SECRETS to Winning with Failed Real Estate Deals

One Man's Failure is Another Man's Dream

#1 International Best Selling Author

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*Best Selling Author of **Secrets of a Deal'ionaire**, Landlord Pennies to Banker Dollars, Secrets Those Credit Doctors Don't Want YOU to Know and Secrets to Start Wholesaling Real Estate Today.*

SECRETS TO WINNING WITH FAILED REAL ESTATE DEALS

Short Video 2n2n2

Books by John Lee

Secrets of a Deal'ionaire – Creating Wealth One Small Deal at a Time (2014)

Landlord Pennies to Banker Dollars (2019)

Secrets to Start Wholesaling Real Estate Today (2020)

Secrets Those Credit Doctors Don't Want You to Know – Book and Workbook (2015, 2020)

4 Simple Steps to Prevent ID Theft and IRS Tax Refund Theft (2015)

How to Improve Your Credit Score – What Everyone Needs to Know (2010)

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Acknowledgement and Dedication

This book was written for all of you who would like to get into real estate investing but worry about failing. Let's get this straight. You *will* have failures. That's a fact.

Anyone that says they have never lost any money or had a failure in real estate is lying. Not all deals go well. It's what you do with the failures that matter.

There are almost always ways to salvage deals without *Breaking the Bank*.

My intention is to show you what I have done with some of my deals-gone-bad. Learn from your mistakes as well as those made by others.

You will become successful investing in real estate through education. Applied education, that is. Simply learn all you can, pick out a strategy, and put it into practice.

My wife, Laura, once again, has helped me tremendously. Even though her honesty seems sometimes brutal, it is what I need to hear even when I don't want to hear it.

Laura sets me straight even when I think things should be said the way I *like it.* She is seldom wrong, and I am always better off listening to her. I am constantly learning from her.

As always, my brilliant editor, Meg Stefanac, makes the words flow so well that even I can understand them. What I think sounds okay to say does not always make sense until Meg gets done with her magic.

Brenda Hite has done wonders with the cover, once again. Brenda is an excellent graphic artist and, as always, it shows.

There are many real estate Gurus and some want-to-be Gurus who I have learned a lot from. I only wish that more of these Gurus would show you their mistakes and failures in addition to their successes.

Also, I give thanks to AJ Rassamni, my dear friend and an excellent businessman, who continues to push me forward. AJ runs our mastermind group and is a true friend.

To all of my failures, I say *Thank You!* I have learned more from my failures than from my successes. There will be many more lessons to learn from additional failures that are probably on the horizon. The way to success is by failing forward as fast as possible.

The information that is contained in these pages is for all of you who fear failure, like I once did. I would like you to get educated in how to manage failed real estate deals *without* breaking your bank.

With a little education and experience, we can all make winners out of failures

John Lee

“Failure should be our teacher, not our undertaker. Failure is delay, not defeat. It is a temporary detour, not a dead end. Failure is something we can avoid only by saying nothing, doing nothing, and being nothing.” ~Denis Waitley~

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SECRETS TO WINNING WITH FAILED REAL ESTATE DEALS

INTRODUCTION

If you've ever worried about losing money in real estate, this book is for you. It's meant to show you what can be done with failed deals.

My intention is not to scare you. It is to inspire you. I believe there is always a way to win and I want to encourage you to believe the same.

Many lessons are learned the hard way. Many can be learned from others doing things the hard way. In this case, it's sometimes me doing things the hard way.

Rarely does someone *make it* overnight. It usually takes years of practice to become an *overnight success*.

Every real estate transaction teaches a lesson. It can be an inexpensive lesson or a very expensive lesson. Most lessons you can learn without Breaking the Bank. The choice is yours.

Section 1
The Why

1) Learning from Failed Deals

Chapter 1

Learning from Failed Deals

"I would rather lose and feel like a winner
than cheat and feel like a loser."
~ Looney Tunes ~

Every real estate deal is a winner, right?

When I first started getting into the investing side of real estate, I only heard about the *Wins.* No one ever talks about all the money that is actually lost in real estate investing. And yes, there is a dark side.

The dark side of real estate investing starts with all of the Gurus and False Prophets like the ones you see on TV. They paint this grandioso, awesome lifestyle that everyone seems to have, except *you.*

We're told that we too can live a lavish life if we just quit our day jobs and get into the real estate game like everyone else. Of course, who wants to get left out and miss the boat?

Many of these Gurus and False Prophets make most of their money off of selling their courses, their mentorships, and in some cases, even selling their unwanted properties to you. Many have never even done a real estate investment deal in their life. Some have only done a handful.

Don't get me wrong. There *are* some very good real estate Gurus out there, many from whom I have personally learned a lot. Just be aware of what you are getting for your hard-earned cash.

It's easy to get swindled today with all of the hype and the easy access to the internet. You too, can set up an internet sales organization in your basement.

Can a deal be salvaged?

Very few real estate investors will ever tell you of their failures. And there are many, many failures in real estate investing. Like anything in life, you are going to have ups and downs. Just about every failure has a lesson attached, if you look for it.

It is worth repeating: I have learned more from my failures than my successes.

Sometimes the failures don't make sense. Sometimes you have to look hard and read between the lines to see them. It's always important for you to find the lesson in every deal.

One of the most important lessons that I have learned from my failures is what to do with it. Can it be salvaged? Can this flop be flipped and turned into something that's not so bad? Can it still be a win/win/win?

You can learn a lot from failed deals

I have found that almost every time that I looked hard enough, a deal gone bad could be made into something good. The only exceptions are the ones that I chose not to save. Sometimes it is best to just stop the bleeding and walk away.

That's why education is so important. You will still make mistakes and failures; they will just be more educated ones. There are always going to be some unforeseen things that we encounter. It's still important to learn the lesson.

I'm going to show you some of the failures that have come my way and how most of them were able be solved.

You've heard the saying that when life gives you lemons, simply make lemonade? Well, sometimes you’re not lucky enough to even get lemons. Sometimes life gives you onions. So, what are you supposed to do, make *onionade*? You may like the thought of that, but I don’t.

So, what do you do with this onionade? Well maybe you just spice it up and make it into some sort of gravy to enhance your potatoes. Sometimes when making some kind of dish, I may not have what I want. And I may not want to go to the store for one thing I need. So, I’ll make do with what I have.

Real estate investing is the same way. It may not always be the situation that you want. You may need to make do with what you have. You may need to sweeten the onionade to make it taste good. And believe me, the more onionade you make, the better it gets. So:

Why Do People Get into Real Estate?

2)Why Do People Get into Real Estate?

Chapter 2

Why Do People Get into Real Estate?

"He who has a why to live for can bear almost any how."
~ Friedrich Nietzche ~

People get into real estate for 3 reasons

Why do people get into real estate? For the same three reasons we usually do anything in life: **Need**, **Me**, and **We**.

1) Need

Most people first get into real estate because they need money.

You may need extra money to pay the bills. You may just want to pay the bill *on time.* Your day job might not be paying you enough, so you want to supplement your income. Maybe you want a better life for your family. You may want a bigger house, a better car, or a nicer vacation.

There are so many reasons we get into real estate investing. Rarely do we initially get into real estate because we have a passion for it.

For most of us, real estate is an acquired passion. After a while, real estate seems to get in your blood. It’s hard to do or think of anything else without involving real estate in one way or another.

These days, even when I go on vacation, I have to look at the local real estate. I talk to people locally and find out what the prices are, what and where the deals are, and if there might be some money to be made. I always figure, that if I’m visiting, there are others who will also visit and spend their money.

It’s amazing what you can learn from a local taxi driver, a tour guide, a server in a restaurant or even another patron at the coffee shop. And, by doing a little marketing research for my real estate business, a portion of my trip is tax deductible.

A little caveat here, I’m not a CPA, attorney or any kind of professional advisor, so always check with your trusted professional. I’m just sharing what works for me ☺

2) Me

For many of us, after we fulfill our basic needs, we continue to invest in real estate for *me*. That is, you and your loved ones.

Now we can afford the bigger house, the nicer car, maybe two cars or a few extra cars, nicer vacations, fancier cloths, private schools for our kids and a slew of other luxuries that we could not afford before.

At this stage we are concentrating on what *we* want, and not so much about others. Most of us are still doing things for the right reasons and helping others as we help ourselves with our investing. But for the most part we are building our own personal net worth.

3) We

After we have everything that satisfies our personal lives, many of us start to do things for others. It's now more about *we.*

Now we can give more to our churches and to the charities that we are passionate about. We can donate not only more money but also our time.

This is more of the philanthropist inside of us. Most of us have a dream of helping others in some way. Whether it's helping the homeless at a soup kitchen, delivering food to the elderly for Meals on Wheels, working at an animal shelter or saving the baby seals, most of us have something we would like to do to give back.

For me, my why is giving you this information. I want to share the real estate information that I've learned with you. I want you to discover some of the education I have learned without Breaking the Bank.

So now we know a few of the reasons why people get into real estate investing. Shouldn't everyone be investing? Not everyone does.

Why Don't People Get into Real Estate?

3) Why Don’t People Get into Real Estate?

Chapter 3

Why Don't People Get into Real Estate?

"I've had a lot of worries in my life, most of which never happened."
~ Mark Twain ~

Not Everyone Who Gets into Real Estate Makes a Killing

So why do so many people just *think* about getting into real estate investing but never pull the trigger? I've been around a lot of real estate organizations and groups, and I've heard a lot of things from newbies and veteran investors alike.

And here's what I've found out. Many people out there *talk* about investing in real estate, and many of them would actually do it except for one thing: Fear. Fear is the number one reason that most people do not go any further than reading a book or attending a seminar.

I've seen lots of people spend tens of thousands of dollars on real estate training and never do even a single deal. They'll learn as much as the Gurus have to offer and then stop.

Many go through all the different levels they are offered. They start with a free course, then go to the couple thousand-dollar course, and sometimes even move on to the courses that cost upper five figures. Yet, because of fear, they do not do anything with the knowledge they have attained.

Some Only Do One Deal

Some people actually end up doing just one deal. I've met many people along the way at various seminars and meetings, and I've reached out to them later. I'm amazed by the number of people that have only done one deal, and then stopped.

Some will tell me that they did a wholesaling deal and moved on to the next strategy they learned at the next seminar they attended. These people obviously are not being held back by the fear-factor. I guess they just have a lot of extra money to spend on seminars.

What Keeps Some from Pulling the Trigger?

So, what about fear? Fear keeps many from investing in real estate, but what is it, exactly? We all have it in some form or another. What keeps some of us paralyzed by fear while others experience fear but break through it and take action anyway?

There are many acronyms for fear. One that is widely-known and used often is **False Evidence Appearing Real**. This acronym was made popular in large part, by Robert Kiyosaki of *Rich Dad Poor Dad* fame. It is a good one.

Some others include:

- Failure Expected And Received
- Finding Excuses And Reasons
- Future Events Already Ruined
- Forgetting Everything About Reality
- Forget Everything And Run

And, of course, there are many other clever acronyms to excuse those who wish to use excuses.

The Oxford dictionary defines *fear* as "an unpleasant emotion caused by the belief that someone or something is dangerous – likely to cause pain or a threat." So many of us are afraid of the anticipation of pain.

Just as the Mark Twain quote above says, most of my worries never actually happen! And this is true for most us. We're all afraid at some point. We all have fear and anticipate failure. So, what makes one person get rich in real estate and another person never get started? It's our action.

Who are we listening to?

Many of us do not get started because we listen to those around us. We listen to our family and our friends. Have you ever stopped to look at who is trying to give you advice? Are they thriving in what you are wanting to do? Are they real estate investors?

Are your *advisor's* successful real estate investors? Have they done any real estate investing other than purchasing their personal residence? Have they gone through market cycles in real estate? Maybe that's where their advising experience comes from.

Or maybe they just know somebody, like a brother-in-law, who had a bad experience with a rental property that was forced upon him because he could not sell his home, was forced to move, and couldn't afford two mortgages.

Non-investors and *loved ones* can come up with more negative stories about why you shouldn't get started in real estate investing than you can imagine.

Most of the time, our friends and loved ones think they are looking out for us. They want us to be safe and secure. They usually really do care about us. But you have to stop and ask yourself, "Are they successful real estate investors like I want to be?" Most of the time they are not.

But, what if???

Maybe, you're just stuck in your own head with the *"what ifs*." It's bad enough that we have others advising us, but what kind of advice are we giving to ourselves? After all, it's an inside job. Everything is. Everything we do starts with a thought that we believe to be true.

We may be asking ourselves questions like: What if I lose money? What if I get stuck with a crappy rental like my sister Kathy did? What if I make a bad investment? What will others think of me? What if? What if? What if?

It's easy to *what if* our self to death. Don't go through life with regrets. Don't wake up someday thinking, if only I had invested in that one little property twenty years ago, I could actually retire with more than only social security. Don't be one of those people.

Well, what if it actually works? What if you succeed? What if you really do make some money in real estate? What if you help solve some real estate problems for someone? What if?

You won't be the only one to fail

Look at some the great well-known people who have failed. Abraham Lincoln failed three times in business and failed campaigning seven times before becoming president of the United States.

Albert Einstein did not speak until he was four years old. His parents thought he was "sub-normal." He was expelled from school and his teachers said he was "mentally slow."

Michael Jordan was cut from his high school basketball team for a "lack of skill."

Colonel Sanders, of KFC fame, couldn't sell his chicken. More than 1,000 restaurants rejected him.

Marilyn Monroe was dropped by 20th Century Fox after one year because her producer told her she wasn't pretty enough or talented enough to be an actress.

Oprah Winfrey had a rough and abusive childhood. She was fired from her job as a reporter because they said she was "unfit for TV."

Walt Disney was fired from a newspaper job for "lacking imagination" and having "no original ideas."

Stephen King's first book, *Carrie*, was rejected 30 times, so he threw it in the trash.

Soichiro Honda was passed over for an engineering job at Toyota and left unemployed.

The Beatles were rejected by Decca Recording Studios, who said, "We don't like their sound and they have no future in show business."

Thomas Edison's teachers said he was "too stupid to learn anything."

Bill Gates was a Harvard University dropout and his first business, Traf-O-Data, was a failure.

Henry Ford was a failure three times before he finally succeeded with the Ford Motor Company at age 53.

J.K. Rowling was unemployed, divorced, and raising a daughter on public assistance while writing the first *Harry Potter* novel. The book was rejected by twelve publishing houses.

Jack Canfield was rejected 144 times before he found a publisher for his book, *Chicken Soup for the Soul.* He told the publisher that did accept him that he wanted to sell 1.5 million books in the first 18 months. The publisher laughed and told him they'd be lucky to sell 20,000 copies. That first book sold 8 million copies in America and 10 million worldwide. The Chicken Soup books have now sold over 500 million copies and is a $1 billion brand.

Do you think you will succeed?

Of course, everything is an inside job so whether or not you succeed is entirely up to you. I saw the late great Zig Ziglar quite a few years ago. He said, "if you think you can, you're right. If you think you can't, you're right." I think he might have gotten this from Henry Ford.

And what if Henry Ford hadn't of pursued creating the horseless carriage? After all, the experts told him it couldn't be done on a large scale. Can you imagine riding a horse to work every day?

Get some education and get started. You are going to have failures. Indeed, if you don't have any failures, you probably aren't doing anything. Learn from your failures and from others who have failed.

Don't pursue perfection, there's no such thing. I used to think I was a perfectionist. In reality I was an Imperfectionist. I did not see anything as perfect. I found fault with everything. Actually, it turns out that things are the way they are supposed to be.

I have failures all of the time. We all do. There is always something to learn from the things that don't go right or that don't turn out like we think they should.

I have found it's best to look at Fear in a different way, so I use these acronyms instead:

- **Fail Early And Responsibly**
- **Feeling Excited And Ready**
- **Face Everything And Rise**

Okay, let's look at some of my recent failures and what I chose to do about them. Or, as I like to put it: What can be done with the onionade?

Next, How to Win with Deals that Fail

Section 2

The Failures

4) How to Win from Deals that Fail

Chapter 4

How to Win from Deals that Fail

"Success is not final; failure is not fatal: it is the courage to continue that counts."
~ Winston Churchill ~

Some of my personal failures

Now, I'm going to share some of my personal failures and what I did about them. I have found that with most situations, there is a way to make it a Win/Win/Win. It hasn't always been that way.

There was a time when I did not always look for a silver lining. This may be the point where you are at the moment.

In the past, I too listened to all of the nay-sayers in my life. The ones that were *trying* to keep me safe and secure. To keep me safe like they were. The same ones who were not making it in real estate. The same ones who hated their jobs. They might be the same ones who are advising you.

I have learned that not every deal is going to be the way that I had originally planned it to be. Just like in life, sometimes you have to play the hand of cards that is dealt to you. Some of the deals that I had planned to go one way ended up going in entirely different direction.

It truly is an inside job. It starts with your thinking, your mindset, your winning attitude, and your gratitude for being able to help others. I'm going to show you some of my deals-gone-wrong and what I did with them.

Here are my stories…

Recent Failures Turned into Winners

5) Simply a Failed Buyer

Chapter 5

Simply a Failed Buyer

"Failure is a detour, not a dead-end street."
~Zig Ziglar~

I decided to start with one of my recent failures. This concerns a property I bought several years ago in a lake community. If you've read my book **Secrets of a Deal'ionaire** - *Creating Wealth One Small Deal at a Time*, you know I make a lot of money doing small deals.

I bought this particular property several years ago and did not pay very much for it. Properties in lake communities are especially good for my mantra of "$200 into $2,000 in about 2 hours." After doing over 3,000 of these deals, I can say that I have lost money on fewer than one percent of them.

That's not to say that they have always gone easy. Many do take some work. Some require that you work mentally. There is almost always a way to make them a Win/Win/Win deal, no matter how I had originally planned the deal to go. This is one of the deals where mental gymnastics were necessary.

My out of pocket cost

For this property, I paid $145.71 in back taxes + $125 for a title search + $36 for recording fees, for a total cost of $306.71.

Not a lot of out of pocket expense and the kind of property I like to buy. Taxes were less than $30 a year and there wasn't an HOA or POA (Home Owner Association or Property Owner Association) fee deeded on the property. So, even if I completely lost with this deal, it would not break the bank.

This property did not sell right away. I listed it on a few of the free real estate sites with no results. A few months went by with no luck, so I decided to put it on eBay. (Since that time, I have come up with a different strategy for selling on eBay, which you'll learn a little more in a few of my failed deals coming up.)

As I've mentioned in one of my previous books, eBay used to be a great place for selling small parcels of real estate. However, they changed their policy about fifteen years ago and no longer hold the high bidders accountable for their bids. Real estate auctions cost a lot to list and you also have a *final value* fee at the end of the auction.

The sellers are responsible for these fees regardless of whether or not they actually receive the money. This can add up to quite a bit. I learned this the hard way. I went from selling ten or fifteen properties a week to paying several thousand dollars a month in uncollected charges. At this point, I turned to other venues and methods for selling.

For whatever reason, this property was not selling as quickly as I was anticipating. I decided to go back to eBay and sell it on a monthly installment basis with me (my company) doing the financing.

I wrote my usual spectacular marketing ad, explaining how this property was better than sliced bread. I listed the auction as a down-payment auction. Starting at $1.97 and $25 per month, I also added a $199 closing fee. After the seven-day auction had ended, there was a high bid of $52.

The winning bidder paid with PayPal, sending me the $251 right away. My cost with PayPal was approximately $7.58 and my charges from eBay totaled $71. Not quite my original investment of $306, but the buyer agreed to my selling price of

$3,190 with payments of $25 per month at 0% interest until paid-in-full.

So far so good, and then…

He paid well just about every month. There were a few months that he was a couple of weeks late but also several months where he paid in advance. He paid for 84 consecutive months. Then he had some personal problems, a divorce, and said he no longer wanted the property.

I offered the property to him for one more payment, if he would just give me his deed information of how he wanted the title to read. He said he did not want the property due to his personal situation and did not want the asset. I felt bad for him as I know how painful a divorce can be.

At this point, I let the property just sit there for almost a year. My paperwork says that after three months of non-payment, the buyer agrees to give it back. I've never enforced a three-month forfeiture and I always give buyers plenty of time to redeem their properties.

There have been a few situations over the years where buyers have had some unforeseen circumstances that were beyond their control. Some have had major surgeries, some were military personal being deployed, and several others had other specific situations that made making payments on their properties difficult. The last thing I want to do is to wait around like a vulture to take back a property.

In the case of this particular lake property, my buyer simply did not want the property. This is a *failed deal* as far as I'm concerned. I do not want anyone to lose money and not get something that they wanted in return.

Collecting dust…Then out of the blue…

So, this property was just sitting there collecting dust (pun intended). After a while, I pulled the file out and was thinking about reselling it. About this time, I got a call from someone who said they wanted to buy the property.

He had received my name and number from the county as being the property owner. He owned some adjoining properties and wanted to add to his space. When he asked how much I wanted for it, I said $2,300 cash or I would finance it at $39 per month at a total cost of $3,799 with 0% interest.

Immediately, he asked, "How soon can I meet you with the $2,300?"

It was a Thursday and I said, "I guess we could meet on Monday, if you give me your deed information and a day to get it prepared." He said that would be great.

At this point, in the back of my mind I'm thinking, "Maybe I should have asked for more money. He said yes to my price so quickly." After checking, I discovered that properties in the area were going for a lot more money. About double what I had asked for.

Then I thought about how good of a deal it was for him. I made way more money than I could have with any other investment I know of. It felt good to leave some meat on the bone and pass on a good deal.

I had the deed prepared and we met on Monday. He actually brought *cash.* I was expecting a bank check, PayPal, or something else, but I didn't refuse it. I also agreed to pay for the recording fee and to make sure it got recorded correctly. That cost me an additional $27.

I have found that it's always best for me to make sure the transfer is done correctly. It eliminates any future potential problems.

So, here's a breakdown of this *Failed Deal*:

Cost = **$412.29** = $145.71 + $125 + $36 + $7.58 + $71 +27.

Total Collected = **$4,651** = $52 + $199 + $2,100 (84 x $25) + $2,300.

Total Profit on this *Failed Deal* = $4,238.71

Next:

The Lease Option from Heck

6) The Lease Option from Heck

Chapter 6

The Lease Option from Heck

"It is better to conquer yourself than to win a thousand battles. Then the victory is yours. It cannot be taken from you, not by angels or by demons, heaven or hell." ~Buddha~

Do real estate deals really get this bad?

Here's a little bit larger deal that went south. It actually went south three times and for three years. Unfortunately, that sometimes happens.

I call this the *Lease Option from Heck* because that's exactly what it was. For everyone involved.

There are many around that like to use a little more colorful word than *heck*. In fact, many of the national speakers have started using very colorful words on stage.

I recently saw a couple of very well-known national speakers who dropped the *F* bomb over and over. It actually kind of shocked me. Not that I have never heard the word before, but because they were using it in their presentations.

I asked one of the speakers about it after their event. He told me it was for attention and was supposed to shock us. Well it did. I still thought it was out of place and inappropriate in that context.

Anyway, I choose the call this “the Lease Option from Heck,” and here’s what happened.

Real estate only goes up, right?

This deal was made at a time when real estate values were going up, up and up. No one could lose in real estate. Or so they said. There were parts of the country where properties were *appreciating* at more than 10% per month!

This was one of those times like right before the stock market crashed in 1929, when even your barber or hairdresser was giving advice. When you’re getting stock or real estate advice from non-experts, you should probably be doing the opposite, like selling.

There are many people teaching real estate courses and seminars today. Some I like to call "Gurus and False Prophets." Many are out there just to take your money. And some of them have good intentions, but just don't know any better.

So many of the people who are out there teaching investment strategies have never seen the complete cycle of real estate investment. Many are too young to have ever before seen high appreciation rates that appear as though they will never stop rising.

Many of these *new age gurus* got into real estate at the low point of the market, learned wholesaling and a couple of other strategies, and think they are immune to ever losing any money. However, there are cycles.

At the time I made this deal, I did have some training from some well-respected trainers. I took a course in lease options and had done a couple deals that went okay.

I had a guy and his wife approach me on this deal. It concerned a house that they had bought after moving to St. Louis from a rural area many miles away.

They moved to the city because of a job opportunity that was too good to pass up. This happens quite often these days all across the country. The couple found a real estate agent who helped them buy a home.

It was one of those homes that was the "*best* house in the neighborhood." It may have been the best house in the neighborhood, but it was not necessarily the best house for them.

At the time that this home was originally built, it was a beautiful house, and still is. It was an all brick home on a very large piece of property. I can honestly say very large because I actually cut the grass a few times. It took me over two hours even with a riding mower.

This was back when I used to think it was a good idea for me to do as much of my own work as possible. Since then, I have learned that it is best for me to do the deals and have others do what they are good at, like cutting the grass.

I believe you should do the same. Know how to do everything, or at least what's involved, but don't do everything yourself.

Anyway, this couple bought the house and moved in. At first, they loved it. Of course, they went out and furnished the home with many lovely things. Many lovely, expensive things. Many lovely expensive things they bought on credit.

Why wouldn't they buy things on credit? Everyone was doing it. Just like many are doing again today. After all, with all of the real estate going up and appreciating almost daily, you can simply refinance your home with a low interest rate and pay everything off at a much better interest rate than the high interest credit cards.

Well, that's exactly what they did. Just like everyone seemed to be doing back then, they used their home like an ATM. Just pay off everything by refinancing and your house payment would only go up about ten dollars a month or so.

Doesn't your home always have **equity** *you can borrow from?*

I saw many others do this back then. In fact, when I was a mortgage broker, there were people who used this strategy to support their lifestyles. Every year or two, they would consolidate all of their bills and refinance their home.

This worked well for them until they would mess up their credit or the home didn't appreciate fast enough (or at all) for them to refinance. Of course, this is another whole story we won't get into here.

Well, not too long after this couple refinanced, the woman lost her good paying job. At about the same time, real estate values had stabilized and, in many areas, had started to go down. This just happened to be one of those areas.

When things go wrong, sometimes homes aren't so easy to sell

At first, this couple went back to their real estate agent and mortgage broker for help—the same people who were all-so-helpful when things were going well, and they could make a handsome commission on the transactions.

Now they were not-so-helpful. These *professionals* looked at the situation and saw they could not make any money. There wasn't enough value in the home to get the price they would need to get and have room for the commissions.

They owed too much for anything to be done.

This was beginning to be common with real estate back then. Many people suddenly found themselves upside down on their properties. That is, owing more to the bank than the home is worth.

So, this couple tried to sell their home on their own. Without the higher income from the job they had moved there for, they were not going to make it very long.

They had several people look at their FSBO (*For Sale By Owner)* property. Many lookers but no one bought. They also didn't know what they would do if they did find a buyer because no one was there to help them with the paperwork.

As it turns out, they still owned their other house back in the town where they had lived before moving to St. Louis. They had been continuing to make payments on this other home and their daughter had been living in it.

They wanted to move back. They were homesick and frantic, and they were starting to become desperate and concerned about their credit. It doesn't take long to ruin your credit, when you're not making timely payments.

That's when they just happened to see one of my *bandit signs*.

A bandit sign is one of those signs that you see on the side of the road and on vehicles that says, "We Buy Houses." I go into a little more detail on using these signs in my book **Secrets to Start Wholesaling Real Estate Today**.

They contacted me and I met with them. They were a very nice couple. They needed some answers and just couldn't find any. They told me that I could just have the house if I would take over their payments. This is a lot more common than most people think and we do not have time to go into this now.

I gathered all of their information and told them I would see what I could do. It was a mess. At this point, they were way upside down on their home and starting to get behind on their payments.

I took their information with me and spread it out on my desk. After going through a few scenarios, I got back to them in a few days. Wanting to help them, I agreed to take this project on.

Can I save the day?

I called it a project because that's exactly what it was. I now look back and call it a lesson. A very valuable lesson. One that I would not do the same way today.

This lesson was actually a steppingstone to some of the strategies and techniques that I use in my investment methods today. I go more into this in my book **Landlord Pennies to Banker Dollars**.

I agreed to lease option the house from them for three years with the possibility of exercising my option and buying the property within the three years at the price of what they owed. The payments were a little more than I could get in rent at the time, but I was hoping to find a buyer.

I planned to do a two-year lease option with someone who wanted to buy the house. I was taught that this was a great strategy for selling a home for more than its current value.

Someone else would be agreeing to pay me more in a couple years than what I agreed to pay the sellers. The new buyer would make the payments that I'd agreed to make, maintain the home, pay the insurance, taxes and all of the other expenses that go along with home ownership.

These want-to-be sellers could move back to their hometown and would save their credit. I would make a few bucks on the difference between the monthly amount that I would collect from the new buyers and what I owed to the mortgage company.

I would also be making about twenty thousand dollars at the end of the option term. It wasn't the greatest of deals, but it looked doable and would solve their problem.

It looked like it would be a Win/Win/Win deal. Or so I thought. My work was definitely cut out for me.

Let's look at some numbers

I leased optioned the home from them for $162,341.11. The payment was $978.22 per month. I would find someone else, a buyer, to lease option it from me at $185,000 and $1,200 per month. It was slim margins, but it still looked on paper like it should work.

Then the problems started.

To start with, the couple was two months behind on their mortgage payments. So, I had to play to catch up with the mortgage company (2 x $978.22 + 48.91late fees = $2,054.26).

Additionally, the house needed some updates, improvements, and some things hauled off. (The couple thought they were doing me and the new buyers a favor by leaving some large items.) This brought my total cost was a little over $3,400.

Cleaning and updating the house took approximately a month, so I had another mortgage payment of $978.22 plus some utilities bills totaling about $200 due. My total cost was now up to $6,632.48.

But now I was ready to roll.

I started posting some ads and I held a couple of open houses. Remember, this is back when I thought I could and should do everything myself. There were some lookers and tire kickers for a while, but then I had what appeared to be a good prospect. At least, that’s what I thought.

Good buyers can be hard to come by

Two gentlemen came along who had been together for quite a while. One had been a minister for several years. They both passed the screening and background checks.

We agreed on them paying $1,200 a month with the first month's payment upfront and a non-refundable deposit of $5,000 for them to move in.

They paid the $1,200 in cash and covered the $5,000 deposit with an official looking church-bank check. It even had one of those shiny silver official-looking icons on it.

I do not normally accept anything other than official cashier's checks for deposits. In this case, however, both gentlemen had passed the screenings and looked to be on the up-and-up, so I made an exception and took the check. They moved in.

Well, that official looking church-bank check eventually came back as *No Such Account*. This was after they had been living in the property for almost a month. I went to my bank and was told that they had tried to run it through a few different ways, but it was just fraudulent.

The guy who gave me the check assured me that it was simply a problem with his bank, and that he would get it straightened out. He then proceeded to pay me for the next two months early and with cash.

Not knowing at the time, he was just buying time until they figured out their next move, I accepted his story. However, this apparently was not their first rodeo. They never did make the check good, and I ended up having them evicted the next month.

The eviction cost me $300. It took two months to get them out of the house and get it ready for the next lease optionee.

To make things worse, there was also another $5,400+ I had to put into the house before someone else could move in. The con artists had taken some appliances and had destroyed some walls and a few other things when they were moving out. Also, the garage door and opener also needed to be replaced, the driveway needed to be resurfaced, and a few other repairs were needed.

So, two months of mortgage payments and utilities cost me $2,356.44. The eviction was $300, and the bad check fee was $39. At least I did make $665.34 on the three months they paid in *positive cash flow*.

So, in the end, my deal with these two men had ended up costing me a total of $7,430.10.

Strike 1

That's added up to a total loss of $14,062.65 in my first six months. Don't forget, I had agreed to a three-year term in my lease option. So, the fun must go on.

My next lease optionee passed the background checks and screening and we agreed to $1,200 a month and $2,000 in a non-refundable deposit. She was a single mother-of-two and seemed like a very nice woman.

She was good with making payments (at first.) She paid on time and was taking care of the place. I drove by the house whenever I was in the neighborhood and it looked well cared-for.

I had lost some money at first with this investing venture, but it seemed that things would work out fine in the long run. After all, I had a twenty thousand dollar spread when I cashed out. Right? Plus, I was making about two hundred and twenty dollars in positive cash flow per month.

I was covering my obligation and could still see some light at the end of the tunnel, provided all continued to go well. And it did go pretty well for a little over a year.

After the 13th month, however, things changed. She told me she'd had some problems with one of her sons. He gotten himself into some legal troubles and it took all of her savings and income to bail him out of his problems.

She simply stopped making payments. By the time I had her evicted and had the house back, another three months had passed. Of course, now I had more expenses to add to my list.

The eviction was $300, and I had another clean out with fix-up cost totaling over $7,200. The house remained empty for the next two months.

I did have a surplus each month of $221.78 and a non-refundable deposit of $2,000 for a total of $4,661.36. Overall it had cost me $2,838.64 to let her live there.

Strike 2

By now, my decision to get involved in this property had cost me a grand total of $16,901.22 out of my own pocket. And things weren't over yet.

Fortunately, there was other money coming in from my other investments to absorb these losses. But, as you can imagine, I was not the happiest investor you had ever met at that moment. And I still had 14 months let on my term.

After going through the process once more, I found what looked like a very nice elderly couple. They had recently gone through a bankruptcy due to some medical bills that were not covered by insurance.

They were very upfront about their financial situation and shared all of the documentation with us. Having worked as a mortgage broker in the past, I understand that there are many reasons for people's dilemmas.

Their situation made sense and I was willing to give them a chance. They paid $1,200 for the first month and a $2,000 non-refundable deposit.

Everything was going fine with them. They paid on time and took good care of the place—for the first three months, that is.

Then one of them had a sibling from Tennessee who passed away. He was an elderly gentleman who lived on a farm, and the couple was his only heir. They decided to go down and take care of his estate and live on the farm.

They were willing to lose the money that they had invested into this house. Even if I would have pursued them for a judgement of the terms of the contract (of course, I would not), it couldn't really hurt their credit much more than the bankruptcy already had.

This time, however, I actually did make a few bucks. I had $2,000 from their deposit and $665.34 in profit for the three months they were there.

The clean-up was very minimal since they were not there very long and were very clean people. It came to just a little over $1,000 with some minor painting, carpet cleaning, and some other cleanup and maintenance.

Strike 3

At this point, I was facing yet another problem. Property values had continued to go down and the neighborhood was not getting any better. There was a low-income housing complex that had been built nearby, and crime was on the rise

I couldn't even find anyone who was willing to pay what I had agreed to pay as a monthly payment. Rents now were far below the $978 that I was paying each month for the property.

So, I ended up riding out the remaining 11 months, paying the mortgage and the utilities. It cost me a grand total out of pocket of $27, 196.30. This is not counting my time!

I ended up returning the home to the original optioner as per my contract. They were eventually foreclosed on. It did go against their credit for a while. They were not too upset, however, as I had given them three years of freedom they would not have had otherwise.

Someone bought their house at a later time on a *short sale.* That's where the bank agrees to sell at a lesser amount than what is owed on the home. Eventually their credit was restored.

So, you may be thinking, "How is this winning with a deal that failed?" The winning was in the lesson. I did not spend $40,000, $50,000 or more for a real estate guru to tell me how to do this. Even if I had, I probably would have lost anyway.

No one can accurately predict the cycles of the real estate market. The learning is in the doing. Since experiencing this *Lease Option from Heck*, I have completely changed my strategies and techniques to match up with current circumstances.

Now, I'm not only the deal maker, I act as the bank. This is explained in much more detail in my book **Landlord Pennies to Banker Dollars**.

Total Profit on this *Failed Deal* =
NEGATIVE $27,196.30
Lessons Learned = Priceless

After such a *priceless* lesson, many would have thrown in the towel. But I was in this for the long haul. Now let's look at a deal that was a little less challenging but still a valuable lesson.

Fourth Time's a Charm

7) Fourth Time's a Charm

Chapter 7

Fourth Time's a Charm

"Winning is great, sure, but if you are really going to do something in life, the secret is learning how to lose. Nobody goes undefeated all the time. If you can pick up after a crushing defeat, and go on to win again, you are going to be a champion someday."
~Wilma Rudolph~

How many times can this go on?

This next deal was one that took a few times to turn into a winning deal after a few failing attempts. It concerns one of the small properties that I bought for back taxes a while back.

I love small deals when I buy properties from counties for back taxes and I don't have to go through the hassle of the auctions to do it. These are the types of deals I share with you in my book **Secrets of a Deal'ionaire**.

This particular property is one I bought from a county for only $45.32. It was a small stream-front lot. It wasn't big enough to build a large home on, but it as good place to camp, use a trailer, or maybe even build one of those tiny homes that have become so popular.

The way I figured it; I couldn't possibly lose too much considering how little it had cost me. So, I put the property up for a 7-day auction as soon as I received the deed. I started the bidding at $197, plus $199 for my closing, or transaction, fee.

It received a lot of interest, and soon the bidding up to $1,000. I thought, "Cool!" At the end of the auction, the high bid was $1,852. With my $199 fee added, that came to a total of $2,051. Posting the auction had cost me $71, so when all was said and done, I would net $1,934.68.

Not bad for a couple of hours' worth of work. It goes with my model of $200 into $2,000 in about 2 hours.

Well, that's what *should have* happened. It did not.

The winning bidder did not respond, even after several attempts to get a hold of him. After about two weeks, I decided to give up and re-list the property at auction with the same terms.

Now what?

Again, there was lots of interest, and the bidding went well. The final winning bid was $2,712. According to my calculations, I would net $2,794.68. (Total of $2,911 paid to me minus $45.32 purchase price and two $71 listing fees.) Not bad.

Well, the same thing happened. The high bidder never responded, and left me high and dry, just like the first one. Needless to say, this did not make me very happy.

Although, I was only $187.32 out-of-pocket at this point, I was several weeks into this with wasted time. (This is actually another bonus of small deals. Besides not costing much, I'm able to work on them in my spare time. This one, like so many others, I did at night while watching TV and talking with my wife.)

Ok, so the next time around, I decided to try something a little different. I've always had good success with offering financing of small properties with low monthly payments.

I rewrote the auction terms to my financing strategy. I started the opening bid for a down payment of $1.97

with a $199 transfer cost. The terms were $39 per month, 0% interest, and a total cost of $3,497. It was a 7-day auction like the first two.

It went well and the high bid for the down payment ended up at $554. Adding the $199, my total was $753. After another auction fee of $71, I was $258.32 out of pocket. This time, I *did* hear from the winning bidder.

He immediately paid me the $753 and agreed to the terms of $39 per month. The down payment amount went toward the total price of $3,497 and the transfer cost went to me. He now owed me $2,943 which would be paid off in 75 months or about 6 ¼ years.

So far, I was $494.68 ahead in profit, not counting my time. And this was all done in my spare time. So, I was ahead. The buyer was very happy to buy a small stream-front property at only $39 per month. I was a very happy seller to collect another $39 per month for several years.

Maybe it can work

I realized that $39 may not seem like a lot of money to you. But how many of these small payments would you need to collect to match the income of having a part-time job? What if you're a stay-at-home parent? By the time you get a babysitter and commute, how much does that part-time job really pay you?

What if you're a disabled veteran? How many of these small payments would you need to supplement your income?

I can tell you firsthand, that I will take ten of these deals that net me small payments every month over one of my rental properties that nets me $500 per month any day.

There's no maintenance work to worry about, no annoying phone calls about things breaking, and there are no *toilets, trash or tenants* (what I call "the dreaded T's").

Don't get me wrong. I am not anti-tenant or anti-landlord. I've just found that acting as the bank is a much better way of investing for me.

It's good to have happy buyers. Instead of the *dreaded T's,* I prefer to have the *appreciated C's,* cheerfulness, cash, and cooperation.

I go into more details on financing your own properties in some of my other books, including **Secrets of a Deal'ionaire** and **Landlord Pennies to Banker Dollars.**

Anyway, returning to the story of this particular deal. My buyer loved the property and used it many times. He enjoyed fishing and camping, and the location was perfect for him. He paid me $39 a month reliably for quite a while — for 17 months to be exact.

Then, in the seventeenth month, he had a personal problem. He had a transfer with his job and was moving to another part of the country.

This is not unusual. Many people live far away from their properties. My local properties actually have buyers from 48 different states and 16 different countries. Many will never even come to see their properties.

Well this guy called me and said he wanted to give back the property. I asked him why he just didn't resell it and told him that I would be willing to help him get it sold. He said he just did not want to deal with the hassle of it because he would be really busy with his new job.

He said he was really happy that he had owned it, but that he was now ready to just let it go. Unfortunately, this is something that isn't that uncommon with people and their real estate.

I've had several properties, including many houses, that were just given to me for *free*. That's a strategy I share some other places, including my podcast, **TheDEALIONAIRE**. This broadcasts on many platforms including Apple Podcasts.

I told the guy that I would give him some time, in case he changed his mind. He assured me that he would not. Nevertheless, I waited a little over six months before I did anything with the property. Even though my paperwork says I have the right to reclaim after 3 months of non-payment, I still allow for plenty of time.

With what happened, can it still be salvaged?

So, after six months, I contacted the man again to give him one last chance to keep his property. He told me his job was going very well and that he'd bought another recreation property closer to him. I wished him well and looked at my options.

Though I had not lost money, I still looked at this as a failed deal since the buyer did not keep his property. I do not like for anyone to lose money and this was no exception. But it was his choice.

Now I could either resell the property on a monthly installment plan or sell it outright. So far, I was ahead by about by about $1,217 after my out of pocket cost. Not great, but not bad considering how little time I actually invested in it. I decided to sell it outright.

I put it up for auction and started it at $1.97 plus $199 for the transfer cost. After seven days, there was a high bid of $845. Adding my transfer fee, it came to

$1,044. After subtracting my $71 auction cost, I would net $973 this time—if he paid.

The high bidder got a hold of me immediately and was very thrilled to purchase a stream-front property for such a small amount. He paid right away with PayPal, which charged me $30.28.

This time, the deal netted me $942.72. Even with the failures that were connected to this property, I still netted a little over $2,159! Not bad for a property that originally cost me $45.32.

Not too bad for winning with a failed real estate deal.

Total profit on the *Failed* Deal = $2,159

Next we'll look at something that wasn't expected and became a little more complicated than I first thought.

The Arsonist had Other Plans

8)The Arsonist had Other Plans

Chapter 8

The Arsonist Had Other Plans

"Game, set, match equals tennis. Set, match, run equals arson." ~Demetri Martin~

Some deals take more creativity than others

The next deal here took a little more creativity than many of them. What started out as a fairly easy deal with an easy plan, and a good profit margin, took a turn I did not foresee. This *Plan B* also taught me some valuable lessons.

I bought a couple of properties from one of my *farming communities* (a term I use for a county I know fairly well and buy from frequently), over the counter (OTC), for back taxes.

One was a single tract that consisted of five adjoining lots with two dilapidated houses. The other was an adjoining single tract consisting of one-and-a-half lots.

Each individual lot was approximately 200 feet by 50 feet, so the total property together was about 400 feet wide by about 200 feet deep. It was about 2 acres altogether.

For the five adjoining lots with the two houses, I paid $545.67 and for the one and a half lots adjoining those I only paid $80.17. It would require and additional $700 for me to get a *quiet title* and make it marketable. So, I had a total of only $1,325.81 into it.

One of the houses was pretty much gone. It was a shell that could not really be salvaged. The other house was a real *fixer upper,* but with work could be habitable.

I had some of my construction team members take a look at the house to give me a ballpark figure on my costs. They said we were looking at about $10,000 to make the one house livable and to tear the other one down.

After getting a clear title and fixing up the house, we estimated we could sell the home for about $60,000. After my costs and commissions, I would net about $40,000 or so. Not a homerun, but definitely a base hit and an extra base on balls.

My construction crew would also burn and haul away all the debris. It's nice to be able to still burn trash and leaves in rural communities…At least that's what I used to think…

So, I got my quiet title started, sending the information to the title company and to my attorney. The quiet title is a legal process that must be done in many cases to ensure a clear title.

The process must go through the court system and be handled with legal expertise. You should always seek legal advice with these as well as any other real estate transactions in your area, like I do.

Looks like smooth sailing

Then, I went to Florida for the next few months, like I had done over the winter for many years. There was no urgency to get started, especially since the quiet title process can take several weeks.

The crew would get started on the project while I was on the beach. Nothing out of the ordinary. They were happy and I was happy.

One day, after I had been vacationing on the sand for a few weeks, I got a phone call. I was in a particularly good mood at the time as we had just gotten done enjoying a great seafood meal and taking our afternoon walk, and I was basking in the sun.

I didn't recognize the phone number, but that was not unusual. It *was* kind of surprising to find out it was a county sheriff, but it was not *too* surprising. I have received calls on the beach in the past for things such as water lines breaking in homes in the cold weather at home.

But this call was different. The sheriff had gotten my phone number from the county collector. He has my personal number because I have done so much business with the county and we have become friends.

The sheriff proceeded to tell me the fate of a house on the property I had just bought. Apparently, an arsonist had gotten into it and started a fire. The house had burned to the ground.

At first, I was thinking, and almost hoping, that it was the house that we were going to demolish anyway. It was not.

It was the other one. Yes, I am talking about the house that I had just bought and was going to restore. The house that was to be a profitable project for me and my team for the next month or so.

The sheriff went on to tell me that the arsonist was a transient who had burned down several houses in the tri-county area.

He later said that I could show up to court, when the time came, to seek civil damages. This, of course I did not do. Finding out that he had torched over twenty homes, I did not see much point. I later found out that the unfortunate fellow became an inmate of our prison system for a minimum of 25 years.

Oh, just file a claim

The sheriff told me that it was probably best to just contact my insurance company to file a claim. Aaaa… I didn't have insurance. At the time, I didn't even consider insuring a house like this.

I didn't know back then that there was actually a thing called *Builders Risk Insurance*. That's insurance that gives you a limited amount of liability and property coverage while a house in being rehabbed.

This type of insurance, like all others, should be discussed with your insurance professional. This, of course, turned out to be another valuable lesson for me. I could have spent maybe six or seven hundred dollars for coverage and would have at least some of my losses covered.

But I hadn't, so it was time for a Plan B. Unfortunately, at the time I didn't have a Plan B.

This was one of those times when I had to go with the flow—like so many other times in life when we have something unexpected and unforeseen happen and just have to roll with the punches.

Time to make some onionade.

Ok, so at this point I was still on the beach and still had about six weeks left of my vacation. The good news was that the torched house was not a rental home, and no one was hurt. I've learned not to take setbacks like this emotionally, so there was nothing to get upset about. I knew I would get through it.

Having lots of time to think, I considered my next move. At this point neither home could easily be fixed up. Not without putting in more money than either was worth.

The lots were separately listed on the deed with the five adjoining lots on one, and the other deed had a lot and a half in its legal description. I could part out the lots and sell them separately.

Sometimes you just have to go with a Plan B

So that was my solution. And here's what I did.

The two homes were in between a couple of the lot borders. It would be easier to sell those as double lots. I had one single lot and one lot that was a lot and a half. Those would be simpler to sell.

I listed the single lots and the lot and a half as owner financing lots. They sold very quickly. In fact, I had the money in my account before I got home from my trip.

For many years, I have brought with me all the information I need to continue running my business whenever I am out of town. My business also requires me to have meetings and do market research every year in nice places. This way, many of my trips are somewhat tax deductible.

A word of caution here. Don't listen to me for tax advice or any other kind of legal advice. I'm just a guy who has learned to make deals. I listen to my professional advisors. This is some advice I *will* give to you: listen to your professional advisors.

So, the single lot I listed for a cash price of $2,897 up front or I would finance it for 0% at $37 per month for a total price of $3,687 (with a low a down payment and a $199 transaction fee.) That's payments of $37 a month for 8.3 years.

The property sold immediately with owner financing. The buyer paid $37 down plus the $199 transaction fee and has been paying $37 per month for the last three years (36 months). So far, I've collected over $1,568 and he still owes another 62 months of payments, for a total of $2,294.

The lot-and-a-half sold immediately, also. I sold it for $3,997 at 0% interest and $39 per month. The buyer and I agreed on $200 down and of course, $199 for the transaction cost. He has paid me a total of $1,799 so far. (That being $399 up front and 3 years of $39 per month.) He owes for 61 more months or a little over 5 years. That's as of right now.

Those deals are always easy and sell fairly quickly. I still had my houses though. The dilapidated one and the one that was burned to the ground. These would require a little more creativity.

I decided to sell the burned down house first. I listed an ad that said something like, "Attention Investors – A Real Fixer-Upper – Home Burned down – Nice double lot – Utilities in place – Much Potential.

It took just a couple of weeks until an investor from out east bought the house. We agreed on a price of $5,897 at 0% interest and $49 per month. He also paid $200 down plus my usual $199 for the transaction.

He paid on this property for about 26 months. And then his company filed for bankruptcy. He told me that he could not keep the property.

I offered it to him at a discounted pay-off price and he said he could not. Then, I even said that I would just deed the property over to him for no cost. He said that he could not even accept it for free as that would be an asset according to the bankruptcy court.

So, I collected a total of about $1,673 and have the burned down house back to resell. Not what I had in mind, but it is all profit.

The house that was remaining was the one that was in too bad of shape to fix up. It was on a double lot that was a nice piece of property. That's where a little more creativity was needed.

I ran an ad that said, "A Really-Really-Really-Really Fixer-Upper. Nice double lot, utilities in place. Much-Much Upside Potential – Low down – Possible Owner Financing." After all, the property's potential could only go up, right?

I left the price somewhat negotiable. Having had a few people look at it with no offers, I decided to include a price of $3,997. I kept the ad stating low down payment and monthly amount negotiable.

There were a couple of inquiries—some with questions and some of the usual tire kickers. I wasn't too concerned as I had gotten my initial investment covered by this point.

Free range chickens?

One night, I got an email from someone asking if *free range chickens* were allowed on the property. I thought it was a joke because, at the time, there was a chicken franchise advertising that they only used free range chickens in their products.

I answered the email and said something like, "I don't know why you could not have free range chickens. You may want to be cautious of the neighboring dogs and some animals that are not domesticated. They might like free range chickens as much as you do."

At this time, we had a friend whose dog had just gotten into a chicken coop by his house. The chickens weren't exactly free range, and the dog didn't eat them. He just killed them.

I gave the address to the inquirer and she went to look at the property. She called me a couple days later and said it was perfect and she would take it.

I came to find out, she actually *was* looking for a place to raise free range chickens. The dilapidated house was going to make a good home/coop for the chickens to roost in. The property was only a couple miles from her home, and she could easily go there every day.

I asked how much she wanted to put down and how much she would like to pay per month on our agreed on $3,997 sales price. She said she would like to put $500 down and pay $100 per month until it was paid in full. I agreed and did not charge her the $199 for the transaction as usual.

As it turns out, she paid the place off in less than two years. She was a great payor and told me several times how much she loved the place. She even sent me Christmas cards with very nice messages when she sent her December payments.

Of course, I only received two of these thoughtful holiday cards since she paid the place off so quickly. I would have liked to have received many more, but at the same time was very happy for her.

Here are the numbers:

Cost: $1,325.81

Collected: $1,578 + $1,799 + $1,673 + $,3997 = **$9,047**

Profit on this Failed deal: $9,047 - $1,325.81 = **$7,721.19…so far**

That is the story of a deal that was made into a winner by a failure caused by an arsonist. Unfortunately, he is still in prison. I feel sorry for him and wish him well.

As of this writing, the original project, the burned down house, is still available. We can make a deal if you're interested. (wink-wink) Obviously, I'm in no hurry with this one. Maybe I'll just keep it as a reminder of a lesson learned. Another lesson of winning with a Failed Real Estate Deal.

And now for another story: Sometimes we change some parts of our lifestyle in order to please our partners. Our vows can be for *better or worse.*

Let's move to:

A Very Happy Camper Who Married a Not-so-Happy Camper

9) A Very Happy Camper Who Married a Not-So-Happy Camper

Chapter 9

A Very Happy Camper Who Married a Not-So-Happy Camper

"Life is a journey, and only you hold the map." ~Unknown~

Some love the great outdoors, and some do not

This is a deal that made the buyer a very happy camper with her purchase. Well, she was a happy camper until she got married to a not-so-happy camper. She loved to camp and go fishing. He did not.

This story concerns some stream-front properties that I bought OTC from one of my farming counties. They were three adjoining small lots, and they only cost me \$45.28 + \$99.66 + \$25.10, respectively. So, I couldn't really lose much since I had only paid $170.04, plus $108 ($36 x 3) for recording fees. A total of $278.04.

This was more of a failed deal for my buyer than for me. I hope their marriage goes better than this deal ended up going for them. Well for her anyway.

Combining all three of these small properties into one made for a very nice parcel of land. It was stream-front, a nice size, and very desirable.

For some reason, many people feel like they must own waterfront properties. I have seen many properties that are just as good, if not better, but they are a little way away from the water. The difference in the price can be astronomical.

There are many places where a small quarter-acre waterfront property will sell for upwards of $50,000. Meanwhile, you can buy the same size parcel across the street for maybe $5,000 to $10,000. Oceanfront properties can be even more extreme. Most of the time you can have the same access to the water from properties that cost far less.

Of course, there are disadvantages to owning waterfront properties. If the water level rises, you can lose part or all of your property due to flooding. If the river or stream changes course, your property could be permanently under water.

When this happens, you're just out of luck. The government owns most of the waterways in this country. There are some private lands leading up to some water, but for the most part land under water cannot be owned privately.

I have never heard of a case where the government or any other landowners have ever given someone another parcel of land due to water boundaries changing. If you happen to know otherwise, please educate me.

Anyway, back to the story. This was a nice recreation type property. It was large enough to be built on, and most people in this area where it was located use the stream for fishing and swimming. And that's exactly what my buyer did.

I sold the combined lots for $13,997 at 0% interest and payments of $139 per month. My buyer paid a down payment of one month and the $199 for my transaction fee. So, she paid a total of $338 up front.

She was from Utah and loved this Missouri property. She enjoyed using it for fishing, hunting, and camping. This area was refreshingly different from the usual city life she dealt with every day.

Visiting her own *piece of paradise* several times a year, she sent me several gracious notes thanking me for the property.

She paid me via PayPal every month. And she always paid early. This went on nicely for 34 months, until all of a sudden, she abruptly stopped paying. In fact, I didn’t hear from her again for several months.

Marriage, happily ever after?

At first, I didn’t really think too much about not hearing from her. I figured she probably just had something going on and either it had slipped her mind, or she needed the money for something else. After all, we all have things that come up now and then.

After three months had passed, however, I started to get very concerned about her. It was not like her to just let this go. I sent her a few emails during this time, but she did not respond.

This is very unusual for someone who was so happy with their property. Especially when she had been sending thank you notes and carrying on about her lovely parcel of land.

Then one day I got a call from her. She apologized for not getting back to me sooner. She told me she had gotten married and moved to California with her new husband. That in itself, is nothing too unusual, and I congratulated her.

She went on to tell me that her husband was a city guy and he despised camping and anything to do with outdoor activities. This kind of surprised me because of the way she is. I've heard that sometimes opposite attract, but this seemed a little extreme.

She also said she did not want the property anymore and that I could do with it as I pleased.

I offered to give her the property for a discounted payoff price. In fact, I went as far as offering her the property outright for just one last payment of $139. When she turned both deals down, I even offered to help her resell the property.

However, her new husband just wanted her to cut ties with such nonsense and move on with their new life. At this point, I felt kind of bad for her. This was not the woman I knew. She seemed to be turning into a not-so-happy camper herself.

As far as I was concerned, this was a failed real estate deal for her. I was okay, because I had more than recouped my own initial investment.

She thanked me again for giving her the opportunity to own this beautiful property for the short time she did. We said a few more pleasantries and bid each other farewell.

Time to move on

I could have sold this property again the same way. On terms, and for even more money. Anytime I get a property back, I almost always sell it for more. Prices always seem to go up every few years, don't they?

Well, with this property, I knew I would be thinking about her every time I wrote out a receipt to a new buyer. I kind of thought that I wouldn't feel good about her losing her property. Her failed deal.

I decided instead to split the lot back into single parcels and sell them on auction for whatever I could get. So, here's how it went.

The first parcel sold for $709 plus a $199 transaction fee, for a total of $908. I paid a $71 auction fee, and a 2.9% PayPal fee of $26.33. **Total profit = $810.67.**

The second parcel sold for $1,508 plus a $199 transaction fee, for a total of $1,707. I paid a $71 auction fee, and a 2.9% PayPal fee of $49.50. **Total profit = $1,586.50.**

The third parcel sold for $604 plus a $199 transaction fee, for a total of $803. I paid a $71 auction fee, and a 2.9% PayPal fee of $23.29. **Total profit = $708.71.** All three transactions together **netted me $3,105.88.**

I previously had collected $199 transaction fee and 35 payments of $139 for a total of $5,064. I had paid a PayPal fee of 2.9%, or $146.86 for a total collected of **$4,917.14**.

Adding the two, ($4,917.14 + $3,105.88), I collected a total of $8,023.02. Subtracting my original investment of $278.04, that equals **$7,744.98 in profit.**

I still feel bad for my very happy camper who married the not-so-happy camper and I wish them well. It was a failed deal for her that was a winner in the end: a win for her new marriage (I think), a win for me and a win for the three new property owners.

Which brings me to my next story…

Now and then, when I'm not paying attention to details, things slip by me. It just happens when other things are taking more priority. Let's look at a deal that slipped through the cracks.

I call this one:

The One that Got Away

10) The One that Got Away

Chapter 10

The One that Got Away

“Forget injuries, never forget kindness.”
~Confucius~

Sometimes it’s just best to let things be

This is the story of a small deal, one that got away. Not many deals manage to get away from me so I thought I would share it here with you.

It really wasn’t so much a monetary loss as it was a blow to my ego since I pride myself on finding and making the most out of small deals.

This concerns a property that I got for *free.* That is, the owner was a non-wanter who signed it over to me at no cost. At, least, I did not pay *her* any money.

This is a strategy I've used for many years: sending out letters to people who are late on their taxes and simply asking them to give me their properties. Many do. I explain this strategy in greater detail in one of **my Podcasts**.

Anyway, this woman had inherited a small lakeside property when her mother passed away. For the first few years, she used the property and shared the experience with her friends and family.

It was still a *fun* property at first, and she happily remembered all the great times she had had there with her family in her younger years.

However, she missed her mother terribly, and she began to grow a bit sadder about her mother's absence with each progressive visit.

Also, her kids were getting older and were starting lives and families of their own. After a few years, they no longer used the property with her. So, all she would do when at the property was wallow in sadness as she thought about the *good old* days.

Your friends are not always your best advisors

This woman tried to sell her property with no luck. A friend of hers was a realtor and listed it for her on the MLS. He told her he would not put a lot of time into advertising it or showing the property since it really wasn't really that valuable.

After the listing ran out, she just let the property sit there collecting dust (wink-wink). She didn't owe anything on the property and there were no HOA or POA fees to worry about. The only costs involved were the real estate taxes, which were only about $28 a year.

She payed her taxes for a few years and then quit. She figured she would just give the property to the county for the back taxes she owed. This is not uncommon, and many do exactly that, when they know of no other way to get rid of their properties.

To this day, this is one of my preferred investment strategies for getting properties for back taxes. I share many more details of this in **Secrets of a Deal'ionaire**.

I found her property on a list of properties that were coming up for auction for back taxes. So, I sent her a letter that said I would be interested in taking over her property for the taxes she owed, if she would be willing to sign it over to me.

She called me and explained her situation. I listened to her story of how she had loved going to the property growing up and how it was still enjoyable

after her mother had passed away, while her kids were still using the property.
I talked to her a little bit about what I do, and I told her that I would be being paying her back taxes and reselling the property to someone else. She was so happy to hear this because she didn't know what else to do. She also really wanted someone else to enjoy the property as much as she once had.

***She gave me her problem for* Free**

This woman told me that every time she got a tax bill from the county, she relived her sadness of the property that had once made her so happy. She said she would immediately take the deed to her bank and get it notarized.

I always tell people to use their own bank for a notary service since they will usually do the notarization for you as a courtesy at no charge.

We talked in the mid-afternoon that day. That was a Thursday. The deed was in my mailbox by noon the next day on Friday! Not only that, she had included a really sweet *Thank You* note with it. She told me how happy I made her feel by taking this burden away from her and finding someone else who would enjoy the property like she once did.

Now she would no longer be getting that unwanted tax bill from the county that kept reminding her of the property, and she could move on with the last loose end of her mother's passing. I love solving people's problems.

Thank you notes are not uncommon. I've received several over the years. There are so many people who do not know what to do with their unwanted properties. Many times, they do not get a lot of help from those who are in the real estate industry.

I've found that sometimes *professionals* in the real estate industry, as well as other professionals, like retirement planners and many others involved with investments, are not always so helpful when there's not a big commission involved.

Let's face it. We all have to put food on the table and cover our expenses. And when it comes to work, we have to choose where to use our time. All of us are limited with our time, even though we all start with the same amount.

Anyway, I paid her back taxes which were $128.27. It cost me $27 to record the deed. My paperwork, including the post-paid return envelope was under $2.00. My total out of pocket was $158.27. Not bad for a *free* property.

I happened to be in the area the next week for another project, so I swung by and took some pictures of the property. I then immediately put it up for sale. The cash price was $2,200 and my financing price was $3,297 at $49 a month with a low-down payment and 0% interest.

I had a buyer right away. He gave me $100 down plus my $199 transaction fee. Right away I had a profit of $140.73. Nothing to brag about, but at the same time it was *free* money. Plus, I would be receiving $49 a month for the next 65 months, right?

The buyer was from Texas and he paid faithfully for the first 16 months. Then, nothing. He seemed to just disappear off the face of the earth. His phone was disconnected, and he did not respond to emails.

Even the letters I sent in the mail were return as *no forwarding address on file*. To this day, I do not know what became of him. This has only happened a couple of times in the thousands of deals I have done.

This is what I consider one of those mysteries of life. Having spent nearly eight months attempting to locate this guy, I decided to give up and resell the property.

Lather, Rinse, Repeat

The second time around, I raised my price a little bit.

Most people only look at the monthly amount and not at the total cost of things. That's one reason people end up paying so much for things. They look at what they can afford each month instead of what things actually cost them over time.

This time I listed the property at a cash price of $2,700 or a financing price of $3,997, with a low-down payment and payments of $49 per month at 0% interest.

Like before, the property had a buyer almost immediately. The buyer chose financing and put $200 down and paid the usual $199 transaction cost. So, we agreed on $399 up front and $49 per month for about 77 months, or 6+ years.

This gentleman paid his $49 monthly payments faithfully for 23 months. He called me right after the 23rd payment and said that he no longer wanted the property and he wanted to give it back to me.

He went on to tell me that he was in the Navy and was being deployed for the next couple of years. I offered to give him a reduced payoff amount, hold it for him, or even help him resell it. He told me that he didn't want anything more to do with it.

He said he would be leaving in less than a month and had many things that had to be done before he left. Going on to thank me for giving him the opportunity to own the property for a while, he bid me farewell.

Of course, I wished him well and thanked him for his service. I once again offered to hold the property for him and even to go ahead and transfer the deed over to him. He said no thank you.

Well, I still waited for a little over four months before taking any action on the property, just in case. When the fifth month rolled around, I decided to put this property up for auction and go ahead and sell it outright.

I started my auction at $.97 plus $199 for my closing/transaction cost. After seven days, there was a high bid of $1,454. Okay, with the closing cost, I would net about $1,566 after my auction and recording fees.

That's pretty good considering this was more money from a *free* property. Well, I never heard from the winning bidder. He did not respond to any of my emails. He just disappeared like Casper the *Unfriendly Ghost.*

My lesson = pay more attention

This auction was set up to automatically start again if the buyer did not fulfill his end of the bargain. I had kind of forgotten about this being one of the terms. At first, when the buyer didn't come through, I figured I would just sell it again on terms.

The second-chance auction started in the middle of the night while I was sleeping. I noticed it when I awoke in the morning. It already had the minimum bid of $0.97 so I was obligated to abide by my terms and sell it to the highest bidder.

This time, the auction did not see a lot of action. That sometimes happens because psychologically, people sometimes think there's something *wrong* with it if it did not sell the first time.

There are many times I will wait a few weeks before putting a property back on the auction block to avoid the stigma of being seen as a bad property. And as can happen, this property sold at a very low bid.

The winning bid at the end of the auction was only $199. With my transaction cost of $199 added, it only totaled $398. Under normal circumstances, I would not have sold it for that low of an amount. But I did fulfill my end of the agreement.

This one just got away from me. Even though it's the one that got away, I still kind of won from a failed deal. It was a *free* property, after all.

You can get more details on the strategies and techniques I use on little deals like this one by reading my book **Secrets of a Deal'ionaire, Creating Wealth One Small Deal at a Time**.

Now, let's look at the numbers for this deal:

My cost: **$256.27**
$128.27 taxes + ($27 x 2) recording fees + $71 auction fee.

Money collected: **$3,007.00**
$1,083 from the first buyer + $1,526 from the second buyer + $398 from the auction.

Total net profit winning from this failed deal = **$2,750.73**

You might be wondering, "Okay, that's great on your little deals. But, can you turn a losing rental property from a failure into a winning deal?"

I'm glad you asked.

I've changed my whole philosophy on how I deal with my larger *passive income* investments. In the next chapter, I'll explain what I do as spelled out in my book **Landlord Pennies to Banker Dollars: 7 Simple Steps to Fire the Landlord and Hire the Banker in You…**with:

Spend Another $10,000 or Collect $199,900

11) Spend Another $10,000 or Collect $199,900?

Chapter 11

Spend Another $10,000 or Collect $199,900?

"Don't tell me where your priorities are. Show me where you spend your money and I'll tell you what they are." ~James W. Frick~

Why would someone pay you more for a home than its current market value?

This is the case of another Win/Win/Win deal that seemed like it was on the path to becoming a big-time failure. It all started as a very fun project. Fun, that is, until it made me feel defeated.

We called this property our horse farm. It was not really a true farm because it is only about 5 ½ acres. I say this property was *fun* because it reminded me of spending summers on my grandparents' farm in Kentucky when I was a kid.

We got a screaming deal on this property when we bought it. Or, so I thought.

The people we bought it from were emotionally done with the home. They were a young couple who had wanted some space to raise their children when they originally purchased it.

The property was more than a hundred miles away from the city of St. Louis, so it was small town living. Being pretty far from the closest neighbor and about fifteen miles from the closest stores, this house features plenty of space, privacy, and fresh air. It was perfect for them. Well, for a while anyway.

After they had lived there for a short time, they moved their father in with them. There was plenty of room and he was a truck driver, so he was only home on the weekends.

They all were comfortable with their own space and their dad got to spend more time with his grandkids than many grandparents do. This worked very well for about two years.

Then disaster struck…

Their father developed a heart condition. He had a couple of surgeries and then passed away. The family was devastated. They couldn't walk past their father's old room without it bringing up sad memories.

Unable to bear it any longer, they decided to move back to the city. It also made for an easier commute to their jobs so they would save money on gas and time. The children didn't really want to leave their home, but sometimes the whole family needs to make sacrifices.

Since the house needed some repairs, they decided to rent it to the wife's brother. (*A word of caution*: Never do business with a family member or a friend. The same goes for loaning them money unless you plan on *giving* it to them without getting paid back!)

Well, as happens more often than not, the brother paid rent for only about three months. He then moved his fiancée and her two brothers in with him as well. They lived there completely *scot free* for about a year. They certainly did not do the poor family any favors.

Not only did they not pay rent, as agreed, they did not take care of the home. They had several dogs also. The dogs were probably the best tenants in the house, as is so often the case.

The trash had not been disposed of for over a year. It had been piling up on the side of the house. After all, they had over five acres to fill up. Just about everything in the house was either torn up or not working.

They were some of the worst tenants you could possibly have. Bad tenants are one reason (and there are many!) why I changed my strategy when it comes to rentals. More details are explained in my book **Landlord Pennies to Banker Dollars**.

The owners didn't really know what to do. They wanted to sell the house but when a realtor looked at the property, she told them that they would have to either put tens of thousands of dollars into repairs and cleanup or sell at a substantial discount.

The problem was, they did not have the money to fix the house back up. The other problem was, they owed more money for the house than they could get selling it at a discount. At this point, they were ready to take the loss and move on.

Not knowing what to do, they came across one of my bandit signs. They called and we met. They said that at this point they just wanted their loan paid off. The house had been empty, for a few months and they were struggling with making payments on two homes.

They had received offers from a couple of other investors, but these offers weren't high enough to enable them to pay off their mortgage. Their savings was just about wiped out and they were at their wits' end. They didn't have extra money that they could bring to closing in order to pay off the home.

We talked for a while and I asked them to get me a payoff amount. They called back the next day and said that it was $49,462.21. That was quite a lot considering all of the repair work and cleanup that was required.

Winning from a failure

After going over my options and working out how I could help, I called the couple the next day and said that I would pay them $55,000 for the property, as is. They couldn't believe it. That would take their stressful obligation from them and enable them to replenish their savings.

Truthfully, it was a stretch on my part. As it turned out, it was a lot more than I'd bargained for. It took us a few months and a little over $28,000 to complete the cleanup, repairs and replacements.

It was fun, though. I enjoyed going out there, hiring workers, and watching the place get back in shape and up to par. If I would have been a few years younger, I might have moved into the place myself. Or maybe a few years older, like retirement age.

We decided we would rent the place out. This was still when I thought that I wanted to own 500 rentals. (This place is one of the reasons I do not want to own 500 rentals anymore. Instead, I now aim to have 500 performing notes being paid to me each month.)

The first renter we got checked out well and moved in right away. He paid us $650 a month with a $500 security deposit. Everything went fine for about nine months, until he lost his job.

He didn't leave the place in really bad shape, but it still required about $2,200 in order to get it rent-ready again.

After a month or so, we found new tenants. It was a younger family with four children. They fell in love with the place and checked out well. Their rent was also $650 a month with a security deposit of $500.

They enjoyed the home and the country living lifestyle. That lasted almost a year. Their paradise fell apart with a horrible divorce. They split up the family and went on their separate ways. That's always sad for the children.

Workers Win, Too

The house wasn't left in as good of condition as the last tenant had left it, but the fix up and clean out only ended up costing us about $2,500 out of pocket. One of the workers wanted some of the furniture and other *treasures* the family had left behind, so we worked out a deal.

Trading things left by previous residents in exchange for labor is a good technique that often works out quite well. You would be surprised how many workers will trade their labor in exchange for goods.

Okay. So here we go again. We found new tenants who checked out and who were thrilled to get a place outside of the city. We agreed on rent of $695 a month with a $1,000 deposit. They moved in and everything was great again.

These people were great renters and they stayed in the house for four years. They took good care of the place and paid their rent. They also paid on-time, most of the time.

Since they were renters, we did have to do some maintenance and repair work while they were there. We had to make some repairs to fences, out buildings like the barn, electric systems, plumbing, sump pumps and a few other things. We ended up spending about $4,750 on these *minor* repairs.

There were a few *major* repairs needed, too. We replaced the roof for a little over $2,500. And we also repaired the septic system for over $8,750. There were some other repairs and clean-up needed because of a back-up caused by the septic system, and this amounted to $2,800.

When their lease was up after the fourth year, my tenants informed us that they would be moving out.

An uncle had recently passed away and they were buying his house.

We bid them farewell and they were on their way. They told us to keep the $1,000 deposit for any repairs we may have, informing us there was some recent storm damage to the roof of the barn. As it turned out, it was a little more than that. Actually, it a lot more than that.

Not Another $10,000…

When they moved out, I phoned a realtor friend of mine to see what she thought the place was worth. She called me a couple of days later and told me we could probably get about $83,000 for it, if we put around $10,000 into it. At least, from what she could see.

She said that there was a lot of damage to the barn and outbuildings because of the recent storm and the place had lots of animal wear and tear.

Well, it *was* a small horse farm. Who wouldn't have animals? Of course, they had horses, chickens, dogs, cats, a cow, and a goat. And that's just when they moved out. There were probably several other temporary residents there during their four-year tenure.

Doing some figuring, I did not like what I might end up spending after repairs, real estate commissions, closing cost, possible negotiated concessions, and anything else that might arise.

Not very happy about the thought of putting another ten thousand dollars or more into the place, I decided to do something different. At the time, I had begun selling my rental properties, mostly with owner financing, as they were coming up.

This property would be a little different than some of my other self-creating note sales. My other homes, I was fixing up to sell as the *queen's castle,* a strategy I spell out in **Landlord Pennies to Banker Dollars**. This one I would sell *as is.*

So, I had Angela, my realtor friend, list the home with possible owner financing, as is. We listed it for either $119,900 cash, or we would finance it for $199,900 at 0% interest and payments of $850 a month.

It took about a month to find the right person. We went through a few applicants and then found someone with a situation that made sense.

This man had some dings on his credit. He'd had some court-ordered child support that was now caught up, and he was paying on time. He also had a foreclosure due to his previous marriage ending in divorce.

The man was now remarried and had two small children and a stay at home wife. The couple seemed like good *second-chance* buyers. My experience as a mortgage broker has taught me that some of the best buyers are second-chance buyers.

You can find a lot more details on what I look for in my buyers in the chapter called “You Must Only Deal with Those Who Have Brainwashed Themselves” in my book **Landlord Pennies to Banker Dollars**.

Anyway, a couple of years had gone by since this man’s major life change had happened to him. He was working on improving his credit, but it was a slow process for them.

He and his new wife were tired of wasting their money by renting. They said they didn’t like paying someone else’s mortgage and only getting a receipt at the end of the month. They wanted to get something for their money and have a place they could call their own.

Their situation made the deal make sense. We agreed on a $3,000 down payment and they would pay $850 a month. They would also pay their own insurance and taxes and pay us until the $199,900 sale price was satisfied.

Realtors can win when not-selling

We paid our realtor friend, Angela, $2,000 for taking the applications and showing the place. It wasn't as much as the commission she would have potentially made. But she was still happy with the amount because it didn't take much of her time as we are pretty easy to work with.

It wasn't a lot of money upfront, but I could keep spending my time on some of the other projects I was working on while she was marketing the place.

Angela phoned me some time later. She asked me if I had been by the horse farm lately. I said no and that I hadn't been by there in years. She told me that I really ought to go by.

I was worried that something had gone terribly wrong, but she went on to tell me that it was looking better than she had ever seen the place. The new *owners* had really fixed the place up.

Apparently, the new owner was experienced in construction. The couple had put in all new hardwood floors and completely redid the interior. They installed all brand-new appliances. All the damage on the outbuildings and barn had been repaired. They even redid the horse stalls and fixed up the chicken coop.

All of this, they did on their own dime. Well, on their thousands of dimes. They are so happy with their home and have been paying faithfully since they moved in. Not only do they pay on time, they usually pay early.

We hear from them about once a year when they send us a paid real estate tax receipt with a Christmas card. We also receive a confirmation note from their insurance company upon renewal.

I've even offered to let the couple refinance the home and pay us off at a discount. Also, over the years, the couple has been able to improve their credit score thanks to this deal and other strategies that I explain in my book **Secrets THOSE Credit Doctors Don't Want YOU to Know**.

We can all win in the end

This couple figured that if they took out a new loan, it would take them much more time and cost them a lot more money. Even with the current low interest rates. They said that they like the fact that they owe less than $140,000 and only have about 13 more years to go.

They like our terms of 0% interest. Simple math makes it easy to see where they're at with the balance. We're all on the same page. They calculated that if they financed $140,000 at 4.5% for 30 years, even though their monthly payment would go down significantly, they would end up paying a total of $255,369.40 in principle and interest. My deal made more sense for them.

The way they are going right now, they will own their home free and clear by the time they are in their mid-40's. They said at that time, their kids will be grown, and they can travel or do whatever they want.

This property presented a deal that had failed a few times and was going south. That is, until we turned it into a winning deal. This is how we avoided spending another **$10,000** and are instead collecting **$199,900**

The numbers look like this.

My out of pocket costs:

$55,000 (purchase price) + $28,000 (repairs and cleaning) = **$82,000**

Costs incurred from first tenant: **$2,200**

Costs incurred from second tenant: **$2,500**

Repairs & maintenance during term of the third renter: $4,750 + $2,500 + $8,750 + $2,800 = **$19,800**

Money collected from renters: $5,850 + $7,800 + $33,360 (in rent) + $2,000 (in deposits) = **$49,010**

Our net was a negative, net income was **($32,990.00)**

Since then our buyer has paid us approximately **$59,000** and owes us and additional $140,000 for several more years.

Failed Deals into Winning Lessons

Section 3

The Lessons

12) Failed Deals into Winning Lessons

Chapter 12

Failed Deals into Winning Lessons

"It's not the load that breaks you down, it's the way you carry it." ~Lou Holtz~

Can Every Deal That's Failing be Turned into a Winner?

Sometimes you really have to look hard to see the silver lining in the storm clouds. You may have to really look at how you can adjust the recipe for your *onionade* with what you've been handed.

I've shown you some of the deals that were failing and the steps I've taken to turn them into winning deals. There is always a way to make a winning deal from one that appears to be failing.

Never make a deal that appears to have even the smallest chance for you or someone else to fail.

Always make deals that are Win/Win/Win. Be open-minded and find a way. Sometimes it does take quite a bit of creativity to make losing deals into winners.

As I mention in my book, **Secrets to Start Wholesaling Real Estate Today**, real estate is all about solving problems for others. But it's not only about solving problems for others, many times you are faced with solving problems of your own.

Here, I have shared with you a few of the problems I have faced in my ongoing real estate career. I say ongoing, because I have no plans to give this up any time soon. I use the word problem, but it's only a problem if that's what you let it be.

Many call problems, issues. That's a little better word. They've also been called challenges. Yes, most problems can be considered a challenge. Some are indeed much more of a challenge than others.

I like to call these problems, issues, challenges and failed deals *lessons*. Take your failed deals and turn them into winners. Take your onions and make the best onionade that you possibly can. There is always a way.

There really is no such thing as perfection, only progress. Like I've said, I used to think I was a perfectionist. I was actually an imperfectionist. I thought I could always find a better way to do things, finding something wrong with almost everything.

What I found, is that I did not find anything perfect. I only looked at things as imperfect. But I've turned that around. Now, I look for ways of making *myself* better. Better than I was before. Better than I was yesterday.

Today I strive for progress instead of perfection. Yes, there may be better ways of doing things. There usually are. It does not have to be perfect, just progressive.

Maybe now, instead of an *Imperfectionist*, I consider myself more of a *Progressionist.*

One of my goals every day is to spend less time in the valley and more time on the mountaintop. This comes from learning. Learning from failures turned into winners.

Learning is winning. Keep learning.

Continue Your Real Estate Education without Breaking the Bank

13) Continue Your Real Estate Education without Breaking the Bank

Chapter 13

Continue Your Real Estate Education without Breaking the Bank

"We now accept the fact that learning is a lifelong process of keeping abreast of change. And the most pressing task is to teach people how to learn." ~Peter Drucker~

We must never stop learning

Learning is a lifelong phenomenon. It is continuous and everlasting. You are either growing or dying. There is no true idleness. You are either moving forward, or you are moving backwards.

In the world we live in, things are constantly changing. We must continue our education in order to keep up. Even though it's true that the more things change, the more they remain the same, we must keep up with changes in techniques, attitudes, and technology.

This is especially true in real estate. We now have these new investment tools and strategies like *Airbnb* and other online marketplaces that people can use to rent out their homes.

Although these are fairly new ways to invest in and rent out places, the concept behind it is hardly new. There have been boarding houses, hostels, and other ways that people have rented short term real estate for as long as dwellings have been around.

What *has* changed, however, are the methods and techniques used to rent out these places. Also, many of the rules, regulations, and laws have been updated to meet the changing times. That is why it's so important to keep on learning.

Rarely does someone complete their pursuit of education as soon as they graduate from a university. The same goes with real estate education. There really is no such thing as graduation. We must always continue our education.

The thing to keep in mind is where you are getting your education from. There's a lot of *noise* out there today. With our access to the internet we have many choices. These include good and not-so-good choices.

Know who you are learning from

We have access to many books and videos at little or no cost. Just be aware of where and who you are getting your education from.

A good start is by looking into your local REIA group. That's Real Estate Investing Associations. REIA groups can be found in just about every area of the country. The groups are usually attended by like-minded people who have similar mind sets.

REIAs are a great place to network. They also can be really good places to meet people who have properties to sell, who are looking to buy, or who can help out with some of the things you are looking for with your deals. Things like finding good service and repair people.

There's a huge difference in groups these days, so you should take some time to be sure you are aware of what you are getting into. Be sure to find out the motive that is behind the group you are joining.

There are *not-for-profit* groups like the one I attend. Our board consist entirely of unpaid volunteers. Our group is more about education than most of the other groups that are around.

There are also *for-profit* REIA groups, which include most of the groups that are out there these days. Of course, there's nothing wrong with making a profit. We all need to make money; that's why most of us got into real estate investing to begin with.

(Some of us that have been forced into this arena for other reasons. That's another story. I get into some of this in my book **Secrets to Start Wholesaling Real Estate Today**.)

There are usually two motivating factors for the for-profit REIAs: selling programs and selling properties.

Many for-profit REIA's are selling you a program or a mentorship. That's okay if you want to speed up your learning process. Many are very good. Some, however, are not.

Just be aware of what you are getting into. Programs and courses can cost anywhere from a couple hundred dollars to tens of thousands of dollars!

Many of these same groups will have fairly new investors giving testimonials—someone who just shelled out $40,000 or $50,000 for their group mentorship program less than a year ago. Listen carefully to these *new* investors.

Many of the testimonials are truly inspiring. These new investors are inspired by the fact that they are going to be able to quit their jobs. They are going to be *rich*. Their motivation has not worn off because they have never dealt with a deal that has failed—at least, not yet.

There is no *get-rich-quick* program in life, and this is especially true in real estate. If someone tells you that there is, they are either lying or they are involved in something illegal. Be extremely skeptical.

Most of the time, these new investors will be telling you about their early successes. Their stories usually revolve around the first deal they did four months ago or so. It may be a story about a four-family rental that will *someday soon* provide them with hundreds of dollars per month in passive income.

Sometimes they will tell you about this great deal they got that provided them with *instant* equity in amounts of tens of thousands of dollars. Many times, this great deal was found for them by their *mentor* or one of their cronies. Are these people making a killing on the backs of new unsuspecting investors? Perhaps.

Before you shell out thousands of dollars to a Guru or a False Profit, talk to someone who they have mentored who has been in the business for a few years. Better yet, see if you can find someone for whom their program or mentorship *didn't* work, someone who spent lots of money with little results. That's where you will get some of the truth about the value of their program.

There are other for-profit REIAs that are motivated by selling you their properties. While some of these *can* be good deals, many of these properties are losers that they have been unable to sell elsewhere.

They will tell you things like, "These properties are not listed on the MLS. This is a wholesale deal!" This may be true. But many of these deals simply cannot be sold as retail properties or on places like the MLS because of their condition.

These properties are often in too bad of shape to sell as retail properties. Also, the sellers may have already attempted to sell them to their network of experienced wholesaling friends with no success.

Most of the time, if it's truly a good deal, you will not be the first to hear about it. Many of the real estate investors who have been around a while have a list of people who they know will jump on screaming good deals, and they offer them to those people first.

There are still other for-profit REIA groups that fill their time with informercials for their sponsors. Many groups thrive on the money the sponsors provide and promote them shamelessly as an additional income source.

That said, the REIA sponsors are not all bad. They can be a great place to find vendors for your investments.

Most of the REIA groups vet their sponsors. Some do not. I recommend doing your own due diligence on all of those you do business with. I recommend due diligence with your education as. Educate yourself *before* getting educated.

You must first learn, and then do (take action). The best learning is in the doing. We learn much more from our mistakes than our successes. I've shared some of my failures with you.

You must learn from your struggles

Someone else cannot do your learning for you. That does not work. I trust that you have learned from some of my failures and struggles. You will have your own failures and your own struggles that you must also learn from.

This reminds me of a story:

There once was a man walking through the forest. He stumbled upon a cocoon that contained a chrysalis (the papal stage of butterflies). The cocoon had fallen to the ground, and the man could see that a butterfly was struggling to get out.

The kind man took out his pocketknife and made a small incision in the cocoon. He cut the hole just big enough for the morphing butterfly to escape and be free.

The grateful butterfly squeezed through the hole. She soared about 30 feet up and then fell to the ground and died. Why? Because morphing butterflies *need* the struggle of pushing against the cocoon to build up the strength they need to survive in the world.

The well-intentioned man thought he was helping the butterfly. The reality was that not letting the butterfly have her own struggle led to her early death.

The point being, we can learn a lot from other's experiences and struggles, like the ones I have shared with you. But you will also have to go through your own failures and your own struggles. Your best education will come from your own lessons. Learn your lessons.

"The gift of life is in the struggle, and the gift of the struggle is discovering the answer to the question, 'What is the lesson'?"
~Russ Whitney~

It is possible to win from failed real estate deals. Win, so everyone wins. Solve your problems while solving problem for others.

14) HAAs: Do You Know Your BOM from Their DOM?

Chapter 14

HAAs

Do You Know Your BOM from Their DOM?

"But why, why, why can't people just say what they mean?"
~ Graeme Simsion, The Rosie Project ~

Why Don't They Just Say What They Mean?

You'll see very quickly, that real estate people like to use hegemonies, abbreviations and acronyms instead of words. It used to drive me insane when I was a mortgage broker.

I like to call it, Real Estate **HAAs.** *Hegemonies. Abbreviations & Acronyms*

Hegemony simply means control or dominance by one group over others. Many in real estate like to think this is true.

It is not true.

Here are a few of the most commonly used **HAA**s to help ease your sanity.

APR	Annual Percentage Rate
ARM	Adjustable Rate Mortgage
ARV	After Repair Value
BOM	Bill of Materials
BPO	Broker's Price Opinion
BRRRR	Buy, Rehab, Rent, Refinance, Repeat
CAP	Capitalization Rate
COC	Cash on Cash (Return)
CMA	Comparative Market Analysis
DOM	Days on Market
DSCR	Debt Service Coverage Ratio
DTI	Debt to Income ration
EIN	Employer Identification Number
FDIC	Federal Deposit Insurance Corporation
FMV	Fair Market Value

FHA	Federal Housing Administration
FICO	Fair Isaac Corporation
GIP	Gross Investor Profit
HELOC	Home Equity Line of Credit
HOA	Home Owners Association
HUD	Housing and Urban Development
LRA	Land Reutilization Authority
LTV	Loan to Value
NOI	Net Operating income
MAO	Maximum Allowable Offer
MIP	Mortgage Insurance Premium
MLS	Multiple Listing Service
P&L	Profit and Loss Statement
PITI	Principal, Interest, Taxes & Insurance
PMI	Private Mortgage Insurance
POA	Property Owner Association
RCE	Repair Cost Estimate
REIA	Real Estate Investment Association
REO	Real Estate Owned-Bank Owned Properties
RESPA	Real Estate Settlement Procedures Act

ROI	Return on Investment
SDIRA	Self-Directed Individual Retirement Account
SFR	Single Family Residence
VA	Veterans Administration

15) Real Estate Jargon

Chapter 15

Real Estate Jargon

"There's nothing quite like Latin for disguising the fact that you're making it up as you go along."
~ Ben Aaronovitch, British Author ~

Acceleration Clause

A clause in your mortgage that allows the lender to demand payment of the outstanding loan balance for various reasons. The most common reasons for accelerating a loan are if the borrower defaults on the loan or transfers title to another individual without informing the lender.

Adjustable Rate Mortgage (ARM)

A mortgage in which the interest rate changes periodically, according to corresponding fluctuations in an index. All ARMs are tied to indexes.

Adjustment Date

The date the interest rate changes on an adjustable-rate mortgage (ARM).

Amortization

The loan payment consists of a portion which will be applied to pay the accruing interest on a loan, with the remainder being applied to the principal. Over time, the interest portion decreases as the loan balance decreases, and the amount applied to principal increases so that the loan is paid off (amortized) in the specified time.

Amortization Schedule

A table that shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. It also shows the gradual decrease of the loan balance until it reaches zero.

Annual Percentage Rate (APR)

This is not the note rate on your loan. It is a value created according to a government formula intended to reflect the true annual cost of borrowing, expressed as a percentage. It works sort of like this, but not exactly, so only use this as a guideline: deduct the closing costs from your loan amount, then using your actual loan payment, calculate what the interest rate would be on this amount instead of your actual loan amount. You will come up with a number close to the APR. Because you are using the same payment on a smaller amount, the APR is always higher than the actual not rate on your loan.

Application

The form used to apply for a mortgage loan, containing information about a borrower's income, savings, assets, debts, and more.

Appraisal

A written justification of the price paid for a property, primarily based on an analysis of comparable sales of similar homes nearby.

Appraised Value

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Since an appraisal is based primarily on comparable sales, and the most recent sale is the one on the property in question, the appraisal usually comes out at the purchase price.

Appraiser

An individual qualified by education, training, and experience to estimate the value of real property and personal property. Although some appraisers work directly for mortgage lenders, most are independent.

Appreciation

The increase in the value of a property due to changes in market conditions, inflation, or other causes.

Assessed value

The valuation placed on property by a public tax assessor for purposes of taxation.

Assessment

The placing of a value on property for the purpose of taxation.

Assessor

A public official who establishes the value of a property for taxation purposes.

Asset

Items of value owned by an individual. Assets that can be quickly converted into cash are considered "liquid assets." These include bank accounts, stocks, bonds, mutual funds, and so on. Other assets include real estate, personal property, and debts owed to an individual by others.

Assignment

When ownership of your mortgage is transferred from one company or individual to another, it is called an assignment.

Assignment Fee

This encompasses the transfer of rights held by one party, the assignor, to another party, the assignee. An assignment allows another buyer to take over the buyer's rights. Imagine that one is stepping into the shoes of the Original Purchaser for a **fee** in order to purchase the desired property.

Assumable mortgage

A mortgage that can be assumed by the buyer when a home is sold. Usually, the borrower must "qualify" in order to assume the loan.

Assumption

The term applied when a buyer assumes the seller's mortgage.

Balloon mortgage

A mortgage loan that requires the remaining principal balance be paid at a specific point in time. For example, a loan may be amortized as if it would be paid over a thirty year period, but requires that at the end of the tenth year the entire remaining balance must be paid.

Balloon payment

The final lump sum payment that is due at the termination of a balloon mortgage.

Bankruptcy

By filing in federal bankruptcy court, an individual or individuals can restructure or relieve themselves of debts and liabilities. Bankruptcies are of various types, but the most common for an individual seems to be a "Chapter 7 No Asset" bankruptcy which relieves the borrower of most types of debts. A borrower cannot usually qualify for an "A" paper loan for a period of two years after the bankruptcy has been discharged and requires the re-establishment of an ability to repay debt.

Bill of Sale

A written document that transfers title to personal property. For example, when selling an automobile to acquire funds which will be used as a source of down payment or for closing costs, the lender will usually require the bill of sale (in addition to other items) to help document this source of funds.

Biweekly Mortgage

A mortgage in which you make payments every two weeks instead of once a month. The basic result is that instead of making twelve monthly payments during the year, you make the equivalent of thirteen. The extra payment reduces the principal, substantially reducing the time it takes to pay off a thirty-year mortgage. ***Note:*** there are independent companies that encourage you to set up bi-weekly payment schedules with them on your thirty-year mortgage. They charge a set-up fee and a transfer fee for every payment. Your funds are deposited into a trust account from which your monthly payment is then made, and the excess funds then remain in the trust account until enough has accrued to make the additional payment which will then be paid to reduce your principle. You could save money by doing the same thing yourself, plus you have to have faith that once you transfer money to them that they will actually transfer your funds to your lender.

Blanket mortgage

A mortgage covering more than one piece of property. Example: A developer subdivides a tract of land into lots and obtains a blanket mortgage on the whole tract.

Bond

A promise by a third party to repay a principal and interest if another party does not make payment.

Bond Market

Usually refers to the daily buying and selling of thirty-year treasury bonds. Lenders follow this market intensely because as the yields of bonds go up and down, fixed rate mortgages do approximately the same thing. The same factors that affect the Treasury Bond market also affect mortgage rates at the same time. That is why rates change daily, and in a volatile market can and do change during the day as well.

Bridge Loan

Not used much anymore, bridge loans are obtained by those who have not yet sold their previous property but must close on a purchase property. The bridge loan becomes the source of their funds for the down payment. One reason for their fall from favor is that there are more and more second mortgage lenders now that will lend at a high loan to value. In addition, sellers often prefer to accept offers from buyers who have already sold their property.

Broker

Broker has several meanings in different situations. Most Realtors are "agents" who work under a "broker." Some agents are brokers as well, either working for themselves or under another broker. In the mortgage industry, broker usually refers to a company or individual that does not lend the money for the loans themselves, but brokers loans to larger lenders or investors. (See the Home Loan Library that discusses the different types of lenders). As a normal definition, a broker is anyone who acts as an agent, bringing two parties together for any type of transaction and earns a fee for doing so.

Broker's Price Opinion

A BPO is the process used by a hired sales agent to determine the potential selling price or estimated **value** of a real estate property. A BPO is popularly used in situations where a financial institution believes the expense and delay of an appraisal is unnecessary.

Buydown

Usually refers to a fixed rate mortgage where the interest rate is "bought down" for a temporary period, usually one to three years. After that time and for the remainder of the term, the borrower's payment is calculated at the note rate. In order to buy down the initial rate for the temporary payment, a lump sum is paid and held in an account used to supplement the borrower's monthly payment. These funds usually come from the seller (or some other source) as a financial incentive to induce someone to buy their property. A "lender funded buydown" is when the lender pays the initial lump sum. They can accomplish this because the note rate on the loan (after the buydown adjustments) will be higher than the current market rate. One reason for doing this is because the borrower may get to "qualify" at the start rate and can qualify for a higher loan amount. Another reason is that a borrower may expect his earnings to go up substantially in the near future but wants a lower payment right now.

Call Option

Similar to the acceleration clause.

Cap

Adjustable Rate Mortgages have fluctuating interest rates, but those fluctuations are usually limited to a certain amount. Those limitations may apply to how much the loan may adjust over a six- month period, an annual period, and over the life of the loan, and are referred to as "caps." Some ARMs, although they may have a life cap, allow the interest rate to fluctuate freely, but require a certain minimum payment, which can change once a year. There is a limit on how much that payment can change each year, and that limit is also referred to as a cap.

Capital gains

Profit earned from the sale of real estate or the amount by which an asset's selling price exceeds its initial purchase price.

Capitalization rate (CAP Rate)

The rate used to determine the present value of property with future earnings.

Carrying Costs

The expenses of maintaining a home or property. For example, mortgage payments, property taxes, insurance, and the expenses of utilities, repairs and upkeep.

Cash Flow

The amount of cash derived over a certain period of time from an income-producing property. Cash receipts minus cash payments over a given period of time. The cash flow should be large enough to pay the expenses of the income-producing property (mortgage payment, maintenance, utilities, etc.).

Cash Out Refinance

When a borrower refinances his mortgage at a higher amount than the current loan balance with the intention of pulling out money for personal use, it is referred to as a "cash out refinance."

Caveat Emptor

A legal term meaning “let buyer beware.” The buyer must examine the property and buy at his/ her own risk. Example: A property may be offered in an “as is” condition with no expressed or implied guarantee of quality or condition.

Certificate of Deposit

A time deposit held in a bank which pays a certain amount of interest to the depositor.

Certificate of Deposit Index

One of the indexes used for determining interest rate changes on some adjustable rate mortgages. It is an average of what banks are paying on certificates of deposit.

Certificate of Eligibility

A document issued by the Veterans Administration that certifies a veteran's eligibility for a VA loan.

Certificate of occupancy

Document issued by a local governmental agency that states a property meets the local building standards for occupancy and is in compliance with public health and building codes. This document is normally required by a lender prior to closing the loan.

Certificate of Reasonable Value (CRV)

Once the appraisal has been performed on a property being bought with a VA loan, the Veterans Administration issues a CRV.

Chain of Title

An analysis of the transfers of title to a piece of property over the years.

Clear Title

A title that is free of liens or legal questions as to ownership of the property.

Closing

This has different meanings in different states. In some states a real estate transaction is not consider "closed" until the documents record at the local recorder′s office. In others, the "closing" is a meeting where all of the documents are signed and money changes hands.

Closing Costs

Closing costs are separated into what are called "non-recurring closing costs" and "pre-paid items." Non-recurring closing costs are any items which are paid just once as a result of buying the property or obtaining a loan. "Pre-paids" are items which recur over time, such as property taxes and homeowner′s insurance. A lender makes an attempt to estimate the amount of non-recurring closing costs and prepaid items on the Good Faith Estimate which they must issue to the borrower within three days of receiving a home loan application.

Closing Statement

See Settlement Statement.

Cloud on Title

Any conditions revealed by a title search that adversely affect the title to real estate. Usually clouds on title cannot be removed except by deed, release, or court action.

Co-Borrower

An additional individual who is both obligated on the loan and is on title to the property.

Collateral

In a home loan, the property is the collateral. The borrower risks losing the property if the loan is not repaid according to the terms of the mortgage or deed of trust.

Collection

When a borrower falls behind, the lender contacts them in an effort to bring the loan current. The loan goes to "collection." As part of the collection effort, the lender must mail and record certain documents in case they are eventually required to foreclose on the property.

Commission

Most salespeople earn commissions for the work that they do, and there are many sales professionals involved in each transaction, including Realtors, loan officers, title representatives, attorneys, escrow representative, and representatives for pest companies, home warranty companies, home inspection companies, insurance agents, and more. The commissions are paid out of the charges paid by the seller or buyer in the purchase transaction. Realtors generally earn the largest commissions, followed by lenders, then the others.

Common Area Assessments

In some areas they are called Homeowners Association Fees. They are charges paid to the Homeowners Association by the owners of the individual units in a condominium or planned unit development (PUD) and are generally used to maintain the property and common areas.

Common Areas

Those portions of a building, land, and amenities owned (or managed) by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

Common Law

An unwritten body of law based on general custom in England and used to an extent in some states.

Community Property

In some states, especially the southwest, property acquired by a married couple during their marriage is considered to be owned jointly, except under special circumstances. This is an outgrowth of the Spanish and Mexican heritage of the area.

Comparative Market Analysis (CMA)

A comparison of sales prices of similar properties in a given area for the purpose of determining the fair market value of a property. Also referred to as “Comps.”

Comparable Sales

Recent sales of similar properties in nearby areas and used to help determine the market value of a property. Also referred to as "comps."

Conditional Commitment

A written document provided by a lender agreeing to make a loan provided certain conditions are met by the borrower prior to closing.

Condominium

A type of ownership in real property where all of the owners own the property, common areas and buildings together, with the exception of the interior of the unit to which they have title. Often mistakenly referred to as a type of construction or development, it actually refers to the type of ownership.

Condominium Conversion

Changing the ownership of an existing building (usually a rental project) to the condominium form of ownership.

Condominium Hotel

A condominium project that has rental or registration desks, short-term occupancy, food and telephone services, and daily cleaning services and that is operated as a commercial hotel even though the units are individually owned. These are often found in resort areas like Hawaii.

Consideration

Anything of value given to induce another to enter into a contract. An earnest money deposit on a sales contract is consideration.

Construction Loan

A short-term, interim loan for financing the cost of construction. The lender makes payments to the builder at periodic intervals as the work progresses.

Contingency

A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

Contract

An oral or written agreement to do or not to do a certain thing.

Contract for Deed

A real estate installment selling arrangement where the buyer may occupy the property, but the seller retains the title until the agreed upon sales price has been paid. Also known as an installment land contract.

Conventional Mortgage

Refers to home loans other than government loans (VA and FHA).

Convertible ARM

An adjustable-rate mortgage that allows the borrower to change the ARM to a fixed-rate mortgage within a specific time.

Conveyance

The transfer of title of real property from one party to another.

Cooperative (co-op)

A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

Cost of Funds Index (COFI)

One of the indexes that is used to determine interest rate changes for certain adjustable-rate mortgages. It represents the weighted-average cost of savings, borrowings, and advances of the financial institutions such as banks and savings & loans, in the 11th District of the Federal Home Loan Bank.

Credit

An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

Credit History

A record of an individual's repayment of debt. Credit histories are reviewed my mortgage lenders as one of the underwriting criteria in determining credit risk.

Creditor

A person to whom money is owed.

Credit Report

A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's credit worthiness.

Credit Repository

An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

Debt

An amount owed to another.

Debt Service Coverage Ratio (DSCR)

A benchmark used by lenders when measuring an income property's ability to cover the mortgage debt after operating expenses is the Debt Service Coverage Ratio (DCSR). The DCSR is calculated by dividing the Net Operating Income (NOI) by the annual mortgage debt (principal + interest).

Debt-to-Income Ratio

The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her net effective income (FHA/ VA loans) or gross monthly income (conventional loans).

Deed

The legal document conveying title to a property.

Deed In Lieu

Short for "deed in lieu of foreclosure," this conveys title to the lender when the borrower is in default and wants to avoid foreclosure. The lender may or may not cease foreclosure activities if a borrower asks to provide a deed-in-lieu. Regardless of whether the lender accepts the deed-in-lieu, the avoidance and non-repayment of debt will most likely show on a credit history. What a deed-in- lieu may prevent is having the documents preparatory to a foreclosure being recorded and become a matter of public record.

Deed of Trust

Some states, like California, do not record mortgages. Instead, they record a deed of trust which is essentially the same thing.

Default

Failure to make the mortgage payment within a specified period of time. For first mortgages or first trust deeds, if a payment has still not been made within 30 days of the due date, the loan is considered to be in default.

Defective Title

Any recorded instrument that would prevent a grantor/seller from giving a clear title.

Delinquency

Failure to make mortgage payments when mortgage payments are due. For most mortgages, payments are due on the first day of the month. Even though they may not charge a "late fee" for a number of days, the payment is still considered to be late and the loan delinquent. When a loan payment is more than 30 days late, most lenders report the late payment to one or more credit bureaus.

Deposit

A sum of money given in advance of a larger amount being expected in the future. Often called in real estate as an "earnest money deposit."

Depreciation

A decline in the value of property; the opposite of appreciation. Depreciation is also an accounting term which shows the declining monetary value of an asset and is used as an expense to reduce taxable income. Since this is not a true expense where money is actually paid, lenders will add back depreciation expense for self-employed borrowers and count it as income.

Disbursement

(a) The payment of loan money to the borrower usually at or following the closing; (b) Funds paid.

Discount Points

In the mortgage industry, this term is usually used in only in reference to government loans, meaning FHA and VA loans. Discount points refer to any "points" paid in addition to the one percent loan origination fee. A "point" is one percent of the loan amount.

Down Payment

The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

Due on Sale Provision/Clause

A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

Earnest Money Deposit

A deposit made by the potential home buyer to show that he or she is serious about buying the house.

Easement

A right of way giving persons other than the owner access to or over a property.

Effective Age

An appraiser's estimate of the physical condition of a building. The actual age of a building may be shorter or longer than its effective age.

Eminent Domain

The right of a government to take private property for public use upon payment of its fair market value. Eminent domain is the basis for condemnation proceedings.

Employer Identification Number (EIN)

Also known as a Federal Tax Identification Number is used to identify a business entity. A new business must file for an identification number with the IRS. An EIN is your permanent number and can be used immediately to open a bank account, for business licenses, and file a tax return by mail.

Encroachment

An improvement that intrudes illegally on another's property.

Encumbrance

Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

Equal Credit Opportunity Act (ECOA)

A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity

A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

Equity Partnership

A limited partnership that provides start-up capital to businesses.

Escheat

The reversion of property to the state in the event that the owner dies without leaving a will and has no legal heirs.

Escrow

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the earnest money deposit is put into escrow until delivered to the seller when the transaction is closed.

Escrow Account

Once you close your purchase transaction, you may have an escrow account or impound account with your lender. This means the amount you pay each month includes an amount above what would be required if you were only paying your principal and interest. The extra money is held in your impound account (escrow account) for the payment of items like property taxes and homeowner's insurance when they come due. The lender pays them with your money instead of you paying them yourself.

Escrow Analysis

Once each year your lender will perform an "escrow analysis" to make sure they are collecting the correct amount of money for the anticipated expenditures.

Escrow Disbursements

The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

Estate

The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

Eviction

The lawful expulsion of an occupant from real property.

Examination of Title

The report on the title of a property from the public records or an abstract of the title.

Exclusive Listing

A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time.

Executor

A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. "Executrix" is the feminine form.

Exit Strategy

Money is often made with investment real estate when it is sold. And even if the property is held in order to build equity, a great deal of the profit is made when exiting the investment. Therefore, an exit strategy is essential to making money with real estate.

The five top exit strategies for real estate investors to consider are: Wholesale, Flip, Buy and Hold to Build Equity, Seller Financing, Lease Option or Rent-to-Own.

Fair Credit Reporting Act

A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

Fannie Mae/Federal National mortgage Association (FNMA)
A federal organization that purchases loans from lenders and then sells them as FNMA mortgage backed securities.

Farmers Home Administration (FMHA)

An agency, within the U.S. Department of Agriculture, that makes and insures loans for rural housing and farms.

Federal Deposit Insurance Corporation (FDIC)

A government agency that supervises and insures accounts held by lending institutions.

Fee Simple (Fee Absolute or Fee Simple Absolute) Absolute ownership of real property; owner is entitled to the entire property with unrestricted power of disposition during the owner′s life and upon his death the property descends to the owner′s designated heirs.

Federal Housing Administration (FHA)

A government agency within HUD that administers and insures mortgage loans for private lending agencies.

FHA Loan

This program provides mortgage insurance to protect lenders against the risk of default on loans to qualified buyers. A loan insured by the

Federal Housing Administration is open to all qualified home purchasers.

FICO (Fair Isaac Corporation)

The first company to offer a credit-risk model with a **score**. Credit scores are reported by three major credit bureaus, Equifax, Experian and Trans- Union. Scores are not necessarily the same on each bureau’s report because each bureau may place a slightly different value on different items.

Model Factors: payment history, outstanding debt, length of history, inquiries, types of credit in use. By law, everyone is entitled to receive one free credit report from each of the three major credit bureaus every 12 months.

Fair Market Value (FMV)

The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

Fannie Mae (FNMA)

The Federal National Mortgage Association, which is a congressionally chartered, shareholder- owned company that is the nation's largest supplier of home mortgage funds. For a discussion of the roles of Fannie Mae, Freddie Mac (FHLMC), and Ginnie Mae (GNMA), see the Library.

Fannie Mae's Community Home Buyer's Program

An income-based community lending model, under which mortgage insurers and Fannie Mae offer flexible underwriting guidelines to increase a low- or moderate-income family's buying power and to decrease the total amount of cash needed to purchase a home. Borrowers who participate in this model are required to attend pre-purchase home-buyer education sessions.

Federal Housing Administration (FHA)

An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

Fee Simple

The greatest possible interest a person can have in real estate.

Fee Simple Estate

An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condominium project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

FHA Mortgage

A mortgage that is insured by the Federal Housing Administration (FHA). Along with VA loans, an FHA loan will often be referred to as a government loan.

Fiduciary

A company that holds the assets of another party and invests them on behalf of the party.

Finance Charge

Interest charged by a lender.

Financial Reports

Reports such as income statements, cash flows, and balance sheets that are used when documenting the financial aspects of your business.

Firm Commitment

A lender's agreement to make a loan to a specific borrower on a specific property.

First Mortgage

The mortgage that is in first place among any loans recorded against a property. Usually refers to the date in which loans are recorded, but there are exceptions.

Fiscal Year

An accounting period consisting of 12 months.

Fixed Cost

A cost that does not vary with the volume of sales or production.

Fixed Rate Mortgage

A mortgage in which the interest rate does not change during the entire term of the loan.

Fixture

Personal property that becomes real property when attached in a permanent manner to real estate.

Flood Insurance

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

Forbearance

A lenders postponement of foreclosure in order to give the borrower time and an opportunity to make up for overdue payments. Also, an agreement for a buyer to temporarily make higher payments in order to satisfy overdue payments.

Foreclosure

The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

Free and Clear

A property that has no liens.

FSBO (For Sale By Owner)

A property for sale that is not listed with a real estate broker and therefore will not be listed on the Multiple Listing Service (MLS).

401(k)/403(b)

An employer-sponsored investment plan that allows individuals to set aside tax-deferred income for retirement or emergency purposes. 401(k) plans are provided by employers that are private corporations. 403(b) plans are provided by employers that are not for profit organizations.

401(k)/403(b) loan

Some administrators of 401(k)/403(b) plans allow for loans against the monies you have accumulated in these plans. Loans against 401K plans are an acceptable source of down payment for most types of loans.

Government Loan (Mortgage)

A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Rural Housing Service (RHS). Mortgages that are not government loans are classified as conventional loans.

Government National Mortgage Association (Ginnie Mae)
A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Created by Congress on September 1, 1968, GNMA performs the same role as Fannie Mae and Freddie Mac in providing funds to lenders for making home loans. The difference is that Ginnie Mae provides funds for government loans (FHA and VA)

Grace Period

The period from the time a payment is due to the point at which a creditor will take legal action.

Grantee

The person to whom an interest in real property is conveyed.

Grantor

The person conveying an interest in real property.

Hard Money Lender - Lenders who use private money to make loans with Borrowers who have trouble getting loans via conventional methods. There is usually a very high interest rate associated with hard money lenders.

Hazard Insurance

Insurance coverage that in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

Home Equity Conversion Mortgage (HECM)

Usually referred to as a reverse annuity mortgage, what makes this type of mortgage unique is that instead of making payments to a lender, the lender makes payments to you. It enables older home owners to convert the equity they have in their homes into cash, usually in the form of monthly payments. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property.

Home Equity line of Credit (HELOC)

A mortgage loan, usually in second position, that allows the borrower to obtain cash drawn against the equity of his home, up to a predetermined amount.

Home Inspection

A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

Homeowners' Association (HOA)

A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

Homeowner's Insurance

An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

Homeowner's Warranty

A type of insurance often purchased by homebuyers that will cover repairs to certain items, such as heating or air conditioning, should they break down within the coverage period. The buyer often requests the seller to pay for this coverage as a condition of the sale, but either party can pay.

Homestead

Status provided to a homeowner’s principal residence in some states that protects the home against certain judgments up to specified amounts.

Homestead exemption

Available in some states - this causes the assessed value of a principal residence to be reduced by the amount of the exemption for the purposes of calculating property tax.

Housing and Urban Development (HUD)

A U.S. government agency established to implement certain federal housing and community development programs.

Housing Choice Voucher

Formerly known as Section Eight, is a rental assistance program funded by the U.S. Department of Housing and Urban Development (HUD). The program allows low-income families, elderly and disabled households to find affordable housing in the private market and receive assistance in paying their monthly rent. Qualified participants receive a voucher and may choose from a variety of housing options, including apartments, duplexes, single-family homes and townhomes where the owner agrees to rent under the program. Rental units must meet minimum standards of health and safety, as determined by HASLC. A housing subsidy is paid to the landlord directly by HASLC on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord under the Housing Assistance Payment (HAP) contract and the amount subsidized by the program.

HUD Median Income

Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

HUD-1 Settlement Statement

A document that provides an itemized listing of the funds that were paid at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow (impound) amounts. Each type of expense goes on a specific numbered line on the sheet. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. It is called a HUD1 because the form is printed by the Department of Housing and Urban Development (HUD). The HUD1 statement is also known as the "closing statement" or "settlement sheet."

Improvements

Additions to raw land such as buildings, streets, etc. that add value to the land.

Income Approach

A method used by an appraiser to estimate the value of rental property based on the income it generates over the life of the structure, discounted to determine its present value.

Income Property

Real estate that generates revenue such as rental income.

Ingress and Egress

The right to go in and out over a piece of property but not the right to park on it. See also Easements.

Inspection

An examination of a property or building to determine condition or quality for a particular purpose such as an assessment of structural or termite damage. An inspection may also be used to con rm that the property meets the standards of the contract.

Installment sale

See land contract.

Interest Cap

A limit on the amount that the interest rate for an adjustable rate mortgage can change, regardless of how much the index changes. Most ARMs have a cap on both the amount they can increase and decrease at any periodic adjustment interval, and a life-long cap that limits the amount the interest rate can vary over the life of the loan. The two interest caps are sometimes called a “periodic cap” and a “life cap”.

Interest rate

The percentage rate on a principal amount charged by a lender for the use of a sum of money.

Investor

A money source for a lender. Also, one who makes investments.

Joint Tenancy

A form of ownership or taking title to property which means each party owns the whole property and that ownership is not separate. In the event of the death of one party, the survivor owns the property in its entirety.

Joint venture

An agreement between two or more parties that out- lines the financial terms of their interaction, the role and duties of each party, and the intended outcome of the project they will be collectively working on.

Judgment

A decision made by a court of law. In judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor. Alternative spelling is "judgment."

Judicial Foreclosure

A type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court. Other states use non-judicial foreclosure.

Jumbo Loan

A loan that exceeds Fannie Mae's and Freddie Mac's loan limits, currently at $227,150. Also called a nonconforming loan. Freddie Mac and Fannie Mae loans are referred to as conforming loans.

Junior Lien

A lien which is in a subordinate position to other liens existing on a property.

Junior mortgage

All mortgages/liens subordinate to the rst mortgage.

Land Contract

A real estate installment selling arrangement where-by the buyer may use and occupy land, but ownership of the property is not transferred until all the payments have been made.

Landlord

The owner of real property who rents or leases to another party, called a tenant.

Land trust

A revocable trust agreement usually used in conjunction with a piece of property. The managing party of the agreement, the Trustee, is named in public records while the Beneficiary is not disclosed.

Lease

A written agreement between the property owner and a tenant that stipulates the payment and conditions under which the tenant may possess the real estate for a specified period of time.

Lease Option

An alternative financing option that allows home buyers to lease a home with an option to buy. Each month's rent payment may consist of not only the rent, but an additional amount which can be applied toward the down payment on an already specified price.

Leasehold Estate

A way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it.

Legal Description

A property description, recognized by law, that is sufficient to locate and identify the property without oral testimony.

Legal Rate of Interest

The legal amount a lender can charge a borrower on a loan. This varies from state to state.

Lender

A term which can refer to the institution making the loan or to the individual representing the firm. For example, loan officers are often referred to as "lenders."

Lender seasoning

An ownership time requirement from many lenders that can limit the ability to buy and immediately sell property. The extent to which this is enforced may vary considerably from state to state.

Lessee

A person who leases a property from its owner. (Tenant)

Lessor

A person who rents property to another under a lease.
(Landlord)

Liabilities

A person's financial obligations. Liabilities include long-term and short-term debt, as well as any other amounts that are owed to others.

Liability Insurance

Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party. It is usually part of a homeowner's insurance policy.

Lien

A legal claim against a property that must be paid off when the property is sold. A mortgage or first trust deed is considered a lien.

Lien Waiver

A document from a contractor, subcontractor, materials supplier, equipment lessor or other party to the construction project (the claimant) stating they have received payment and waive any future lien rights to the property (of the owner) for the amount paid.

Life Cap

For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the mortgage.

Limited Power of Attorney

A document giving an investor the ability to control certain or all facets of the sale of a property on behalf of the owner, including the ability to sign on their behalf.

Lis Pendens

Latin term for "Lawsuit Pending"

Line of Credit

An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specified borrower.

Liquid Asset

A cash asset or an asset that is easily converted into cash.

Loan

A sum of borrowed money (principal) that is generally repaid with interest.

Loan Agreement

The arrangement of payments, conditions, and restrictions signed by the borrower of a loan.

Loan application

A document required by a lender prior to loan approval. The application includes detailed information about the borrower, their finances, and the property.

Loan Officer (LO)

Also referred to by a variety of other terms, such as lender, loan representative, loan "rep," account executive, and others. The loan officer serves several functions and has various responsibilities: they solicit loans, they are the representative of the lending institution, and they represent the borrower to the lending institution.

Loan Origination

How a lender refers to the process of obtaining new loans.

Loan Servicing

After you obtain a loan, the company you make the payments to is "servicing" your loan. They process payments, send statements, manage the escrow/impound account, provide collection efforts on delinquent loans, ensure that insurance and property taxes are made on the property, handle pay-offs and assumptions, and provide a variety of other services.

Loan to Value (LTV)

The percentage relationship between the amount of the loan and the appraised value or sales price (whichever is lower).

Lock In

An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a certain cost.

Lock In Period

The time period during which the lender has guaranteed an interest rate to a borrower.

Manufactured Home

Homes built in a factory-controlled environment and that meet strict HUD codes. They are brought to the property site and are assembled there.

Margin

The difference between the interest rate and the index on an adjustable rate mortgage. The margin remains stable over the life of the loan. It is the index which moves up and down.

Maris

Mid America Regional Information Systems (MARIS) administers the Multiple Listing Service (MLS) for the St. Louis, St. Charles County, Jefferson and County Associations and the Franklin County, East Central, South Central and Pulaski County Boards of REALTORS®. The MLS website contains information to help agents achieve the goal of listing and selling real estate.

Market value

The highest price that a buyer would pay and the lowest price a seller would accept on a property.

Maturity

The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

Merged Credit Report

A credit report which reports the raw data pulled from two or more of the major credit repositories. Contrast with a Residential Mortgage Credit Report (RMCR) or a standard factual credit report.

Modification

Occasionally, a lender will agree to modify the terms of your mortgage without requiring you t refinance. If any changes are made, it is called a modification.

Mortgage

A legal document that pledges a property to the lender as security for payment of a debt. Instead of mortgages, some states use First Trust Deeds.

Mortgage Banker

For a more complete discussion of mortgage banker, see "Types of Lenders." A mortgage banker is generally assumed to originate and fund their own loans, which are then sold on the secondary market, usually to Fannie Mae, Freddie Mac, or Ginnie Mae. However, firms rather loosely apply this term to themselves, whether they are true mortgage bankers or simply mortgage brokers or correspondents.

Mortgage Broker

A mortgage company that originates loans, then places those loans with a variety of other lending institutions with whom they usually have pre-established relationships.

Mortgagee

The lender in a mortgage agreement.

Mortgage Insurance (MI)

Insurance that covers the lender against some of the losses incurred as a result of a default on a home loan. Often mistakenly referred to as PMI, which is actually the name of one of the larger mortgage insurers. Mortgage insurance is usually required in one form or another on all loans that have a loan-to-value higher than eighty percent. Mortgages above 80% LTV that call themselves "No MI" are usually a made at a higher interest rate. Instead of the borrower paying the mortgage insurance premiums directly, they pay a higher interest rate to the lender, which then pays the mortgage insurance themselves. Also, FHA loans and certain first-time homebuyer programs require mortgage insurance regardless of the loan- to-value.

Mortgage Insurance Premium (MIP)

The amount paid by a mortgagor for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (MI) company.

Mortgage Life and Disability Insurance

A type of term life insurance often bought by borrowers. The amount of coverage decreases as the principal balance declines. Some policies also cover the borrower in the event of disability. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds. In the case of disability insurance, the insurance will make the mortgage payment for a specified amount of time during the disability. Be careful to read the terms of coverage, however, because often the coverage does not start immediately upon the disability, but after a specified period, sometime forty-five days.

Mortgagor

The borrower in a mortgage agreement.

Motivated Buyer

Any buyer with a strong circumstance or reason to buy.

Motivated seller

Any seller with a strong circumstance or reason to sell.

Multi-Dwelling Units

Properties that provide separate housing units for more than one family, although they secure only a single mortgage.

Multiple Listing Service (MLS)

A group of brokers joined together in a marketing organization for the purpose of pooling their respective listings. In exchange for a potentially larger audience of buyers, the brokers agree to share commissions. The listings are pooled by using a computerized network.

Negative Amortization

Some adjustable rate mortgages allow the interest rate to fluctuate independently of a required minimum payment. If a borrower makes the minimum payment it may not cover all of the interest that would normally be due at the current interest rate. In essence, the borrower is deferring the interest payment, which is why this is called "deferred interest." The deferred interest is added to the balance of the loan and the loan balance grows larger instead of smaller, which is called negative amortization.

Net Operating Income (NOI)

The annual income generated by an income-producing property after taking into account all income collected from operations, and deducting all expenses incurred from operations.

Net Worth

Assets minus total liabilities and debts.

No Cash Out Refinance

A refinance transaction which is not intended to put cash in the hand of the borrower. Instead, the new balance is calculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage. Often referred to as a "rate and term refinance."

No Cost Loan

Many lenders offer loans that you can obtain at "no cost." You should inquire whether this means there are no "lender" costs associated with the loan, or if it also covers the other costs you would normally have in a purchase or refinance transactions, such as title insurance, escrow fees, settlement fees, appraisal, recording fees, notary fees, and others. These are fees and costs which may be associated with buying a home or obtaining a loan, but not charged directly by the lender. Keep in mind that, like a "no-point" loan, the interest rate will be higher than if you obtain a loan that has costs associated with it.

Note

A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

Note Rate

The interest rate stated on a mortgage note. [183]

No Points Loan

Almost all lenders offer loans at "no points." You will find the interest rate on a "no points" loan is approximately a quarter percent higher than on a loan where you pay one point.

Non-assumption Clause

A statement in a mortgage contract forbidding the assumption of the mortgage without the prior approval of the lender.

Noncompliance

Failure to comply or obey.

Non-Conforming Loan

A loan that does not meet the Freddie Mac or Fannie Mae standards.

Notary Public

One authorized to take acknowledgments of certain types of documents, such as deeds, contracts, and mortgages.

Notice of Default

A formal written notice to a borrower that a default has occurred, and that legal action may be taken.

Obligations

Any debts requiring present or future payment.

Offer

An expression of willingness to purchase a property at a specified price.

Offeree

One who receives the offer. When the buyer makes an offer to the seller, the seller is an offeree.

Offeror

One who makes the offer. When the buyer makes an offer to the seller, the buyer is an offeror.

Option

The right to buy a property at a specific price within a specified time period.

Optionee

One who receives or purchases an option.

Optioner

One who gives or sells an option.

Option to Purchase

An agreement giving the right to buy a property at a specific price within a specific time period.

Oral Contract

A verbal agreement. Verbal agreements for the sale or use of real estate are normally unenforceable.

Original Principal Balance

The total amount of principal owed on a mortgage before any payments are made.

Origination Fee

On a government loan the loan origination fee is one percent of the loan amount, but additional points may be charged which are called "discount points." One-point equals one percent of the loan amount. On a conventional loan, the loan origination fee refers to the total number of points a borrower pays.

Owner Financing

A property purchase transaction in which the property seller provides all or part of the financing.

Owner Occupant

A tenant of a residence who also owns the property.

Owner of Record

The individual named on a deed that has been recorded at the county recorder's office.

Paper

A mortgage, deed of trust or land contract provided in lieu of cash.

Partial Payment

A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan. Normally, a lender will not accept a partial payment, but in times of hardship you can make this request of the loan servicing collection department.

Payment Change Date

The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the interest rate adjustment date.

Periodic Payment Cap

For an adjustable-rate mortgage where the interest rate and the minimum payment amount fluctuate independently of one another, this is a limit on the amount that payments can increase or decrease during any one adjustment period.

Periodic Rate Cap

For an adjustable-rate mortgage, a limit on the amount that the interest rate can increase or decrease during any one adjustment period, regardless of how high or low the index might be.

Personal Property

Any property that is not real property.

PITI

This stands for principal, interest, taxes and insurance. If you have an "impounded" loan, then your monthly payment to the lender includes all of these and probably includes mortgage insurance as well. If you do not have an impounded account, then the lender still calculates this amount and uses it as part of determining your debt-to-income ratio.

PITI Reserves

A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

Planned Unit Development (PUD)

A type of ownership where individuals actually own the building or unit they live in, but common areas are owned jointly with the other members of the development or association. Contrast with condominium, where an individual actually owns the airspace of his unit, but the buildings and common areas are owned jointly with the others in the development or association.

Plat

A plan or map of a specific land area.

Plat Book

A public record containing maps of land, showing the division of the land into streets, blocks, and lots and indicating the measurements of the individual parcels.

Point

A point is 1 percent of the amount of the mortgage.

Portfolio Loan

A loan held (not sold) by banks as an investment.

Power of Attorney

A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

Pre-approval

A loosely used term which is generally taken to mean that a borrower has completed a loan application and provided debt, income, and savings documentation which an underwriter has reviewed and approved. A pre-approval is usually done at a certain loan amount and making assumptions about what the interest rate will actually be at the time the loan is actually made, as well as estimates for the amount that will be paid for property taxes, insurance and others. A pre- approval applies only to the borrower. Once a property is chosen, it must also meet the underwriting guidelines of the lender. Contrast with pre-qualification.

Prepayment

Any amount paid to reduce the principal balance of a loan before the due date. Payment in full on a mortgage that may result from a sale of the property, the owner's decision to pay off the loan in full, or a foreclosure. In each case, prepayment means payment occurs before the loan has been fully amortized.

Prepayment Penalty

A fee that may be charged to a borrower who pays off a loan before it is due.

Pre-Qualification

This usually refers to the loan officer's written opinion of the ability of a borrower to qualify for a home loan, after the loan officer has made inquiries about debt, income, and savings. The information provided to the loan officer may have been presented verbally or in the form of documentation, and the loan officer may or may not have reviewed a credit report on the borrower.

Prime Rate

The interest rate that banks charge to their preferred customers. Changes in the prime rate are widely publicized in the news media and are used as the indexes in some adjustable rate mortgages, especially home equity lines of credit. Changes in the prime rate do not directly affect other types of mortgages, but the same factors that influence the prime rate also affect the interest rates of mortgage loans.

Principal

The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

Principal Balance

The outstanding balance of principal on a mortgage. The principal balance does not include interest or any other charges. See remaining balance.

Principal, Interest, Taxes, and Insurance (PITI)

The four components of a monthly mortgage payment on impounded loans. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

Private investor

Any non-institutionalized source of funding for a real estate transaction.

Private Mortgage Insurance (PMI, MIP)

Mortgage insurance that is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

Probate

Court process to establish the validity of the will of a de- ceased person. Also, the process by which an executor, personal representative or a court- appointed administrator manages and dis- tributes a decedent's property.

Profit and Loss Statement (P&L)

An income statement that shows earnings, expenses, and net profit.

Pro Forma

Projected financial statements based on assumptions.

Promissory Note

A written promise to repay a specified amount over a specified period of time.

Prorate

To divide proportionately, so as to determine actual amounts owed by the buyer and seller at closing.

Prospectus

A document prepared to outline the terms and potential profitability of a real estate transaction, usually presented to private investors prior to their commitment to a real estate project.

Public Auction

A meeting in an announced public location to sell property to repay a mortgage that is in default.

Planned Unit Development (PUD)

A project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

Purchase Agreement

A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Purchase Money Transaction

The acquisition of property through the payment of money or its equivalent.

Qualifying Ratios

Calculations that are used in determining whether a borrower can qualify for a mortgage. There are two ratios. The "top" or "front" ratio is a calculation of the borrower's monthly housing costs (principle, taxes, insurance, mortgage insurance, homeowner’s association fees) as a percentage of monthly income. The "back" or "bottom" ratio includes housing costs as will as all other monthly debt.

Quiet Title (Action)

A court action to establish ownership of property.

Quitclaim Deed

A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

Rate Lock

A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time at a specific cost.

Real Estate Agent

A person licensed to negotiate and transact the sale of real estate.

Real Estate Broker

A licensed individual who arranges the buying and selling of real estate for a fee. A broker usually owns his/her own real estate company or is in a management position.

Real Estate Settlement Procedures Act (RESPA)

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

Real Property

Land and appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof.

Realtor®

A real estate agent, broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of Realtors.

Recorder

The public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk."

Recording

The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

Recording Fees

Money paid to the lender for recording a home sale with the local authorities, thereby making it part of the public records.

Red-Lining

Illegal practice of discriminating based on geographic location when providing loans or insurance coverage.

Refinance Transaction

The process of paying off one loan with the proceeds from a new loan using the same property as security.

Remaining Balance

The amount of principal that has not yet been repaid. See principal balance.

Remaining Term

The original amortization term minus the number of payments that have been applied.

Rent Loss Insurance

Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

Repayment Plan

An arrangement made to repay delinquent installments or advances.

Replacement Reserve Fund

A fund set aside for replacement of common property in a condominium, PUD, or cooperative project -- particularly that which has a short life expectancy, such as carpeting, furniture, etc.

Restrictive Covenants

Private restrictions limiting the use of real property. Restrictive covenants are created by deed and may “run with the land,” binding all subsequent purchasers of the land, or may be “personal” and binding only between the original seller and buyer.

Revolving Debt

A credit arrangement, such as a credit card, that allows a customer to borrow against a preapproved line of credit when purchasing goods and services. The borrower is billed for the amount that is actually borrowed plus any interest due.

Return on Investment (ROI)

The income that an investment returns. Profit based on the funds spent to reach it.

Right of First Refusal

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

Right of Ingress or Egress

The right to enter or leave designated premises.

Right of Survivorship

In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

Risk Tolerance

Your comfort level when assessing risk vs. reward. You can take steps to minimize risk in real estate investments.

Risk Takers –Like speculative investment strategies with attractive potential.
Moderate Risk Takers – Like speculative types of investments tempered with knowledge of the market demands and application of good investment.
Risk Averse – Like guaranteed results without

risk and are very uncomfortable with taking chances.

Rollover Loan

A loan that is amortized over a long period of time (e.g. 30 years) but the interest rate is fixed for a short period (e.g. 5 years). The loan may be extended or rolled over, at the end of the shorter term, based on the terms of the loan.

Sale Leaseback

A technique in which a seller deeds property to a buyer for a consideration, and the buyer simultaneously leases the property back to the seller.

Second Mortgage

A mortgage that has a lien position subordinate to the first mortgage.

Secondary Market

The buying and selling of existing mortgages, usually as part of a "pool" of mortgages.

Section 1031

The section of the IRS code that deals with tax deferred exchanges of certain property. General rules for tax free exchanges are that the properties must be: exchanged, similar, and used for business or as an investment.

Section 8 Housing

Privately owned rental units participating in the low-income rental assistance program sponsored by HUD. Landlords receive subsidies on behalf of qualified low-income tenants, allowing the tenants to pay a limited proportion of their incomes toward the rent.

Secured Loan

A loan that is backed by collateral.

Security

The property that will be pledged as collateral for a loan.

Seller Carry Back

An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage.

Servicer

An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

Servicing

The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

Settlement Statement

See HUD1 Settlement Statement

Simple Interest

Interest that is paid on the loan principal.

Sheriff's Deed

A deed given at the sheriff's sale in the foreclosure of a mortgage.

Single Family Residence (SFR)

A general term originally used to distinguish a house designed for use by one family from an apartment house. More recently, this term has also been used to distinguish a house with no common area from a planned development or condominium.

Special Warranty Deed

The grantor does not warrant against title defects arising from conditions that existed before he/she owned the property. The seller warrants that he/ she has done nothing to impair title.

Subdivision

A housing development that is created by dividing a tract of land into individual lots for sale or lease.

Subordinate Financing

Any mortgage or other lien that has a priority that is lower than that of the first mortgage.

Substitution of Liability

A buyer's assumption of responsibility for an assumable loan.

Survey

A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

Sweat Equity

Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

Tax Lien

A lien placed on a property for nonpayment of taxes

Tax Sale

Public sale of a property at an auction by a government authority as a result of non-payment of property taxes.

Tenancy in Common

As opposed to joint tenancy, when there are two or more individuals on title to a piece of property, this type of ownership does not pass ownership to the others in the event of death.

Third Party Origination

A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

Time is of the Essence

Legal phrase in a contract requiring that all references to specific dates and times in the contract be interpreted exactly.

Title

A legal document evidencing a person's right to or ownership of a property.

Title Company

A company that specializes in examining and insuring titles to real estate.

Title Insurance

Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Title Report

A document indicating the current state of title. The report includes information on the current ownership, outstanding deeds of trust or mortgages, liens, easements, covenants, restrictions, and any defects.

Title Search

A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

Tract

A parcel of land generally held for subdividing.

Transfer of Ownership

Any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device.

Transfer Tax

State or local tax payable when title passes from one owner to another.

Treasury Index

An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

Trustee

A party who is given legal responsibility via a Deed of Trust to hold property in the best interest of or “for the benefit of” another. The trustee is one placed in a position of responsibility for another, a responsibility enforceable in a court of law.

Truth-in-Lending

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

Two Step Mortgage

An adjustable-rate mortgage (ARM) that has one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the amortization term.

Two to Four Family Property

A property that consists of a structure that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed.

Underwriting

The decision whether to make a loan to a potential home buyer based on credit, income, employment history, assets, etc.

Unencumbered Property

Real estate with free and clear title.

Unimproved Property

Land that has received no improvements.

VA Mortgage

A mortgage that is guaranteed by the Department of Veterans Affairs (VA).

Valuation

An estimation of value of a property, as determined by various factors.

Vested

Having the right to use a portion of a fund such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set-aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

Veterans Administration (VA)

An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.

Waiver

The voluntary renunciation, abandonment, or surrender of some claim, right, or privilege.

Warranty Deed

A deed, which guarantees the transfer of title from the seller to the buyer.

Wholesaling

Wholesaling real estate provides an opportunity for someone to build income with little to no capital or credit. A wholesaler puts property (normally distressed property) under contract and assigns or resells the property to another investor. The investors a wholesaler sells to either use cash, lines of credit, or hard money loans. This allows quick closings on properties that sometimes need extensive repairs. Wholesaling does not require a real estate license. A license is not required to buy or sell any property that you have an equitable interest in. That interest can be a contractual interest (you have the property under contract) or you actually own or have title to the property.

Wraparound mortgage

A seller created mortgage that includes the remaining amount on a current mortgage AND any remaining amount to reach the agreed upon purchase price. The new mortgage “wraps around” the current mortgage. The seller is still responsible for the 1st mortgage. By making the needed monthly payments on the wrap around mortgage, the buyer will satisfy the terms of the mortgage held by the bank.

Yield spread

A rebate to a mortgage broker from the lending institution that purchases the loan on the open market. The yield spread is usually determined by the difference between the interest rate on the issued loan and the current prime rate.

Zoning

The process of determining what, if any, types of property may be placed in a particular land area. Common zoning distinctions include residential, commercial, industrial, and agricultural. These zoning ordinances are normally enforced by the city or the county.

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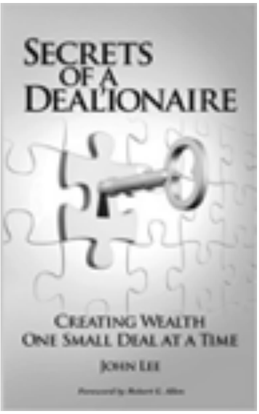

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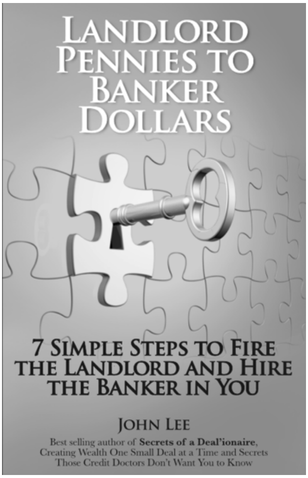

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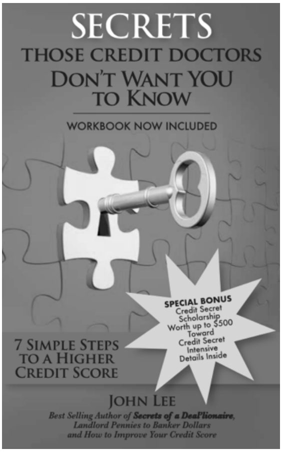

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About the Author John Lee the Deal'ionaire

John R Lee has been investing in unconventional, unique real estate deals for over 25 years. He was a mortgage broker for many years and also has an extensive insurance background.

Lee's been around the block more than once. John's also written several best-selling books including, *Secrets of a Deal'ionaire* , *Landlord Pennies to Banker Dollars, Secrets to Wholesaling Real Estate Today* and *Secrets THOSE Credit Doctors Don't Want YOU to Know.*

Today, Lee focuses on education and stresses how important it is for you to succeed. One of the most important things John has learned is to get a mentor and jump-start your way to success.

As he always says, “There are two ways to do things, the easy way or the hard way. A mentor will get you there the easy way. The hard way is to spend twenty-five years learning it by yourself. Investing is a team-sport.”

John is most famous for showing you how to turn $200 into $2,000 with about 2 hours’ worth of work. By doing so you can spend more time with your loved ones and doing things you want to do, like he does.

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