item represents the most important aspect of the negotiation process. Once again, the parties may have agreed orally on the terms and are now providing formal language to prepare for closing. On the other hand, the buyer may be using the earnest money agreement as a tool for negotiation. The terms he is suggesting may be his opening salvo; in this case, he will want them to minimize risk to himself while avoiding insult to the seller with too high a degree of one-sidedness. This is the realm where only two rules prevail: "You never know until you ask" and "A lasting and satisfying deal is a win/win deal."

Sometimes the seller will insist on additional earnest money upon acceptance of the offer. If so, the form provides a place for the figure. The balance of the down payment, if there is to be any, is entered on the line "Additional payment due at closing." The balance of the sales price (after the down payment) is then expressed in terms of the combination of existing encumbrances and new arrangements for paying out the seller's equity.

What are the possibilities? Most transactions are completed using one or more of the following approaches:

(1) All cash (as in a wholesale deal) - this is easy to express.

(2) Assumption of an existing encumbrance:

For example:

"This purchase is subject to Buyer assuming and paying Seller's current first mortgage and note (first trust deed and note) held by ABC Mortgage Company, with monthly payments on the approximate balance of \$_____, to be amortized over _____ years and to include interest not in excess of _____ percent per annum, together with monthly allowances for estimated annual property tax and insurance escrows."

Commentary: In an assumption process, the buyer may have to deal with the original lender, who may want to increase the interest rate prevailing on the existing loan. By using the terms "subject to" and specifying a maximum interest rate ('not in excess of'), the buyer is adding a contingency clause to protect himself in the event the assumption terms of the lender are unacceptable. In the case of an FHA or VA mortgage, the loan will be assumable as is, and the terms of the loan can be stated in the earnest money without a contingency. The assumption process can also apply to a second mortgage (or second trust deed), an all-inclusive trust deed, a contract, or other existing encumbrance.

(3) Purchasing the property subject to an existing encumbrance:

For example:

"Buyer to purchase property subject to an existing first mortgage and note (first trust deed and note) of record in the approximate amount of \$_____, payable approximately

\$ _____ per month, including interest at _____ percent per annum and allowances for estimated annual property tax and insurance escrows (PITI)."

Commentary: Purchasing a property "subject to" existing encumbrances means that no formal assumption takes place. The buyer does not go to the lender and pass muster according to the institutional policies for qualifying. What risk is involved in buying "subject to"? In the case of an underlying FHA or VA loan, none at all, since such loans are fully assumable. In the case of a commercial loan in which the trust document contains a "due-on-sale" clause (acceleration clause), the seller may be in violation of his agreement with the bank unless he requires the buyer to go through a formal assumption process. This is a hot issue today - one that will likely be resolved by the Supreme Court in the near future. There are outspoken advocates on both sides. Friends of the banking industry claim that the banks have every right to force new buyers to qualify and pay higher rates of interest (plus assumption fees up front). Friends of the buying public claim that sellers have the right of "alienation" - the right to sell their property without restraint as long as the loans are not rendered less secure as a result. In this period of tight money, the banks and savings and loan associations are frequently very aggressive about accelerating their loans when sellers sell "subject to" and not through the "assumption" process.

What is the down-side risk for the buyer who structures his offers on a "subject to" basis? At the very least, he should be prepared (in the case of due-on-sale loans) to respond to a call from the lender to come in and qualify for the loan, pay additional points up front, and pay higher monthly payments due to a hike in the interest rates. In many cases, this penalty may be far more acceptable than to go after new financing at prevailing high rates of interest. In the case of assumptions and new loans, the lender may very well replace the long-term note with one based on a variable rate of interest. Buyers who are concerned about the legalities of the due-on-sale issue should consult competent legal advice before acting.

The example above had to do with a first mortgage. A "subject to" purchase can also apply to second mortgages (second trust deeds), all-inclusive trust deeds, contracts, or other existing encumbrances.

(4) New loan:

For example:

"This purchase is subject to the Buyer obtaining a new loan on the subject property from (name of lender) _____ in the amount of \$ _____, payable in monthly installments of \$ _____, including interest of not more than _____ percent per annum, amortized over a period of not less than _____ years, plus monthly allowances for estimated annual property tax and insurance escrows."

Commentary: The words "subject to" constitute an important element of protection for the buyer. If the new loan is not obtainable according to the terms indicated, then the buyer is not committed to proceed with the purchase. If the seller or the seller's agent is on the ball, he may want to eliminate the specifics from the statement and try to get the buyer to generalize the conditions by saying "at prevailing interest rates." The seller may also insist on a time limit for obtaining the new loan, using wording such as this: "Buyer agrees to make application for the new loan within five (5) business days after acceptance of this offer, and to advise the seller in writing within fifteen (15) business days after acceptance of this offer of his ability or inability to obtain said loan in accordance with the indicated terms and conditions."

The new loan may also be in the form of a second mortgage and note (second trust deed and note).

(5) Promissory note taken back by seller:

For example:

"Buyer to execute promissory note in favor of Seller, secured by first mortgage, in the amount of \$_____, payable \$_____ per month, including _____ percent interest per annum, amortized over a period of _____ years, balance all due and payable _____ years from the date of execution."

Commentary: This is the now popular owner carry-back arrangement so common during tight-money times. Security for the note, depending on the circumstances and local practice, could be in the form of a second mortgage (second trust deed), third mortgage (third trust deed), all-inclusive trust deed (wrap-around mortgage), etc. Some states use mortgages, some use trust deeds. An all-inclusive trust deed or wrap-around mortgage pertains to the situation where the agreement encloses or wraps around an existing encumbrance.

The example used above includes a balloon payment. Not all do. Several of the case studies in this book involve owner carry-back arrangements with fully amortized notes. In today's strained real estate market, balloons of less than 5 years' duration are risky. Seven years or more would be advisable.

(6) Contract:

For example:

"Buyer to execute a real estate contract (land sales contract, installment land contract, contract for deed, etc.) in favor of seller in the amount of \$_____, payable \$_____ per month, including _____ percent interest per annum, amortized over a period of _____ years, principal and interest all due and payable _____ years from the date of execution."

Commentary: The word contract (and its variations) implies that the buyer must satisfy the conditions of the agreement before title actually passes. In practice, the buyer should see to it that the escrow agent prepares the deed in favor of the buyer and holds it in escrow. Escrow instructions signed by buyer and seller should provide for release of the deed to the buyer when the contract terms have been satisfied. If the seller is on the ball, he will insist that a quitclaim deed from buyer to seller be prepared and placed in escrow in case of a default.

The example above contains provisions for a balloon payment. Not all do. Some buyers are fortunate enough to negotiate a contract covering a fully amortized note.

By way of summary concerning Item No. 6 of the earnest money agreement, payment of the balance of the sales price (after the down payment) occurs through one or more of the following approaches:

- (1) Cash
- (2) Assumption of existing encumbrances
- (3) Purchase subject to existing encumbrances
- (4) New loan
- (5) Promissory note taken back by seller
- (6) Contract

There are several important security contingencies that the buyer can add to the financial terms where applicable in order to reduce the risk or enhance future options:

(1) Substitution of Collateral. A mortgage consists of two basic documents: a note covering the amount owing and the terms of repayment, plus a security document offering real property collateral to

back up the note in case of default. Usually a note is secured by the subject property being purchased; however, it is always wise to negotiate the right to substitute other property acceptable to the seller at any time in the future. Here is a sample of a statement that could be added to the earnest money agreement giving the buyer that right:

"Buyer has the right to substitute collateral of equal or greater value on the second mortgage at any time, with the Seller having the right of approval."

The title company handling the documentation can provide the technical language to secure the right of collateral substitution (as in Case No. 27 printed later on in this volume). The right to "move the mortgage" from the subject property to another property acceptable to the seller permits the buyer later on (as we shall see) to pull money out of acquired properties or fully leverage others.

In many cases the substitution of collateral is explicit in the earnest money itself, as in this example:

"Buyer agrees to execute a note in favor of the Seller for the principal amount of \$ _____, secured by a first (second, third, etc.) mortgage (first trust deed, second trust deed, etc.) on a property located at _____, amortized for a period of _____ years, payable \$ _____ per month, including interest of _____ percent per annum, balance of principal and interest all due and payable _____ years from the date of execution."

(2) Subordination. The buyer may have given a note to the seller secured by a mortgage (trust deed) in second position above an existing first mortgage (trust deed). And the buyer may wish for this note to remain in second position, even though he may wish one day to refinance this first. What is called for is a subordination clause similar to this one:

"Seller agrees to subordinate the second note and deed of trust to the first note and deed of trust or any replacement thereof."

(3) Rollover Provision on a Balloon. An important risk-reduction clause provides the buyer with the right to extend a balloon payment in case he is unable to comply at the time:

"Buyer shall have the right to extend the balloon payment, at his option, for an additional twelve months, provided a principal payment of \$ _____ is made to the Seller on the original due date of the balloon."

An alternate way of inducing the seller to accept the rollover provision might be to offer a higher rate of interest on the balance during the extra year. Whatever sweetener is used, the buyer must attempt to secure this extension privilege because of the unpredictability of the economy over the next few years.

(4) Prepayment Provision. It is important for the buyer to negotiate the right to pay off his obligations to the seller at any time without penalty in the event he should wish to sell. The following kind of stipulation should do the trick:

"Buyer may at any time and without penalty pay in full all amounts owing to the Seller under conditions and terms of this agreement."

(5) Assumption Provision. The buyer's note to the seller should contain a stipulation that the note and mortgage (trust deed) are fully assumable. This would allow the buyer to sell the property subject to his obligations to the original seller. The wording need not be complicated:

"Said note and trust deed to be fully assumable, with no due-on-sale clause."

(6) First Right of Refusal on Note. It is in the best interests of the buyer to negotiate the option of having the first right of refusal should the seller ever want to sell a note the buyer had given him. In this way the buyer might benefit from a discount purchase and also protect himself from undesirable holders of the note. Here is an example:

"This arrangement is contingent upon Buyer having first right of refusal on the third note and deed of trust if Seller should decide to sell the note."

In all of these terms pertaining to Item No. 6 of the earnest money agreement, it is important to seek competent professional advice concerning the wording and the implications of what is being agreed to. The above examples are only illustrations. There are many variations - interest-free notes, interest-only notes, notes calling for annual payments only, amortized notes with several intermittent balloons, etc. The best risk-reduction strategy is to consult expert advice as you go. Once the agreement is signed, it becomes a binding legal contract.

7. Title. In some areas of the country, it may be customary for the buyer to share in the costs of title insurance. However, this version of the earnest money agreement presumes that the seller will bear the full burden. That is where the negotiation should always begin. This section is an important contingency for the buyer. On occasion a title search will disclose problems with the title - liens or judgments that effect the marketability of the property adversely. The boilerplate of Item No. 7 protects the buyer against such cases and provides an escape from the earnest money agreement if the title defects cannot be resolved.

8. Special Representations. Once more, this section contains important protections for the buyer and reduces the risk of the offer. After the section on utilities, there are assurances concerning the structural integrity of the building and its major systems, also a "clean bill of health" in regard to compliance with government agency regulations, freedom from future liens and assessments, etc.

9. Escrow Instructions. This item specifies when the closing will take place and which agency will provide third-party (neutral) escrow services. In some states, it is customary for the earnest money offer to specify that complete escrow instructions will be provided by the buyer and seller within a specified number of days following acceptance of the offer.

The matter of how conveyance will be made (in whose name and precisely how it is to be stated) is a legal question for the buyer to review with competent legal help. For purposes of the earnest money agreement, one might state "To be provided prior to closing."

10. Closing Costs. In this section, the responsibility of who pays for what at closing is spelled out. The escrow fees are divided equally between the buyer and seller in this version; however, everything is negotiable. The boilerplate can be changed to fit the circumstances by simply striking out what does not apply or adding different wording. In the case of changes to the printed text, both buyer and seller must initial the change to show their agreement.

11. Termite Inspection. Once again, an important contingency for the buyer. No one wants to wind up with a property that is going to collapse because of the work of termites.

12. Conditions of Sale. Apart from Section No. 6 on financing, this may well be the most important risk-reduction section of all. Here is the place to state whatever contingencies the buyer wants to use for his own protection. Some examples follow:

(1) Inspection and approval of buyer or buyer's partner:

"This offer is subject to inspection and approval of the property by buyer (buyer's partner) within 72 hours of seller's acceptance."

Commentary: Offers are frequently made prior to a thorough inspection. This contingency is an important escape clause for the buyer who finds that he does not want the property after all.

(2) Building Inspection:

"This sale is subject to a building inspection at the buyer's expense and with the buyer's approval within seven days of the acceptance of this offer."

(3) Repairs. The buyer may already be aware of needed repairs, in which case the following wording may be used:

"This offer is contingent on the seller completing repairs to the roof at seller's expense. Roof to be in good condition and watertight at time of closing." Etc.

(4) Exculpatory Clause. The buyer is well advised to insist on wording that limits his liability to the value of the property offered as collateral for the notes taken back by the seller. The point is to protect the buyer from personal liability, i.e., liability that could extend beyond the real estate collateral to his personal assets. The following is an example of an exculpatory clause of this type:

"The liability on the part of the buyer to satisfy the terms and conditions of the note(s) executed in favor of the seller shall be limited to the property securing such note(s) and shall not extend beyond this."

(5) Warranty Policy. In some cases the buyer is able to negotiate for himself the added protection of a warranty policy paid for by the seller. The following wording covers this for a single family home:

"The seller shall place on the property a one-year home warranty policy available through _____ (name of company)."

(6) Cleanliness:

"Seller agrees to deliver the premises in a clean and orderly condition at the time of closing."

Note: There are many contingencies that might be warranted in the case of a particular property. The buyer needs to decide what is needed for his own protection. A fairly obvious limitation on the number of contingencies used in the offer is the need to avoid frightening the seller unduly. As Bob Allen says, "A confused mind always says No."

13. Liability and Maintenance. An earnest money offer in force (signed by all parties) is a legally binding contract. Without Item No. 13, the buyer may be responsible to cover all or part of the damages that might occur to a property between the time of acceptance and the time of closing.

14. Possession. Not all sellers automatically vacate a property upon closing. This item protects the buyer by stating exactly when he is to have possession. In some cases the buyer may work out a deal with the seller to let him continue occupying the premises for a period of time. The following wording added to the agreement would cover this point:

"Buyer agrees to permit seller to continue residence on the property following close of escrow for a period of time not to exceed _____ months and at a monthly rental rate of \$ _____. Rental agreement to be executed and signed at the time of closing."

15. Default. What happens if the buyer or the seller fails to perform according to the terms and conditions of the earnest money agreement? It is important for the protection of the buyer that his liability in case of default be limited to the earnest money deposit and no more. That is why this particular version of the earnest money receipt and offer to purchase contains the vital phrase:

"In the event the Buyer fails to complete the purchase as herein provided, the earnest money deposit shall be retained by the Seller as the total and entire liquidated damages."

In most preprinted earnest money forms this phrase is not present. Frequently the buyer's liability is expressed as being the amount of the earnest money deposit or a certain percentage of the gross sales price (for example, not more than 3%). It might be that the seller will want to retain the right to demand specific performance on the contract, i.e., have recourse to legal means (in addition to retaining the deposit) to force the buyer to comply. According to the principles of making risk-free offers, the buyer should insist on using the "total liquidated damages approach" stated in our model earnest money. Of course, the buyer should make the offer in good faith. Only a win/win deal will prove to be satisfying in the long run. However, if the seller is adamant about having the right of specific performance, it may be that this particular seller will be inflexible in every aspect of the transaction. If so, the buyer may want to take the hint and not follow through with the earnest money offer. There are plenty of don't-wanter sellers out there to deal with.

16. Time Limit of Offer. This is another important risk-reduction provision to protect the buyer. It is also a wise negotiating tool. The seller cannot have forever to make up his mind. Sometimes an earnest money agreement will state that the seller has to give his approval "upon presentation of the offer." That is really putting the pressure on!

17. General Agreements. This is a collection of legal provisions placed in virtually every version of the earnest money form. Each provision has its specific purpose in helping to make the contract accomplish the purpose intended by the buyer and seller. Of special interest is the provision of mutual assent and cooperation in effecting an IRS 1031 tax-deferred exchange. If the buyer should find a property meanwhile that he could acquire using the subject property of the offer as an exchange, this provision would facilitate the process. Once more, the presence of the provision is designed to expand the options of the buyer and limit his risks.

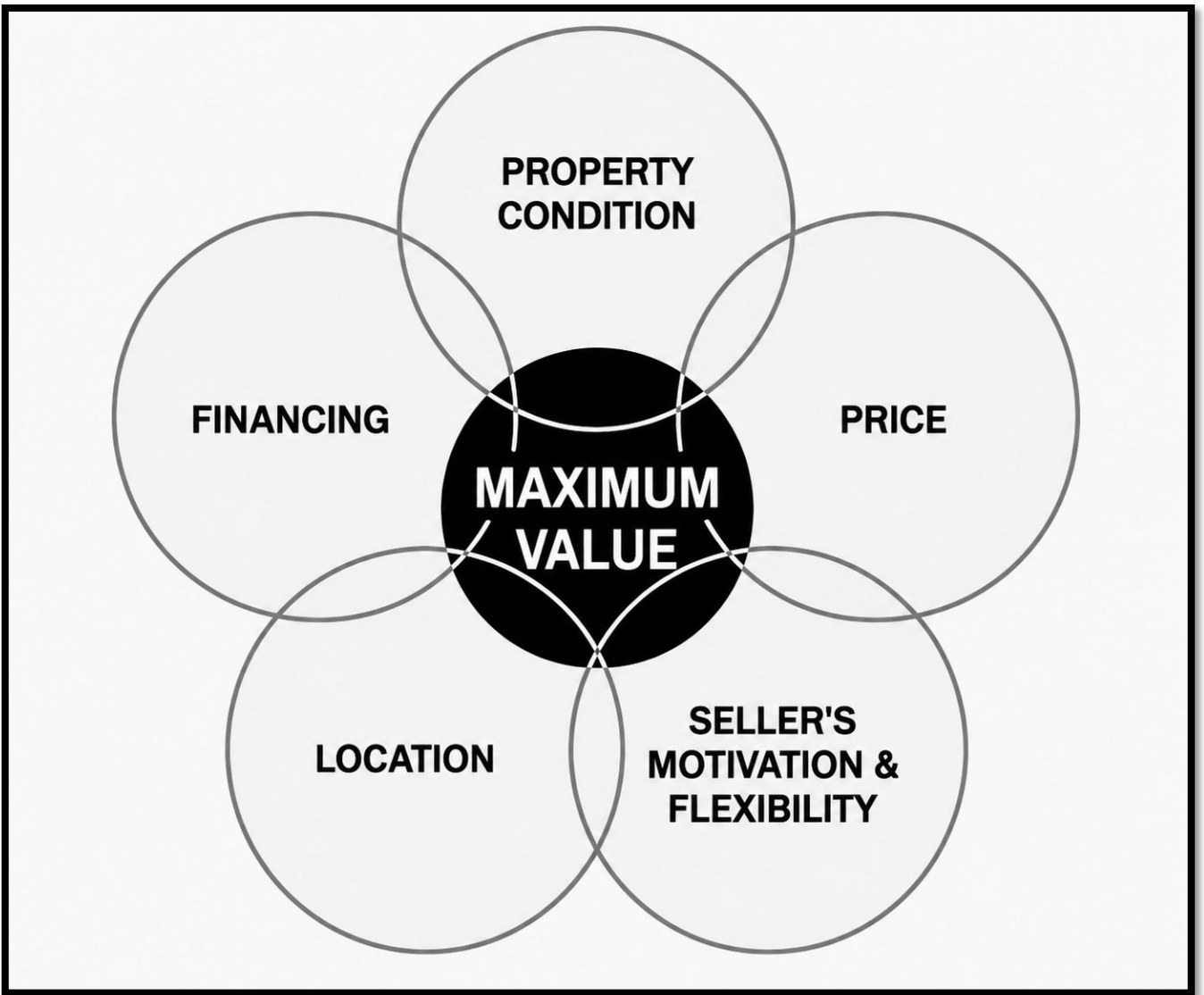
Items 18-21 constitute formal approval of the offer on the part of both buyer and seller. Item No. 20 covers the real estate commission, which, according to the current conventions of practice, is paid by the seller. Naturally, this item is also negotiable, and many of the cases included in this book involve situations where the buyer assumes the responsibilities to pay the commission over time, usually in exchange for a reduction in the down payment. If this is the case, details should be spelled out under Item No. 6 of the earnest money agreement.

Documentation Used in the Case Studies

Each of the case studies used in this book is authentic. We have transferred to our own 'universal earnest money receipt and offer to purchase' the precise data provided by the investors through copies of their own offers. Nothing is embellished. Only the names and addresses have been replaced with fictitious ones. Where we feel the original offer is exemplary in this or that point, or perhaps capable of improvement, our comments and opinions will be added in a special section of the case study.

Please note that the purchase offers included with the case studies are often the initial offers. Some variance from the details of the ultimate financial arrangement may be expected.

The readers should take careful note of this warning: these case studies and documents are provided as illustrations of the author's opinion concerning the subject matter covered. It is expressly not the intention of the author or the publishers that this material constitute legal or professional advice to readers engaged in pursuits similar to those reflected in the case studies. It is imperative that the reader consult competent professionals if legal advice or other expert service is required.



When all five components of value intersect perfectly, you've found a possible bargain property. But if one or two of them are not in alignment, you must be careful. Suppose you find a highly motivated seller. His property is fairly well located. Financing is good. The price seems right. But the property is completely boarded up, totally gutted. You'll need to spend more to fix it up than to buy it. Should you buy it? Probably not.

PROPERTY SCORING SYSTEM			
	POOR	AVERAGE	EXCELLENT
LOCATION	0 NEVER No pride of ownership, Junk and debris in streets. High crime. No appealing shopping close by. Declining neighborhoods. Abandoned buildings and boarded up properties. Close to major streets industrial areas or commercial zones (across the street) Far from employment centers or commuter accessibility	2 POINTS May be clean older neighborhoods. Close to shopping, churches, schools, ect. but not very appealing. Working class tenants neat established, May be poor location on the upswing with pioneer fixer uppers, Nicer inner-city neighborhoods.	3 POINTS Easy accessibility to all necessary amenities and transportation, Middle class suburban neighborhoods, Not on busy streets. Cul-de-sacs ideal, Properties nearby very similar in price, Good foliage and landscaping except in brand new subdivisions, Only high class inner-city locations.
PROPERTY CONDITION - Analyze and assign a point value to each factor of a property - If in doubt about a point value always pick the lower number - Add up the numbers and total - The lowest acceptable score is 9, the highest possible is 15 - Greater fools always buy property in the 9, 10, 11 range - Great investors always buy property in the 12, 13, 14, 15 range	1 POINT Consider only if price is excellent. Needs major cosmetic and structural improvements, At least 10% of purchase price will need to be spent immediately to make unit rentable, improvements do not significantly improve the rent roll because of quality of tenants and location improvements not to increase value more than 10% above purchase price, Usually associated with poor locations, Possible to find this property in excellent locations where prices are so high that improvements do not increase value but just make units acceptable to renters, Viewed as making a larger down payment (for improvements) and receiving an averaged priced property	2 POINTS This is the true fixer upper, Cosmetic improvements would be nice but not immediately necessary, Costs not to exceed 5% of the purchase price, Cosmetic improvement immediately affects value upwards and make the property more desirable, saleable and attractive. Not much structural work (if any) is necessary, only paint, landscaping, drapes, and other inexpensive improvements, This type of property should not be bought if the buyer does not have the time or mental capacity to undertake supervision of improvements, this property can prove to be the most profitable in the short run, The worst house in the best neighborhood.	3 POINTS Newer property or older property with recent renovation, No problems, clean inside and out, good landscaping. New components to replace major items, May have been a recent fixer-upper project which is being sold by a don't want at an excellent price, No work necessary before renter moves in, Solid property with a hassle factor of zero, Quick closing, quick rent-up, quick cash flow.
PRICE	1 POINT 10% or more above the reasonable market price. Consider only if financing is excellent.	2 POINTS Within + or - 5% of market price.	3 POINTS At least 10% or more below market price.
FINANCING	1 POINT More than 15% down, Seller needs lots of cash and wants all of his equity, Or property will have heavy negative cash flows for more than two years, Or there will be a large balloon payment due in less than three years from date of purchase, Consider only if price is excellent.	2 POINTS Financing required from an institution with up to 15% down of buyers money, Credit checks institutional secured loans for part of the down payment (high interest, high monthly payments) Seller carries small amounts, Cash required from buyer, Balloons due in less than 5 years.	3 POINTS Less than 5% of buyer cash involved, Seller carries most of the financing at lower than market rates with no balloons in less than 7 years, No negative cash flows projected beyond the first year, Contract sales no credit checks.
SELLER'S MOTIVATION AND FLEXIBILITY	1 POINT Won't budge on price or terms, "Take it or leave it," Doesn't need to sell, Not anxious at all in the driver's seat.	2 POINTS Might consider a small discount in price, Needs cash for new house or property, Needs cash for bills etc., May carry small second or contract but leery of unusual deals	3 POINTS Needs cash for pressing items ie, behind in payments etc, or doesn't need cash at all, has tax management transfer time problems or divorce retiree or investor looking for a solution without major need for cash, Flexible in price or terms.
TOTAL SCORE			

TWENTY REASONS WHY PEOPLE BECOME HIGHLY MOTIVATED SELLERS

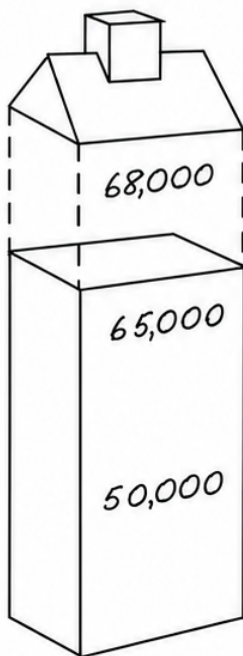
	Don't-Wanter Conditions	Personal	Process of Management	Property	People
D	Divorce	X			
O	Obsolescence			X	
N	Negative Cash Flow		X		
T	Transfer	X			
W	Wrong Management		X		
A	Arrears in payments		X		
N	Negative location			X	
T	Taxes	X			
E	Estate situation	X			
R	Retirement	X			
C	Competition		X		
O	Out-of-area owners	X			
N	Neurotic fears	X			
D	Debts	X			
I	Ignorance	X			
T	Time (lack of)	X			
I	Investment capital needs	X			
O	Ornery partner(s)				X
N	Need for status symbol	X			
S	Sickness	X			
	Totals	13	14	2	1

Wealth is not having. It's being. Nothing you have is as important
as what you are. If you acquire every property in the whole world and
destroy yourself in the process, you are truly a pauper.

FIND
IT

THE BARGAIN FINDER™

Name Mr. Motivated Seller ☒ owner ☐ agent Sq Ft 1150 Age 25
 Address 123 Flexible Lane Bedrms 3 Baths 2
 City, State, Zip Any town, Any State ☐ Carport ☒ Garage ☐ None
 Neighborhood Older Stable, Cookie cutter house ☒ Brick ☐ Frame
 Phone 555-1234 Other Toolshed in back



Why are you selling? Moving to California in 2 mos.
 Plans if it does not sell: List with realtor, doesn't want to rent.
 Any offers? no How long on mkt? 6 mos.

Value 68,000Price 65,000(-) Loans 50,000(=) Equity 15,000Down 5,000Balance 10,000RENT 625TM/mo625/mo

Payment

(-) 50,00

1/12 taxes

(-) 25,00

1/12

(+) renter

Utilities

(+) 25,00

Misc.

(-) 50,00CASH FLOW positive or negativeFUND
IT

What do you feel would be the best price and terms
 you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st	<u>50,000</u>	<u>11</u>	<u>525.00</u>	<u>Mo</u>	<u>FHA</u>	<u>Y/N</u>	<u>Y/N</u>
2nd						<u>Y/N</u>	<u>Y/N</u>

SOURCES FOR DOWN PAYMENT

10
Areas of
Flexibility

Seller
Buyer
Relatif
Property splits
Renters

Short-term
 Long-term
Partners
Investors
Options

TOTAL SCORE 11

The BOTTOM LINE:
 (How can I profit from this property?)

Sell	Keep	Refinance	Trade
FARM/ IT <u>not much room for profit need lower price</u>	<u>fix up needed break-even cash flow margin</u>	<u>could get new 70% loan but closing costs too high - not worth it</u>	<u>need lower price to make worthwhile</u>
Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

2
13

CONDITION

2
3

PRICE

2
13

FINANCING

2
13

FLEXIBILITY

2
13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____
 (-) _____
 Mortgage Payment _____
 (-) _____
 1/12 taxes _____
 (-) _____
 1/12 Insurance _____
 (-) _____
 Utilities _____
 (-) _____
 positive or negative
 CASH FLOW _____



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

10 Areas of Flexibility
 Seller
 Buyer
 Realtor
 Property splits
 Renters
 Short-term
 Long-term
 Partners
 Investors
 Options

TOTAL SCORE _____

The BOTTOM LINE:
 (How can I profit from this property?)



Sell	Keep	Refinance	Trade
Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

203

CONDITION

213

PRICE

213

FINANCING

213

FLEXIBILITY

213



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____

(-) _____

Mortgage Payment _____

(-) _____

1/12 taxes _____

(-) _____

1/12 Insurance _____

(-) _____

Utilities _____

(-) _____

positive or negative

CASH FLOW



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

10
Areas of
Flexibility

Seller
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Property splits
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Partners
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Options

TOTAL SCORE _____

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(How can I profit from this property?)



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Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

2
03

CONDITION

2
13

PRICE

2
13

FINANCING

2
13

FLEXIBILITY

2
13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____
 (-) _____
 Mortgage Payment _____
 (-) _____
 1/12 taxes _____
 (-) _____
 1/12 Insurance _____
 (-) _____
 Utilities _____
 (-) _____
 positive or negative
 CASH FLOW _____



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

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Flexibility

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Options

TOTAL SCORE _____

The BOTTOM LINE:
 (How can I profit from this property?)



Sell	Keep	Refinance	Trade
FARM IT Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

2 03

CONDITION

2 13

PRICE

2 13

FINANCING

2 13

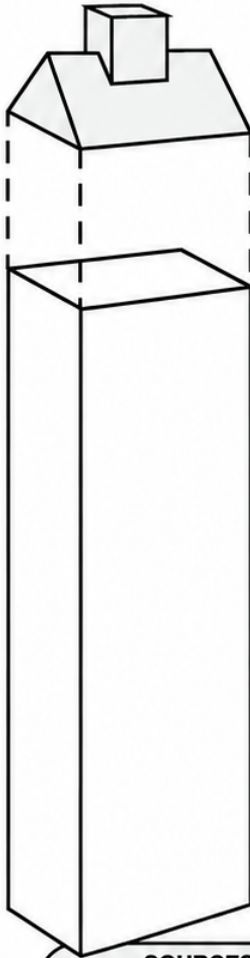
FLEXIBILITY

2 13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____
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 Mortgage Payment _____
 (-) _____
 1/12 taxes _____
 (-) _____
 1/12 Insurance _____
 (-) _____
 Utilities _____
 (-) _____
 positive or negative
 CASH FLOW _____



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

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The BOTTOM LINE:
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Sell	Keep	Refinance	Trade
Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

2 03

CONDITION

2 13

PRICE

2 13

FINANCING

2 13

FLEXIBILITY

2 13



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Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
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Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____
 (-) _____
 Mortgage Payment _____
 (-) _____
 1/12 taxes _____
 (-) _____
 1/12 Insurance _____
 (-) _____
 Utilities _____
 (-) _____
 positive or negative
 CASH FLOW _____



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

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Flexibility

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TOTAL SCORE _____

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LOCATION

2
13

CONDITION

2
13

PRICE

2
13

FINANCING

2
13

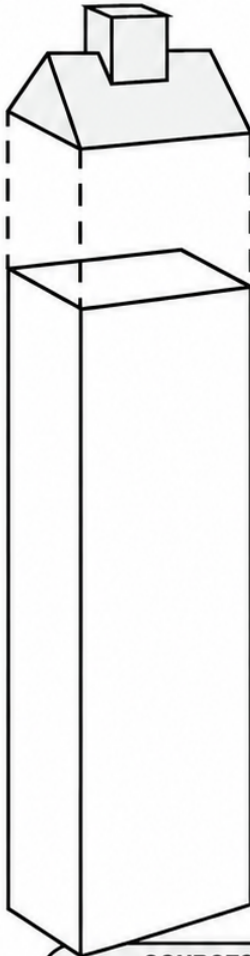
FLEXIBILITY

2
13



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Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
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Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

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Balance _____

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 positive or negative
 CASH FLOW _____



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

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The BOTTOM LINE:
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Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

203

CONDITION

213

PRICE

213

FINANCING

213

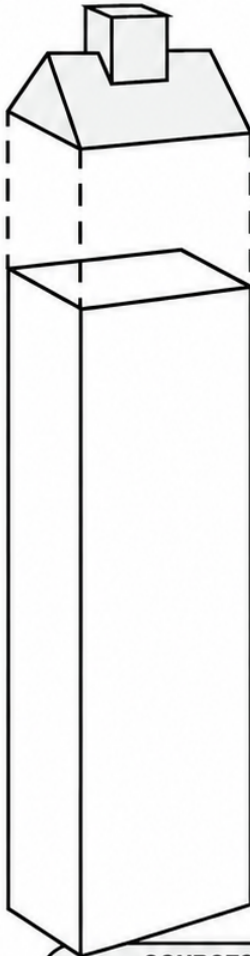
FLEXIBILITY

213



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____
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 Mortgage Payment _____
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 1/12 taxes _____
 (-) _____
 1/12 Insurance _____
 (-) _____
 Utilities _____
 (-) _____
 positive or negative
 CASH FLOW _____



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

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LOCATION

2 03

CONDITION

2 13

PRICE

2 13

FINANCING

2 13

FLEXIBILITY

2 13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____

(-) _____

Mortgage Payment _____

(-) _____

1/12 taxes _____

(-) _____

1/12 Insurance _____

(-) _____

Utilities _____

(-) _____

positive or negative

CASH FLOW



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

10
Areas of
Flexibility

Seller
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Realtor
Property splits
Renters

Short-term
Long-term
Partners
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Options

TOTAL SCORE _____

The BOTTOM LINE:

(How can I profit from this property?)



Sell	Keep	Refinance	Trade
Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

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FINANCING

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THE BARGAIN FINDER™

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LOCATION

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CONDITION

2 13

PRICE

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FINANCING

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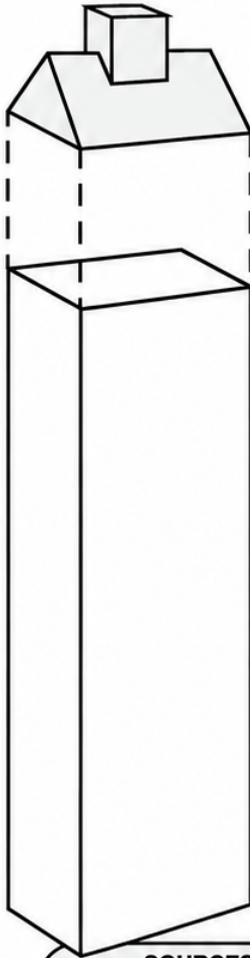
FLEXIBILITY

2 13



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LOCATION

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13

CONDITION

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13

PRICE

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13

FINANCING

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13

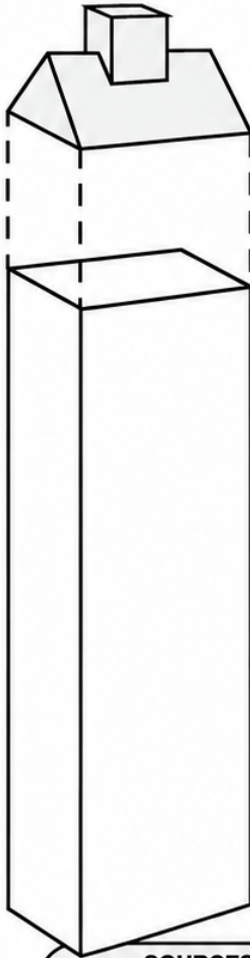
FLEXIBILITY

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13



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LOCATION

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CONDITION

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PRICE

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FINANCING

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FLEXIBILITY

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THE BARGAIN FINDER™

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 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
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 Plans if it does not sell: _____
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 1/12 Insurance _____
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LOCATION

2 03

CONDITION

2 13

PRICE

2 13

FINANCING

2 13

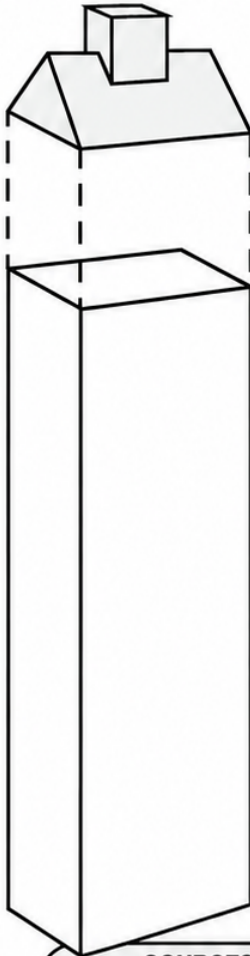
FLEXIBILITY

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LOCATION

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CONDITION

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LOCATION

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CONDITION

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13

PRICE

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FINANCING

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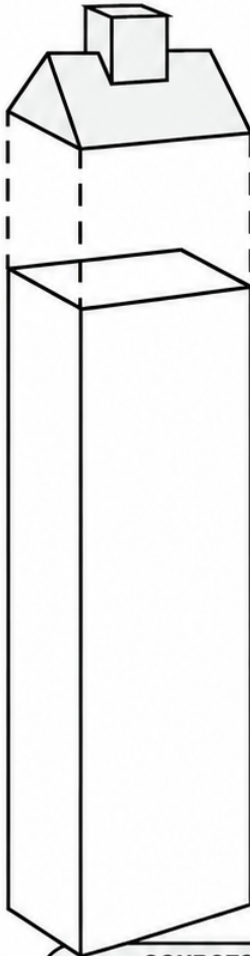
FLEXIBILITY

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13



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SOURCES FOR DOWN PAYMENT

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LOCATION

2 03

CONDITION

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THE BARGAIN FINDER™

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SOURCES FOR DOWN PAYMENT

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LOCATION

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LOCATION

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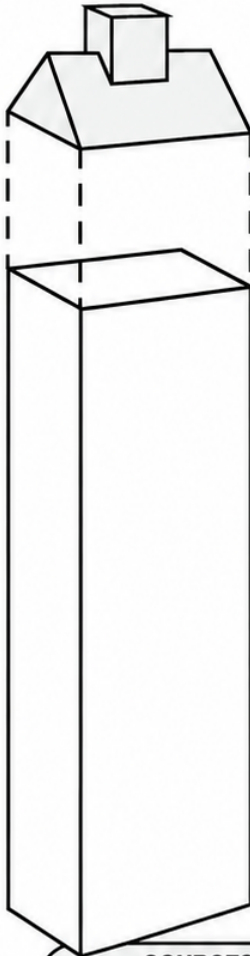
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SOURCES FOR DOWN PAYMENT

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LOCATION

203

CONDITION

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PRICE

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2 13

FLEXIBILITY

2 13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____

(-) _____

Mortgage Payment _____

(-) _____

1/12 taxes _____

(-) _____

1/12 Insurance _____

(-) _____

Utilities _____

(-) _____

positive or negative

CASH FLOW



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

10
Areas of
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Seller
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TOTAL SCORE _____

The BOTTOM LINE:

(How can I profit from this property?)



Sell	Keep	Refinance	Trade
Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

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CONDITION

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Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____
 (-) _____
 Mortgage Payment _____
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 1/12 taxes _____
 (-) _____
 1/12 Insurance _____
 (-) _____
 Utilities _____
 (-) _____
 positive or negative
 CASH FLOW _____



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2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

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LOCATION

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CONDITION

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13

PRICE

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13

FINANCING

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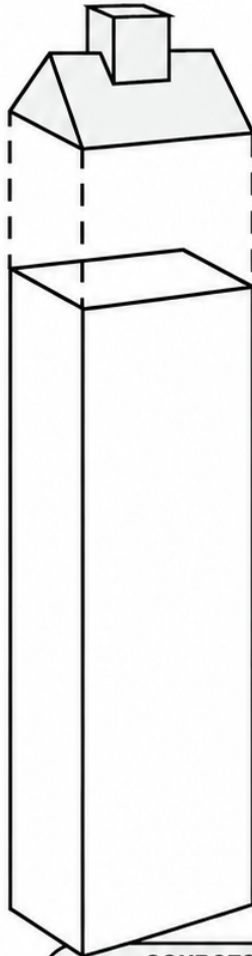
FLEXIBILITY

2
13



THE BARGAIN FINDER™

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 Utilities _____
 (-) _____
 positive or negative
 CASH FLOW _____



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SOURCES FOR DOWN PAYMENT

10 Areas of Flexibility
 Seller
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Sell	Keep	Refinance	Trade
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LOCATION

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CONDITION

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PRICE

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FINANCING

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FLEXIBILITY

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THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____
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 Mortgage Payment _____
 (-) _____
 1/12 taxes _____
 (-) _____
 1/12 Insurance _____
 (-) _____
 Utilities _____
 (-) _____
 positive or negative
 CASH FLOW _____



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1st						Y/N	Y/N
2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

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Areas of
Flexibility

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LOCATION

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13

CONDITION

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PRICE

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FINANCING

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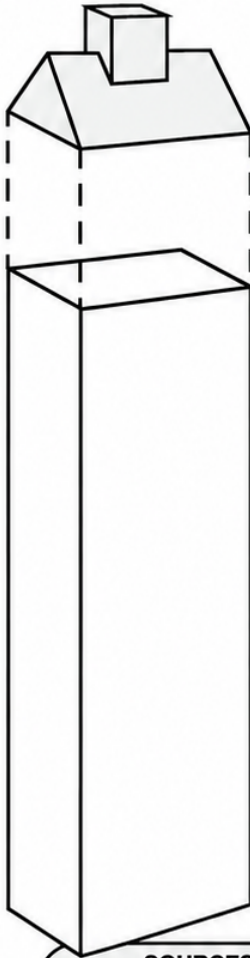
FLEXIBILITY

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13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
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(-) Loans _____

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Balance _____

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Rent Amount _____
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 Utilities _____
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 positive or negative
 CASH FLOW _____



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SOURCES FOR DOWN PAYMENT

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TOTAL SCORE _____

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LOCATION

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THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
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 Plans if it does not sell: _____
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Balance _____

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 1/12 Insurance _____
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 Utilities _____
 (-) _____
 positive or negative
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SOURCES FOR DOWN PAYMENT

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THE BARGAIN FINDER™

LOCATION

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FINANCING

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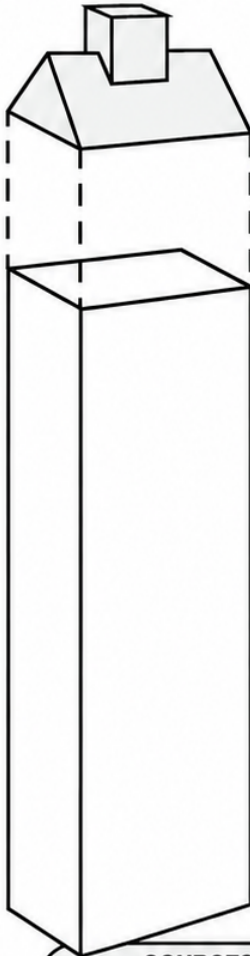
Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____

Address _____ Bedrms _____ Baths _____

City, State, Zip _____ ☐ Carport ☐ Garage ☐ None

Neighborhood _____ ☐ Brick ☐ Frame

Phone _____ Other _____



Why are you selling? _____

Plans if it does not sell: _____

Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

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Rent Amount _____

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Mortgage Payment _____

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positive or negative

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 CASH FLOW _____



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LOCATION

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Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
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positive or negative

CASH FLOW



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LOCATION

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SOURCES FOR DOWN PAYMENT

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LOCATION

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CONDITION

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PRICE

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FINANCING

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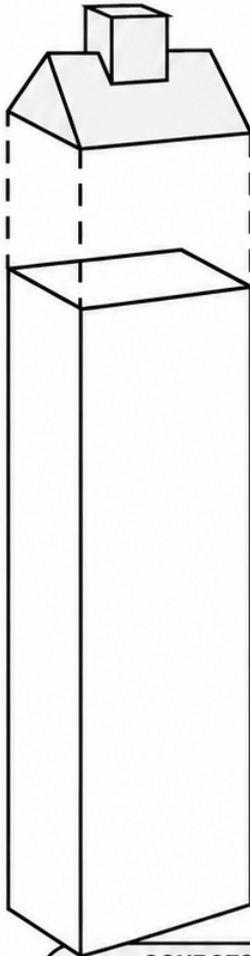
FLEXIBILITY

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positive or negative
CASH FLOW



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SOURCES FOR DOWN PAYMENT

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SOURCES FOR DOWN PAYMENT

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Flexibility

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LOCATION

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CONDITION

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PRICE

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FINANCING

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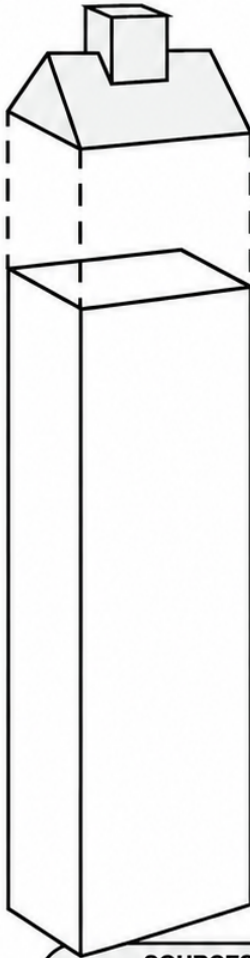
FLEXIBILITY

2 13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
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 positive or negative
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SOURCES FOR DOWN PAYMENT

10 Areas of Flexibility
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TOTAL SCORE _____

The BOTTOM LINE:
 (How can I profit from this property?)



Sell	Keep	Refinance	Trade
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LOCATION

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CONDITION

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THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
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Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

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 Investors
 Options

TOTAL SCORE _____

The BOTTOM LINE:
 (How can I profit from this property?)



Sell	Keep	Refinance	Trade
Could I sell it for a quick profit?	Can it be fixed up for long term equity profit? Will it enhance long term cash flow?	What benefits could come from financing the property?	Is there enough built-in equity profit to trade for something else of value?

LOCATION

2 03

CONDITION

2 13

PRICE

2 13

FINANCING

2 13

FLEXIBILITY

2 13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
 Neighborhood _____ ☐ Brick ☐ Frame
 Phone _____ Other _____



Why are you selling? _____
 Plans if it does not sell: _____
 Any offers? _____ How long on mkt? _____

Value _____

Price _____

(-) Loans _____

(=) Equity _____

Down _____

Balance _____

RENT INFORMATION

Rent Amount _____

(-) _____

Mortgage Payment _____

(-) _____

1/12 taxes _____

(-) _____

1/12 Insurance _____

(-) _____

Utilities _____

(-) _____

positive or negative

CASH FLOW



What do you feel would be the best price and terms you would accept for a quick sale?

Loan	Amount	%	Payment	Term	Holder	Assum	Balloons
1st						Y/N	Y/N
2nd						Y/N	Y/N

SOURCES FOR DOWN PAYMENT

10
Areas of
Flexibility

Seller
Buyer
Realtor
Property splits
Renters

Short-term
Long-term
Partners
Investors
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 Mortgage Payment _____
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 Utilities _____
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SOURCES FOR DOWN PAYMENT

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LOCATION

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SOURCES FOR DOWN PAYMENT

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LOCATION

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1st						Y/N	Y/N
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SOURCES FOR DOWN PAYMENT

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LOCATION

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CONDITION

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FINANCING

2 13

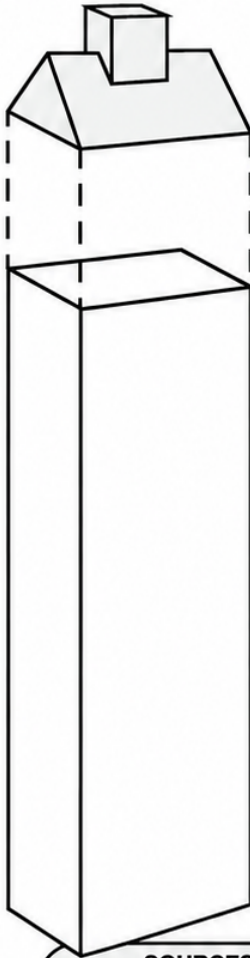
FLEXIBILITY

2 13



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SOURCES FOR DOWN PAYMENT

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Flexibility

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 Utilities _____
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SOURCES FOR DOWN PAYMENT

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LOCATION

2 03

CONDITION

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PRICE

2 13

FINANCING

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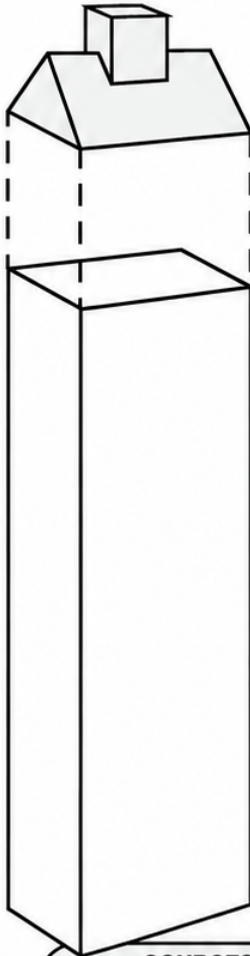
FLEXIBILITY

2 13



THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
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 Utilities _____
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 positive or negative
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LOCATION

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CONDITION

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PRICE

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FINANCING

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FLEXIBILITY

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THE BARGAIN FINDER™

Name _____ ☐ owner ☐ agent Sq Ft _____ Age _____
 Address _____ Bedrms _____ Baths _____
 City, State, Zip _____ ☐ Carport ☐ Garage ☐ None
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 Phone _____ Other _____



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RENT INFORMATION

Rent Amount _____
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 Mortgage Payment _____
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 CASH FLOW _____



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SOURCES FOR DOWN PAYMENT

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LOCATION

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SOURCES FOR DOWN PAYMENT

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LOCATION

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03

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THE BARGAIN FINDER™

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SOURCES FOR DOWN PAYMENT

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LOCATION

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THE BARGAIN FINDER™

LOCATION

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CONDITION

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FINANCING

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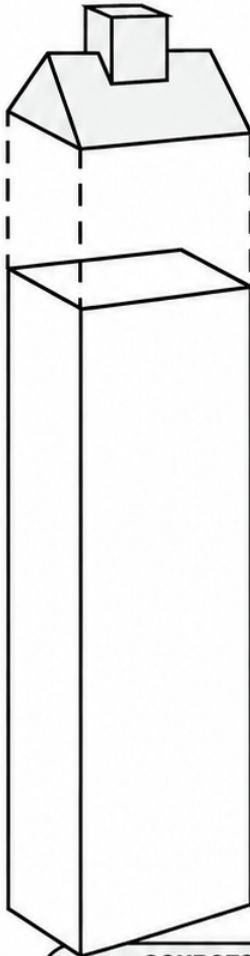
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