

**A Complete Program that Teaches Anyone How to
Flip Ugly Houses in Less Than 30 Days.**

FIND AND ASSIGN

**How to Make Fast Cash in
Real Estate Without Cash,
Credit or Risk**



Joseph S. Kamenar, MBA

Includes All Forms and Letters on Disk!

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Chapter 1. Ways to Make Money in Real Estate

So you want to make money in real estate? I believe you do or else you would not be reading this manual. What makes real estate such a good investment? Well, for one, real estate is always in demand. People will always need a place to live, and as far as I know, the population of this country is still growing. This increased demand means one thing - prices will always go up in the long term. While there will always be price fluctuations in the short term due to interest rates and tax laws, over the long term prices will rise at a pace equal to or greater than the rate of inflation.

Disclaimer

Please note that I am not a lawyer or an accountant. I am an investor who also has done a lot of research on the many ways of real estate investing. As of this writing, I am also in the process of getting my agent's license in Pennsylvania, so I can better serve local investors. Before you get involved in any investment, do your own research or get legal advice. I highly suggest that you use a buyer's agent in your search for properties for reasons I mention later in this book. While I have provided you with many free forms and agreements you can use, always consult with a lawyer or an accountant before using them. You can pose questions in the various forums listed in Appendix A to get many of your questions answered.

Traditional Ways to Make Money in Real Estate

There are several ways to make money in real estate, starting with the traditional way of buying a rental property, finding a good tenant, and waiting for a combination of mortgage reduction, positive cash flow and property appreciation to make you money. While many fortunes are made this way, there are several obstacles in this path. The first one is – do you have the stomach to be a landlord? Over the years I have had a few rental properties, and I could write a book about what I went through. OK, maybe not a book, but at least a couple of chapters. I have had a senior citizen tenant once disappear one winter afternoon, never ever to return to his apartment, while leaving all his stuff behind, including his clothes, furniture, false teeth and war medals. I had another unit in a multi-unit building where drug sales were going on at 3 AM. I had a tenant furnish his home with items from one of those rent-to-own centers, only to leave and take it all with him. At this same rental property, their dog carved a hole in the garage door, plus turned the stairway banister into a toothpick. I had a rental property where an underground oil tank leaked, and I had to deal with the EPA and a host of other agencies. \$7,000 later, the problem was cleared up. I had a tenant with a split personality who used to fight with herself when she was off her meds, to the dismay of the others in this multi-unit building. I had another tenant in a condo who was not paying his utility bills to the utility management company used by the condo association, and by the time I got his assurances that it was an accounting mess-up on the management company's fault, I was in the hole \$1600, which I had to cover myself once I sold the condo. I did get the tenant to agree to a 16 month payment plan, but now I am in the note business and I have to hound him

every month to get the \$100 payment! Turns out that on a trip of his to his former home state of Texas, he was picked up on an old bench warrant and the legal costs he had to pay to settle an old offense wiped away any chance I had of getting the remaining \$800 he owed me. I could go on, but you get the point.

Financially, to invest in the traditional way of real estate, you need to come up with a down payment plus closing costs, and have enough credit to apply for a mortgage on the building you are buying. The “nothing down” approach taught several years ago sounds good in theory, except for that fact that this means you are in a highly leveraged situation, and you are relying on property appreciation to make you money. In the mean time, you will have negative cash flow if your rent does not cover your payments, plus taxes and insurance. The old-school approaches of creative financing worked great when interest rates were 18%, but in today’s environment it is easy to get a mortgage and due to the low rates, the prices for a traditional investment property have given would-be investors a severe case of sticker shock! If you do the math on the typical residential deal, you are looking at a mortgage and property taxes that can exceed \$1500 a month. Face it – most people who can make that kind of monthly payment are probably going to be buyers instead of renters.

One way to tell if a property will generate the income needed to support a highly leveraged purchase is to use my Property Analyzer workbook for Microsoft Excel. If you enter the purchase price, the low, low down-payment, the current or estimated rent plus the documented expenses, you will see how much you have left to service the debt. If you have negative cash flow, the spreadsheet will tell you how long this will go on, and then you can see if you can handle the negative cash flow. If you are going to invest in a single family home with the intent of renting it out via a lease-option, I suggest that you run a fake classified ad in a couple area newspapers to see if there is any demand for the property at that price. Run an ad as follows (change the text to reflect your target property):

Rent-to-own. 3 BR, 2 bath home with yard.
Finished basement. \$1950/mo + utils.
\$3000 purchase-option fee. 215-555-1234.

If you get no phone calls, then you know you will have a white elephant on your hands, meaning being committed to making payments on a property that will not rent for what you need to cover the mortgage payments, plus taxes, insurance and any private mortgage expenses. In most areas, a 1-week classified ad will cost you less than \$30. This investment will tell you whether or not you should be looking at single family homes as an investment.

You will find that in many affluent suburbs, the recent run-up in property prices due to the availability of low interest rates has made the concept of renting out a single family home almost impossible to avoid negative cash flow, unless you re putting up a large down-payment. You can get an idea of this by using the Property Analyzer spreadsheet, and entering the values for market rent and typical

expenses, including property taxes, insurance, vacancy allowance, repairs, and other miscellaneous fees. If you take the amount of money left to service the debt, you will see that this often falls way short of the monthly mortgage payment. If you were to look at the capitalization value of the property based on net income, you would see that the cap value is far below the market value of the property. Thus, if you want to invest in residential property, a multi-family home is the way to go, or if you want to still invest in a single family home, you need to go the lease-option route in order to get a higher rent and shift some of the expenses to the tenant.

If you get a tenant that does not pay his or her rent, you have to go through the time-consuming and expensive process of eviction. In many states, this procedure is not landlord-friendly, and many times you have to have a city or township license to be a landlord. And even worse, if you accept rent from a tenant you are trying to evict, you have just given the tenant an inherent new lease on the property, making the eviction process more murky. While you are trying to evict the tenant, he or she can be doing damage to your property and you can go three or more additional months without getting any rent payments. In the mean time, you are making mortgage payments, plus paying your property taxes and insurance and possibly utilities. Then, once you do get the tenant out, you have a major repair headache to deal with.

Speaking of insurance, it is getting ever more expensive to get insurance on a rental property, especially a multi-unit building, and if you file one claim too many, you risk having your policy terminated, and worse, having you and your property placed in the Comprehensive Loss Underwriting Exchange (CLUE) database. Even the simple act of making an inquiry about your policy can result in its termination. Want more information on the risks of making a claim on your homeowners' insurance? Visit <http://www.privacyrights.org/fs/fs26-CLUE.htm>, or do a web search on "CLUE" and "insurance".

Recently, I read an article (<http://moneycentral.msn.com/content/Insurance/Insureyourhome/P35345.asp>) about a couple in Washington where they told their insurance company about some water damage from a storm. In this case, they did not even file a claim with their agency, State Farm, with whom they had coverage for 30 years. Sure enough, State Farm dropped them, and shared the damage information with the CLUE database. The couple had to settle for a bare-bones fire policy for over \$1000, three times what they had paid previously for full coverage. What's more, the problem is derailing their plans to sell their home. The couple said they have been told by their real estate agent and others that they may have a tough time getting a good price for a home that's already been rejected by many insurers.

A similar situation happened in a shore town in New Jersey where the property owner filed a claim for \$500 for water damage. 500 measly bucks. Guess what happened? Their policy was cancelled and they had to pay triple the price to get new coverage!

What else do you have to worry about as a landlord? Well, getting sued is one. I once had a tenant who threatened to sue me over a slip and fall in a bathtub. It cost me over \$1800 in legal fees back in 1985 to make the case go away. If you own properties in your name, your personal assets are on the line if you are sued, and not just your interest in the property. Major repairs also can put a crimp in your budget. A new roof, flooded basement or termites can put you in a real bind. This is why so many people who get into real estate soon get out!

Buying Property Subject to an Existing Mortgage

So, what are the other ways to make money in real estate? You can buy homes from distressed homeowners, subject to their existing mortgage. This is a technique taught by several of the well-known real estate gurus through home study courses and \$5000 boot camps. With this method, you are getting the homeowner to deed his or her property to you with you taking over the payments. The mortgage stays in the name of the seller, and you receive a Warranty Deed as the buyer. Now, you may say, what about the "due on sale clause" on almost all mortgages? While it is possible that when the mortgage company finds out about the transfer they could call the loan due, in most cases they do not, especially if there is not a lot of equity in the property and the payments are being made. The mortgage company can find out about the transfer when you change the beneficiary on the insurance policy or when you record the deed. If you talk to a real estate agent about doing a deal subject to an existing mortgage, many will tell you that it is illegal. Well, it is not, as there is no "due on sale jail". While the mortgage company has the right to call the loan due, they are not required to do it, and it is not against the law to purchase a property subject to the existing mortgage.

Many real estate gurus will teach you how to eliminate the potential for the mortgage company finding out about a deed transfer by using a device called a Land Trust. In short, the homeowner transfers title to a Land Trust, which is a very easy process. The deed is recorded in the name of the Trust, which does not trigger any transfer tax in most cases. The Trust now owns the property and the homeowner is its beneficiary. To the mortgage company, this is not an event that triggers the Due on Sale clause. To do a property transfer, only the beneficiary is changed, to the new buyer. The new buyer still needs to get his name added to the insurance policy and there are ways to do that properly. If you want to explore this option, consult any of the forums listed in Appendix A. You will find many good discussions on the topic, plus free articles. Of course, you can also purchase any of the available courses on the topic, which usually include all the forms you need. From what I have read in forums about this topic, if you want to explore doing deals subject to an existing mortgage, I would look at what John Locke offers at *The Creative Investor* (<http://thecreativeinvestor.com>). Click on the forums and go to the "Subject To" forum. You can read his advice and look up his course information. I would suggest that you get a few cash deals done before taking on properties subject to an existing mortgage. You should be a bit more educated on this topic before trying to convince a homeowner to deed over his

property to you without assuming the mortgage. Also, since you are not the one buying the property, the person you will be assigning the contract to may not have a clue as to what to do with this type of deal!

Doing a deal "Sub2" as the terminology goes, usually involves a seller who is in foreclosure with their home or about to go into foreclosure. How does this happen? Through the loss of a job, a divorce, or anything else that keeps them from making the mortgage payments. When you purchase their home "sub2", you get them out of their misery, save their credit, and perhaps keep them from filing bankruptcy, and now you have a home on which you are morally committed to making payments. Note that I did not say legally committed, as you never did assume the mortgage, nor guarantee the note. You did however, make a promise to the seller that you would make the payments, and perhaps give them some "moving money", or made up back payments and paid off any liens. And, depending on where you live, you may have to pay up to a 4% transfer tax when you record the deed. Ah, here we go again with having to pay out money. This means you either have to have the cash or have a private money partner who does.

If you acquire a home subject to the existing mortgage, you need to decide if you are going to rent it out or sell it. If you got the property well below market value, you can just put it back on the market and let a real estate agent sell it for you, or you can rent it out on a lease-option deal. In such a deal, you receive a sum of money of around 3% of the market value of the home as a non-refundable option fee and charge an above-market rent, with a portion of that rent going to the eventual down payment if and when the renter becomes a buyer. There are at least five advantages to doing a lease-option deal instead of a standard rental on such a property. First, the option fee, which is non-refundable, should cover your cash payments to the seller of the property and leave you with some profit. Second, you are getting a higher cash flow as you are charging a higher rent. Third, you have created a built-in back end profit when the renter becomes a buyer. Fourth, the seller of the property may feel better that the mortgage may soon get out of their name. And fifth, you are getting a tenant who may take better care of the property because they are intent on buying it. Is there a disadvantage to renting out a property you purchased "Sub2"? Well, if the mortgage is an adjustable mortgage, you run the risk of a bump in the interest rate either due to a scheduled increase in the adjustment, or if the prevailing interest rates go up. In that case, you may experience negative cash flow if the rent does not cover the increase in the payment.

One other problem you can face when trying to rent out a property, whether it is a Sub2 mortgage or a new loan taken out by yourself is that you may end up not being able to rent it, depending on the rent needed. A real estate investor in the Philadelphia area recently posted a message to a local message board lamenting about not being able to get a tenant for a townhouse he was renting for \$1200 a month in a nice suburb. He was finding it hard to go another month eating the payment he is making on the house without a renter in it. Turns out there is a lot

of new development going on in the area and there are more available units than there are renters. Plus, with today's low interest rates and minimal down payment requirements, many prospective renters in this price range can qualify for a mortgage and become homeowners instead. This is why I caution you against falling for many of the products out there that teach you how to pick up \$400,000 homes that are supposedly worth \$500,000 or more. Once you get that home in your name, you sure as heck must be prepared to make those payments and property tax payments on it until you sell it. If you guessed wrong and can't get it rented out quickly, you will lose a lot of money. One well-known real estate speaker highly suggests that you get the seller to defer receiving a payment from you for two or three months. The logic goes like this – the homeowner would be making the payments anyway if you did not purchase the house, so at least give you time to get a renter in the home.

Now, if you bought a place Sub2 from a seller and found yourself in a similar "tough-to-rent" situation, and decided you could not make the payments on it, you could deed it back without affecting your personal credit one bit. But, I'm sure the person you bought it from would not have the same luck with his or credit rating. And, you may find yourself sued if you tried to do that, based on some articles I have read in various real estate newsgroups. So, you end up with a property that will bleed your personal finances dry. However, this is not the norm, and many investors are successfully investing in pre-foreclosure properties.

If investing in pre-foreclosure real estate sounds so promising, then why am I not writing more about it? Well, because in any given area there are dozens of investors chasing the same distressed homeowners. Once a homeowner gets behind on his or her mortgage payments and the mortgage company files a Notice of Default with the courthouse, this information becomes readily available to everyone with a computer or who is willing to go to the courthouse to get the names and addresses. There are many websites out there that offer to provide you with these listings, cheap. When I started marketing to owners in default, or pre-foreclosure, I was told by a couple of homeowners that my letter was one of almost 50 that they had received. Now, those are not good odds! Also, in many cases, the homeowner will do everything they can do to keep their property and not walk away from any equity they may have. My advice to you is that you should be a bit more seasoned in your real estate investing or have a better approach than mailing letters or post cards before you try to compete in this area. One more aggressive tactic is to actually go directly to the homeowner's house and ring the bell for a face-to-face meeting. While this will really beat the competition, you must have some real cold-calling skills to do this. A few homeowners will find it insulting that you are there trying to "take their home from them". Another approach highly touted is to prepare a video tape with you as the star, explaining to the homeowner how you can help solve their problems. If you use this approach, you are indeed likely to stand out above the competition, but the cost of buying and mailing a thousand video tapes would exceed \$4000. Thus, you must have somewhat of a marketing budget available before trying this.

Rehabbing Ugly Houses

The other major way to make money in real estate is to purchase “ugly houses” and rehab them. The advantage here is that you are creating equity by turning a home that no one wants into one that is in demand. Typically, you can make \$10,000 to \$60,000 on an average rehab project, but you have to know what you are doing, or else you risk losing your investment or at best, breaking even. What can go wrong here? How about paying too much for the property, under-estimating the repair costs, over-estimating the After Repair Value (ARV), getting hit with undisclosed liens, under-estimating the holding costs or selling costs for starters? If you use a hard-money lender to finance the purchase and rehab costs, you will be paying an average of 15% annual interest, plus 5 points up front. 15% per year is 1.25% per month, so on a \$60,000 purchase/rehab price, you are paying \$750 a month in finance charges. If your project goes over by a few months, you need to factor in this extra expense, and have the patience to wait for your money. You also now must evaluate and hire a contractor, have the cash or credit to purchase and rehab the property and spend time monitoring the job. If you estimated the repairs wrong, or your contractor misjudged the amount of time needed to get the job done, your overruns and financing costs will eat into your profit. If you are going to tackle rehab projects as a way to make money, I suggest that you find a partner who is experienced in doing rehab projects and get that person involved from the start. I have a couple of rehab projects going on at the time of this writing where I am using a partner who is handling all the work on the property.

So, where does this leave the person who wants to make money in real estate without the headaches already discussed? In all of the above scenarios, in order to make money in real estate you had to own the property, and thus own the risks involved. The secret to making money without the headaches is to control the property and not own it. When you properly control a property, you do not have to come to the table for settlement (although you can if you do a double close), yet you have taken the property off the market, meaning no one else can buy it. In general, you will control a property with an offer to buy, but with a purchase agreement that contains enough “weasel clauses” that get you out of the deal if your exit strategy fails. You can also control a property by getting the homeowner to sell you an option to purchase the property for a specific amount of time (90 days on average).

Exit Strategy

Exit strategy? Yes, you need an exit strategy. While the phrase conjures up a plan to get out of a war, it also applies in how you will dispose of a property. Never purchase a property unless you have an exit strategy, unless you are going to be a landlord. In this course, your exit strategy will be to assign your purchase agreement to a buyer who wants to rehab the property. In this course, we will discuss how you can get out of the deal if you can't get a buyer to take the contract from you. One important thing you will find out as you do this business is that for every property you find there are many others out there who will want to buy it from you. Most investors are passive, meaning they are afraid to market

themselves to find properties. Just stop and think for a moment what most people do for a living. Are they salespeople or do they just do what gets handed to them? Most investors do not have the ability or the time to find properties. You are going to learn how to become a property scout, meaning you will find the properties that others want. You will make money by finding a property in need of rehab, and assigning it to another investor for an assignment fee in the amount of \$2000 to \$6000. You will make your money within 30 days and have no risk. You will do due diligence on the properties on which you make offers to make sure you are not buying into problems, such as excessive liens, murky title, structural problems, etc...

What we are going to discuss in this book is the concept of wholesaling, or flipping properties. What is a wholesaler? A wholesaler is an entity that buys a product direct from a supplier and sells it at a discount off retail price to a retailer. In the real estate business, a wholesaler is one who is buying homes directly from a homeowner at a reduced price and either selling it to a rehabber or assigning the contract to a rehabber. As a wholesaler, you will enjoy the following advantages:

- No need for excessive cash or credit to fund a deal.
- There is a minimum of paperwork involved.
- No repair headaches.
- No holding costs (interest, taxes, insurance, etc...)
- No selling costs
- No dealing with retail buyers who want the house but who can't qualify for it.
- Quick profits

Now, you are not going to be a wholesaler in the strict definition. Rather, you will make an agreement to purchase a property, then assign the agreement to an investor who will buy the property, rehab it and retail it to someone who wants to move in. Or, the investor may do a refinance on the property once it is rehabbed to cash out and pay off his financial investors or a hard money lender and then rent out the property for long-term price appreciation (wealth building). He may also choose to rent the property on a lease-option deal where he collects net cash-flow (rent over and above the mortgage payment, taxes and insurance), collects the upfront option fee, and then later sells the property at a pre-defined profit.

If you are wondering if flipping properties is illegal, as some would tell you, it is not. Flipping only becomes illegal when the resale relies on inflated appraisals, fake documents, sales to "straw" buyers who represent original sellers, and "phantom" second loans. What got this industry in trouble was when appraisers on the take submitted overvalued appraisals on a property being flipped. These homes were sold to homeowners who could not afford the inflated payments, and a good deal of the houses went into foreclosure. Even today, it is almost impossible to get an FHA approved loan on a home where the property value has gone up greatly over the past 90 days. That is why your rehab buyer will know to provide copies of the work done to justify the increase in price. Also, since many rehab jobs will take more than 90 days, this is not an issue.

The key to wholesaling is that once you control the property, your profit is in finding an investor who will pay you a fee or a premium above and beyond the original purchase price. The investor then takes your position in the agreement between you and the seller, by way of the assignment agreement. The investor can then fix up the property, and sell it to an end-user for a retail price. Sound simple? It really is. You will learn that there are no real secrets to this business, and no need to spend a fortune on boot camps. I have watched many people gladly pull out their credit card to pay up to \$4000 on the spot to sign up for some boot camp where they will be subject to even more sales pitches! What tends to happen to these people is that they have a real "feel good" feeling about themselves and then they get home and do nothing, except buy more courses and wait until the next boot camp! Let me tell you, all you need is a bit of information, the proper agreements and the desire to change your life. After reading this manual, you will truly be in a position to get started on assigning contracts to end buyers. You have been provided with every form, letter and contract you need to get started.

As an alternative to completing and assigning purchase agreements, you can also put an option on the subject property, then assign the option to another investor and collect an assignment fee. In this case, you will tell the homeowner that you are interested in purchasing the property within a specified period (usually 30 to 90 days), in exchange for paying the homeowner a non-refundable option fee. If you are good at this, you could pay an option fee of as little as \$50. By using an option instead of a purchase agreement, you will have less paperwork and hassles. An option is the right, but not the obligation to purchase a property. When you get an option from the homeowner, the homeowner can not sell the property to anyone else. You have the right to buy it during the option period. If you choose not to buy it, you do nothing and the option expires. The option agreement is just one or two pages. During the term of the agreement, you will show the property to potential investors (as agreed to in the option agreement) and if an investor wants the property, you will just assign the option agreement to the investor and collect your fee. The assignee will then initiate the purchase agreement with the homeowner. You will have no responsibilities for home inspections or any other fees. If you can not find an investor willing to purchase the property, you can simply walk away at the end of the option term and lose only the option fee. An option agreement is found in your forms package, and also in Appendix R. I have recently upgraded the options package to include an option agreement, a notice to exercise the agreement, and an option assignment agreement. I have not included them in the book, but they are all in the forms package. This lets you assign the option agreement to another investor for assignment fee. This is the easiest way to use the find and assign concept.

While options are easier to do than purchase agreements, they won't work in all cases. If you are working with a real estate agent, he or she may not want to deal with option agreements. A real estate agent earns his or her keep, along with the broker's keep by collecting a commission on a sale. In the case of using an option, there is no purchase agreement. Even if you had entered into a buyer's agent

agreement with the agent, you are not purchasing any property, so there is no commission for the agent to collect. Also, with an option agreement, a homeowner may feel that there is not the same commitment as there is with an agreement of sale. That is a true statement, by the way. A purchase agreement or agreement of sale is much stronger than is an option to buy. While the purchase agreement does in a sense commit you to purchase the property, you can still get out by using any of the many escape clauses that are in a purchase agreement. The advantage of using a purchase agreement is that if you can't get the deal assigned and you have a valid escape clause, you get your deposit back in full, unlike an option agreement where the option fee is non-refundable.

Once you have done a few find and assign deals, you will be ready to start keeping some of the properties you find and make more money on them by having them rehabbed and either selling them yourself, or keeping them and renting them out or selling them on a lease purchase. If you are going to have properties rehabbed yourself, you can use the contractor's agreement in Appendix Q. this agreement will keep you from getting burned by contractors who are not licensed, insured, or who may want to do things their way.

SPECIAL JOINT VENTURE PROGRAM

If you are looking to invest in a rehab property deal but don't want to do it yourself, I am looking for investors with a minimum of \$2000 to invest in a joint venture. I have access to properties in the Philadelphia area that would make good candidates. Once I have at least \$40,000 in joint venture capital commitments, I will show you potential deals with a complete profit analysis. You will share in the net profits, based on your allocation of capital. Yes, this requires trust on your part, but the joint venture agreement will be notarized for your protection. For information on this program, send a note to info@FindandAssign.com.

Chapter 2. Getting Your Ducks in Order.

In this chapter, you will learn what you need to conduct this business. You need to understand legal and tax issues, plus know what players you need on your team. You also need to know what forms you need to use to make and assign the offers.

Business Entity

First comes the legal entity for your business. Here is one bit of advice – never do business in your own name! Did you know that you stand a greater chance of being sued than you do of ending up in a hospital? Over 80,000,000 lawsuits are filed every year. While you may not be able to reduce your risk of getting sued to zero, you can take some simple steps to avoid putting your personal property at risk. You can do this by setting yourself up a corporation or a Limited Liability Company (LLC). Appendix F contains an example of a Limited Liability Company agreement. I would suggest that you contact your state's website to see if you can set up an LLC online. The typical fee is around \$100. If not, then you need to get the official paperwork to get it set up. Of the two entities (corporation vs. LLC), an LLC is the easiest one to set up and maintain. It is not the purpose of this course to go over the pros and cons of a corporation versus an LLC. There are many fine books and websites on the subject. The main point here is to understand that you do not want to conduct business in your own name. If you want one simple reason, here it is. Suppose you sign a purchase agreement on a property, and do not have a way out of it. If you signed as a corporate officer or as an LLC member, only your corporation or LLC is at risk if the seller attempts to sue. Your personal assets such as your home and other property remain safe. A similar situation could happen if you bought a home subject to an existing mortgage and you found that the payments would not support the rent you are getting, and eventually you have to walk away from the property. If you took the deed in the name of your LLC and operated the business as an LLC (meaning checks you are writing for payments and expenses are from the LLC bank account and not from your personal account), then if you eventually have to deed the property back to the original owner, the most that owner could do is go after your LLC for damages and not you personally, nor your personal assets.

If you set yourself up as an LLC, operate your business as one. This means that all monies go in and out of your LLC checking account, not your personal account. This means that when you sign a document, you sign it as an LLC member, not as an individual. Fortunately, an LLC has less stringent reporting and record keeping requirements than does a corporation.

Note that I did not suggest that you set up a business as a partnership. One of the major drawbacks of a partnership is that all partners are at risk personally if one partner does something foolish. Believe it or not, it does not take a formal partnership agreement to make a partnership. A partnership is created when two or more individuals decide to conduct business together. If your partner hits someone with his or her vehicle while conducting partnership business, including looking for or at a property, you can be personally sued for damages. If your

partner signs a contract for a property or signs a note, you are also responsible for its payment or for fulfillment of the contract. If your partner files for bankruptcy, you are again personally on the hook for any and all debts, which can lead to your filing bankruptcy. Regarding purchasing and assigning properties, if you operate as a partnership and your partner enters into agreement to purchase a property, you are on the hook to fulfill the agreement even if the contract had no weasel clauses.

If you need partners in your real estate ventures, consider looking into a joint venture agreement or creating an LLC for each venture. This way your personal assets are not at risk do to events outside your control. You can get a free joint venture agreement at: <http://www.ilrg.com/forms/jointventure.html>.

Choose a Business Name

Your business name tells the world what you do. Thus, you should register your self a catchy business name. While the name "JSK Investments" does not say anything about what you do, the name "Home Investors LLC" does. I have found that the best way to find an available name is to do an Internet search on Google using your proposed name, right down to the "Inc" or "LLC". If you find someone else using it, you may find it impossible to use it yourself. In fact, years ago I chose a sole proprietor name of "Business Services Group". I was offering health insurance, credit card merchant accounts and long distance services in the Philadelphia area. Well, a couple months into doing this I got a Cease and Desist notice from a corporation of the same name. Needless to say, all my marketing materials I had made were then useless. You should make sure that your business name is also available as a "dot com", it at all possible, as this lends credibility to your business.

Income Taxes

The next area of consideration is reporting your income for tax purposes. If you are assigning contracts, you are not selling real estate, but are instead selling a commodity. You will report your assignment income on Schedule C of your federal tax return. You can also deduct all customary business expenses, including the mileage rate for miles driven while looking for properties or in managing properties. Other deductions include:

- Office expenses
- Computers and peripherals used for your business
- Business cards and stationary
- Postage and express mail fees
- Business equipment such as a digital camera, fax machine, and other equipment
- Advertising costs
- Accounting and bookkeeping fees
- Title search fees
- Turnpike and bridge tolls
- Business lunches and dinners (subject to limitations)
- Business software and books

- Workshops and seminars (and, yes, boot camps)
- Real estate related books and materials (including this one)
- Bank fees
- Magazine subscriptions (business related only)
- Interest on a separate credit card used for business purchases
- Utility costs and apartment rent or mortgage interest allocated to the room you use for business.

These are just a few of the things you can deduct from your assignment income. Consult any of the tax prep software programs for more details on what you can and can't deduct from your income. You may be tempted to deduct the purchase of a computer from your taxes, but unless you can document that you use that PC strictly for business, I would not do it. However, if you do get a PC to use for your business, you can deduct the cost, expensing it as a "Section 179" expense. Just make sure you don't have any kids' games installed on it. You may also want to determine if you can file your single member LLC tax return as a Schedule C on your personal return. If that is the case, filing your tax return will be very simple if you use a product like TurboTax. Simply use the "Interview" feature to input your assignment income, then fill in the appropriate sections for your expenses. If you are going to deduct mileage, then you want to document it. You need to show where you went, and how many miles you drove. In your Forms directory, you will find a mileage reporting form that you can use to document and deduct the mileage rate plus tolls and parking fees while you are property hunting. Appendix N shows you a copy of this mileage form. Regarding deducting credit card interest on items purchased for your business, you can do it as long as you have a separate credit card that you can prove is used only for your business, and not for personal purchases. If you ever had to prove your deduction, it would be hard to do if the statements showed purchases at Victoria's Secret on them. Remember, always keep your personal purchases separate from those of your business.

The Home Office Deduction

Many of you may be thinking that you can deduct a part of your home since you are running a business out of it. I would think twice on that one. The rules are so stringent that you would have to prove that the room you are using is used for nothing else, like a kid's play area. If you are already a homeowner, you are deducting your mortgage interest payments anyway, if you itemize. The only additional benefit you would have is to deduct the pro-rated cost of heat and electricity, plus depreciate that portion of the house over a 27.5 year schedule. If you do the math, it is just not worth the potential IRS red-flag you are sending, unless you clearly have a separate room used only for your business and you spend a good deal of time doing business in it!

Self Employment Tax and How to Avoid it

A Self Employment tax (SE tax) of 15.3% must be paid on all net self-employment income, on top of your regular income taxes, up to \$87,900 in 2004. This tax is made up of the Social Security portion and the Medicare portion. The Medicare portion of the tax is around 2.9%, and this portion must be paid on all income,

even that over the \$87,900 threshold (this threshold changes yearly, so check for the current level). Note that when you compute your Federal income tax, you can deduct half of your self-employment tax. If you operate as a sole-proprietor, all your income is self-employment income. If you operate as a corporation, any income you pay yourself as a salary (yes, you must pay yourself a reasonable wage or the IRS will challenge the return) is also taxed at the same rate, with you and your corporation each paying half of it, the way your current employer does now.

If you set up your business as a general partnership with another individual, in spite of the reasons why you shouldn't, then each partner is responsible for paying the SE tax on his or her distributive share of the profits, even if they are not paid out. However, the tax is not imposed on a limited partner of a limited partnership provided certain qualifications are met. Since limited liability companies or LLCs came into existence, the question has existed as to whether LLC members who are not operating as managers or contributing material services are required to pay the tax. The IRS tried to resolve this issue in 1997 by proposing regulations that clarified the circumstances in which a member of an LLC would be treated like a limited partner, and thus not subject to self-employment tax. However, these proposed regulations were not accepted by Congress and no new regulations have been proposed since. Thus, currently all LLC members must pay self-employment taxes on their distributive share of the LLC's income unless that income comes from real estate rentals. For example, if your business is solely involved in real estate rentals, the rental income generated would not be subject to self-employment tax in an LLC, but rental income from the rental of personal property would be subject to the tax. This result applies even if the partner's activities related to the rental of the personal property is extremely passive, such as simply owning the equipment being rented. Since in this business you will not be renting out real estate, you need another way to avoid paying the SE tax on your profits.

Enter the Limited Partnership

The IRS treats income derived as a limited partner as not subject to SE tax, although a "guaranteed payment" for services rendered by a limited partner will be subject to the tax. Thus, a simple way to avoid the tax is to have a trusted individual set up a limited partnership with the individual being the general partner and you being the limited partner, without any guaranteed payment. No, you can't have all limited partners in a limited partnership agreement, there must be at least one general partner who assumes any liability. In the partnership agreement, have your general partner have only a 5% share of the partnership, while you have a 95% share. When an offer to purchase a property is made, make sure it is in the name of the Limited Partnership. Be sure to properly set it up (check with an attorney or pick up a book or two on Limited Partnerships from a bookstore or from amazon.com). Do NOT conduct business as an individual when it should be in the name of the partnership. Your general partner would be the one signing off on anything, but always with the title of "General Partner". When you assign the contract to a buyer, the assignment fee is to be made to the partnership name, not to you or your partner. After the partnership deducts its

operating and marketing expenses, then it distributes 5% of the profit to the General Partner and you get the remaining 95%. Guess what, your portion is free of the SE tax. So, in exchange for your partner getting 5% of the profits, you saved yourself 15%, for a net gain of 10%. If your partner is not too keen on being on the hook personally as a General Partner, then consider setting up an LLC on his or her behalf, with that individual being an LLC Member, and the LLC being the General Partner. Now, should there be any liability issues, the LLC is liable, and as an LLC member, your associate is protected and no longer personally liable. Keep in mind that if you are only talking about \$5000 in profits, you are only going to save a net of \$500, with your partner making \$250, compared to an SE tax of around \$750 (15% of the \$5000). Once you take into account your state's registration fees for a fictitious name, the formation of the limited partnership and its tax return, your savings would be minimal. Thus, the limited partnership method to avoid SE taxes should only be done once you are making real money in this business. You may also want to use this method if you decide to start rehabbing properties. You would assign the agreement to the Limited Partnership for a small assignment fee, then let the Partnership contract with the hard money lender and contractors to get the work done. The Partnership would also then be selling the rehabbed property to a move-in buyer. The partnership would then write you a check for your portion of the profits. Since you are a limited partner and worked less than 500 hours over the course of the year in the partnership, your profits would not be subject to the 15.3% SE tax. I would also suggest that you consult with an accountant to make sure that you are operating the entity properly.

One question that may come up is, "Does the general partner have to do all the work if I am just a limited partner?" The answer, is, no. Under the IRS rules, a limited partner who works less than 500 hours a year is not subject to the SE tax. This works out to 10 hours a week ,every week (give yourself a 2-week vacation, OK?) Thus, you can participate in the marketing of your business and still be a limited partner.

Appendix G contains a Real Estate Limited Partnership agreement that you can use should you decide to go this way. Appendix P contains a Joint Venture Agreement that you can also use should you need to form a business relationship. Again, I am not an accountant nor a lawyer. I obtained this information from discussions with other investors who are using this approach to conduct their real estate investing business. You may want to pose this question in any of the various real estate and law forums listed in Appendix A before using this strategy, or discuss it with an accountant if your business gets to the point where it makes sense to reduce your self-employment tax.

Develop Your Contact Network

Once you determine how to set up your business, you need to start getting to know other real estate investors and to attend any local real estate groups in your area. There are a couple of online sources where you can find real estate groups. They are <http://creonline.com/clubs.htm> and <http://www.thecreativeinvestor.com>.

The second site is an excellent resource for anyone starting out in the real estate business. Appendix A also contains some more sources of developing your network.

Real Estate Agent

One of the most important people you will need is a real estate agent who will act as your buyer's agent. This agent can have access to properties that you may not be aware of, and can sort through the Multiple Listing Service for you to find properties that meet your criteria. Keep in mind, that a real estate agent is not interested in someone who is just assigning contracts, as there is no money in it for him or her. However, if you get to know an agent who would be willing to let you access the MLS (yes I know a couple of rehabbers who have access to the MLS system from their computers), perhaps you could strike a deal with that agent that you would pay the agent a referral fee on deals that you assign. While technically, an agent can only get paid from his or broker and not by you, in reality this kind of stuff goes on all the time. In fact, ask any agent you know if he or she would pay you a referral fee if you brought him or her a deal that closed. 95% of the time the agent would say yes. In fact, this is prohibited! An agent can not legally pay ANYONE other than a client any sort of commission, kickback, bribe, etc...

If you decide to get into rehabbing properties, then the agent would work for you as you would be purchasing the property and the agent and the brokerage would get their commission. Here are some of the things a good real estate agent can do for you:

- Obtain estimated market value of the finished property
- Have access to listings of bank REO properties
- Submit offers on multiple properties, knowing that many will get rejected
- Bring you "handyman specials"
- Get you the owner info on junkers you find from driving around
- Get you expired "handyman specials" listings. **MOTIVATED SELLER!**
- Place bids on HUD properties that are not in move-in condition
- Get you access to pre-foreclosure deals

Attorney and Title Company

Before you get started making offers on properties, you also need to get to know a real estate attorney and a title company. The real estate attorney will advise you of any risks in your transactions while the title company will be a part of your due diligence process. The attorney should look over any agreement you decide to use, including the ones in this package. Never rely on a "standard" form. The title company will make sure that there is a clear title on the property, free from liens and other issues, and will handle the closing with your end buyer. Look for a title company that does purchase agreement assignments, and who will also escrow your assignment fee from your buyer. If you want to do a double close instead of an assignment, make sure the title company will do a double close. Don't get too worried on all the details of how this process works. That is the job of the title

company. All you need to do is to understand the process and go from there. Once you get a property under agreement, the title company will do most of the work for you. If you are using the purchase option instead of an agreement of sale, you would not use a title company, and you are not offering to take title to the property.

Accountant

It helps to have an accountant available if you do not have a basic understanding of taxes. If you are simply going to be finding properties and assigning the contracts to another investor, then you do not have much to worry about, as all your income is simple business income, and not subject to short-term capital gains, long-term capital gains, rental income, depreciation expenses, 1031 exchanges, etc... You also have no inventory issues to deal with, nor salaries and benefits to pay. All you will need to know is what items you can deduct as legitimate business expenses. Keep in mind though that if you pay any individual over \$600 in commissions (bird dog fees, for example), you must file a 1099 on that person and submit a copy to the IRS with your tax return. Almost all business versions of tax software like TurboTax and TaxCut lets you do this. You need to get the name, address and Social Security Numbers of everyone you pay at that \$600 threshold.

Hard Money Lender

If you are going to rehab properties yourself, you also need to get yourself a hard money lender. Why are they called hard money lenders? Probably because they provide money on properties that are hard to qualify for traditional financing. A hard money lender is a money lender that will lend you up to 65% of the ARV of the property in exchange for an APR of around 15% and up to 5 or 6 points. One such lender is Brookview Financial. Their website is <http://brookviewfinancial.com/>. Additional lenders are in Appendix A. As an example of such a deal, let's say you find a property that would retail for \$100,000 when fixed up. The most that a hard money lender would lend you is \$65,000. Out of this money you would purchase the house and do the repairs, plus cover any back taxes or other liens. Thus, once you have an estimate of the repair or rehab costs, you will know the most you can put in as an offer to the seller. Keep in mind your share of the closing costs. Again, your title company will tell you what you are expected to pay. Some hard money lenders will lend 100% of the rehab costs, but only 90% of the purchase price of the house, as they want you to have some equity in the deal. If you have money invested in a property, you will not want to walk from it. This reduces the risk to the lender.

That figure of 65% of the After-Repair-Value is very important, even if you do not attempt to do a rehab. Since this is the "magic number" used by hard money lenders, your prospective buyer would happily take assignment of the properties you find if the cost plus rehab costs do not exceed this percentage. The simple reason is that then the buyer can finance the purchase with no out of pocket costs (depending on the lender) except for your assignment fee. As for what to charge

as an assignment fee, limit it to 5% of the after resale value. Thus, for a house that would sell for \$100,000 when fixed up, your assignment fee would be \$5000.

If you find a house in great condition that a seller wants to get rid of, then you can raise your offer to 75% of the value of the house. Once you add in your 5% assignment fee, the total price paid by the end buyer would be 80% of the final value of the house.

Chapter 3. Finding Motivated Sellers

You can spend thousands of dollars on real estate boot camps and training courses and feel like you know everything about rehabbing, investing in foreclosures, doing deals subject to existing mortgages, doing lease options, buying apartments, etc..., but you will be making no money at all unless you find a property to buy and work with. You will hear many seminar preachers tell you that "knowledge is power", but that is only partially true. Knowledge is useless unless you use it! You can't make a dime in the real estate business unless you get out there and make an offer on a property. Remember, you can't assign or sell anything if you have no properties to assign. In this chapter, we will discuss many ways to find suitable properties.

The first thing to do is to make yourself some business cards. Don't go cheap and get the 1000 white cards from the office supply store for \$19.95. Don't make the cards on your computer unless you have a really good printer and you use the non-perforated card stock.

When you get your cards made, let them tell prospects your story. Your business card is your billboard to tell your message. Avoid phrases like "Real Estate Investor", as that means nothing to a motivated seller. People are interested in what you can do for them. Thus, under your company name, use a byline that says what you do like, "*We buy houses fast and give you cash*". For a small extra fee, you can have the back of the card printed as well. Use this space to tell everyone that you pay a referral fee to anyone who brings you a lead on which you close. You also want to either get business card magnets made, using any of the many online sources, or do them yourself by buying the business card magnets at places like Staples or Office Depot for about \$20 per hundred. Simply peel off the backing paper from each magnet and stick on your business card. Note that if you do this, you can't put any copy on the back of the card. However, using magnet cards make them more valuable than regular cards. You can get magnetic business cards online at <http://www.autoplates.com/magnets.html> .

If you have a website, list the URL on your card. If you don't have a website, GET ONE! The price for web hosting is as low as \$3 per month, and you can get a domain for about \$13 or less. One place for getting a domain registered is <http://000domains.com>. A place for low-cost web-hosting is <http://digitalspace.net>. My site <http://homeinvestorsllc.com> is hosted with Digital Space for \$36 a year. You do not need an e-commerce site with a shopping cart or order form. Your web site should tell everyone who looks at it what you do. It makes you look professional Your website will be a great tool when looking for end buyers. You can list your various properties you have either under contract or ones that you have already wholesaled to other investors. As I discuss later in this book, your website will be a great way to tell the story to potential buyers, if you use pictures and descriptions. In your forms directory, I have included a sample HTML template for you to use. This template lets you insert the file names of your pictures plus a description of what each one shows. It also includes a section for

the financial data on the property, including estimated ARV, purchase price, assignment fee and repair estimates. You can copy this template as many times as you wish and upload it to your website. If you need help getting a website set up, my associates can set up a site similar to my Home Investors LLC site for \$150. This includes getting your domain name registered and linked to the hosting service. It also includes a consultation with you to get your message out. If you need assistance with this, send an e-mail to info@findandassign.com.

Once you have your cards made, hand them out to everyone you meet. Consider joining your local Chamber of Commerce and attend their business card exchanges. At professional events like these you may even find potential investors and rehabbers. Also find out if there is a local real estate investors group in your area. If so, attend their meetings and get on their discussion lists. You will find many a potential real estate investor wannabe who has the money but not the time to find a property. These are the basics of marketing yourself. One rule of thumb to keep in mind is that the easier the house is to find, the more expensive it will be. Basically, finding houses that are listed with an agent will cost you more than the ones you find on your own. Your best prices will come from sellers who did not even know that their property was for sale until you suggested it! Now, here are several marketing ideas.

The Drive-By

The first way, and the least expensive, from a money perspective, is to do a drive through various neighborhoods to look for properties. I suggest that you stay away from what are considered "war zones", or areas where there are a lot of boarded up homes. Remember, this home will eventually be sold to a homeowner. Would you want to live in a home that has boarder up homes next door or across the street? When looking for a home, you are looking for obvious signs that a property is vacant, such as high grass and weeds, broken or boarded up windows, needed maintenance, or a yard full of junk mail and newspapers. Write down the address of each property you find. Next, you need to send a letter and a business card magnet to the homeowner. You can either send it to the address of the house, or you can go to the county tax office to get the name and address of the homeowner. Some towns will have this at their City Hall. Just go in and let someone there know what you are looking for. You will be pointed in the right direction. You will get a much better response if you direct your letter to a person's name, instead of "Dear homeowner". Another way to get the nane and address of the homeowner is to ask the neighbors.

Once you have the address, you can send out a letter similar to the one in the forms directory of the disk your package came on. A sample letter is in Appendix H. Just make sure you don't use my name or address (unless of course you want me to get your leads). I highly recommend that you send out a business card magnet with your mailing. Just think for a minute, when was the last time you threw out a magnet that you could use on your refrigerator? If you use a business card design similar to the one I use, you will get more mileage out of your mailing. You have to remember a rule of marketing – the sale is usually made on the 2nd

through 7th attempt to reach the prospect. Instead of sending letter after letter to the prospect, as some guru's suggest, I would go for the magnet. It will be seen pretty much every day! Also, on your mailings, be sure to provide an e-mail address if you have one, and a fax number. If you don't have a fax number, consider getting one from <http://accessonline.com>. For \$8.95 a month, you get a pretty decent voice-mail system with a fax number. You want to make it as easy as you can for someone to give you the information you need about their house.

This past spring I targeted homes in Pleasantville, NJ with a woman I had met at a real estate seminar (yes, I attend these things looking for people to work with). We drove around various parts of the city and took down about 30 addresses of vacant homes. Some looked like they should just be taken down and others were in "marsh" areas, but most were properties that looked like they could be rehabbed. She went to the town's City Hall and asked where to get the owner info on the properties. She printed out information sheets on each property, including the name and address of the property's owner. I prepared personalized letters to send out to each person, and out of about 25 letters we got 5 calls. Out of the 5 calls I put in offers on 4 houses and one was accepted. The woman I was working with wanted to get it rehabbed, so we agreed that I would receive a \$2000 fee for negotiating the price and assigning the property to her. It was only worth about \$85,000 fixed up and had about \$10,000 of potential profit in it, based on preliminary estimates of the repair work. However, you can see that if you find a partner ahead of time to work with, you will have no problem getting your money on the assignment.

When you send your letters, make sure you use your address as the return address, as you want to get the un-deliverables. In order to track down the homeowner, you can either try to visit the neighbors and ask if anyone knows where the missing owner lives, or you can try to do a website search, using a service like <http://findtheseller.com>. For a nominal fee, they will track down the address of the owner of the property. You can also try your hand at finding the owner using internet white pages. If you really want to get creative in finding the owner of the property, make up a "For Sale By Owner" sign, and place it in their yard. Make sure it has your phone number on it. If the owner or one of his friends or family calls asking you why you are selling their home, all you have to say is that some area kids took the sign from one of your properties and stuck it in their yard. Then you add, "Hey, since I have you on the phone, have you ever considered selling your place where that sign was placed?" You can be sure that you have limited competition on this approach!

Now, what do you do with all the other calls from people who actually think you are selling the house? Easy. You find out what they are looking for and whether or not they would take a home that would be considered a "fixer-upper". If so, they become potential buyers of the properties you find! Add them to your buyer's list and let them know you will call them back if you find something that meets their criteria.

Why do you think that owners of vacant homes make for motivated sellers? As you can imagine, a vacant home is a big liability to whoever owns it. They have to maintain this home by cutting the grass, trimming the bushes and weeds, shoveling snow and so on. They have to pay the property taxes, insurance and utilities and mortgage payment. They have to worry about vandalism as there is no one around. They still have all of the obligations of owning this home without having any benefit. Every month that their home there vacant, it costs them more money.

As a twist to the drive-by, who do you know that already does a lot of driving around your city or town? Your mail carrier? Your UPS or FedEx delivery person? A pest control company? Appliance repairmen? You get the point, which is - You probably already know somebody who spends their time driving around for a living, so why not offer them a simple "bribe" to help you find a prospect?

You can simply offer them a few dollars if whenever they see a rundown property, they'll write down the address for you and take a couple of pictures of the outside. If they can't get the pictures, at least see if they can give you a description. Or maybe instead of money, you'll buy them a nice dinner once a month or so, or offer them a full bird-dog compensation package, discussed later.

Calling on FSBO's.

What is a FSBO? FSBO means "For Sale By Owner". It is a person selling a house without a real estate agent. You can find them advertising in local newspapers, including the freebies that get delivered once a week. You can also find FSBOs online. You can try this site - <http://forsalebyowner.com/> for starters. Another one is <http://fsbo.com>. You can also find potential sellers by going to <http://www.craigslist.org/> and clicking on the city nearest you. There is a Real Estate For Sale section on most of the area sites. When you call a FSBO, you want to find a motivated seller, not someone just looking to save the 6% broker's commission on a retail sale. Use the same questions explained in the "Run Ads" section below.

You will want to get into the habit of reading the real estate ads in as many papers as you can, including the local "penny saver" papers and the other freebie papers that get delivered to your home. Also look for people posting "For Sale" flyers in grocery stores.

Hire Lead Generators (Bird Dogs)

If you don't have the time to look for properties on your own, or would like to have an army of others looking for properties for you, hire lead generators, otherwise known as bird dogs in this industry. A bird dog is a person that finds properties for someone else, namely, you. You can compensate your bird dogs by paying them a fee of \$250 - 500 if they find you a property on which an offer is made and accepted. Other compensation options include simply paying a lead fee of \$20 per property they find for you that meets your criteria (basically an ugly house that is not either in a war zone or in need of being bulldozed instead of

rehabbed). I have done two deals with bird dogs by offering them 40% of the resale profits, less all expenses. If you go this approach (meaning you are not assigning the contracts but are instead doing the rehab work yourself), you can control what you pay out by documenting all your expenses in the property, including mileage and anything else that would be considered tax-deductible. You can be creative if you start doing this and set up a separate company that acts as the General Contractor for the rehab work, with this company getting a fee off the top of the sales price for doing the work and prepping the property for resale. This way you take some extra cash out of the deal for doing valid work, while your bird dog will still be happy getting his or her cut of the profits. You can find a bird dog by running an ad in your local papers similar to this one:

Property Locator Needed.
Find ugly houses in your
area. \$500 per deal paid.
215-555-5555

Here is another one if you are going to do the rehab:

Property Locator Needed.
We rehab the homes you find.
50-50 profit split on resale.
215-555-5555

You will find that everyone has a different motivation on what they would want to do this for you. Some will want a few bucks for bringing you a lead while others may want to hold out for a bigger piece of the pie.

Now, instead of taking every call that comes in, I would get yourself an inexpensive voice mail service, such as the one I use from <http://accessonline.com>. They have a great service that is worth the \$8.95 per month that they charge. You get notified each time someone leaves you a message, and you get the caller ID of all who call, even if they don't leave a message. Your voice mail number also doubles as a fax number, and you can view and print your faxes from the internet. It is a great service to have. On your voice mail, leave more descriptive information about what the job entails. Direct anyone who is interested to either leave their name and number or give them your real number to call. This way, you can screen out all the info seekers, otherwise known as suspects, and spend your time dealing only with those interested in working on a commission deal like this, otherwise known as prospects. Trust me, run a help wanted ad and you will get too many calls with everyone wanting a salary. Once they hear it is a commission position, most of them will not be interested. That is why you want to per-pitch them with voice mail. Your goal is to get yourself three or four or ten locators in different areas and let them start hunting for you.

Now, you may ask, "Why would someone do this instead of taking the deal themselves?" Simple. They do not have the knowledge that you have to do these

deals. They may never have heard of assigning a contract and would have no idea on how to finance and rehab a property on their own. Or, they are just not interested in a long-term process and instead want some quick cash.

If you wish to get them more excited and you have some cash to work with, then offer the bird dog \$10 each for any lead they provide to you on vacant houses, provided that they provide you with photos of the property and a picture or two of the surrounding houses. If you buy 10 leads at \$10 each, you will have paid out \$100, but with an excellent chance to make \$5,000 if you find one deal out of these 10 leads.

Run Ads

Another way to find houses to buy is to run an ad that says:

We buy houses.
Any condition. Any Price.
Fast cash. 215-555-5555.

Run these ads in the real estate section of your local papers. The “throw-away” papers or Penny-saver papers also work great. When you run the ad, either make sure the phone is answered by a real person, or use a voice mail service similar to the one offered by <http://accessonline.com> where you can capture the caller ID if the caller does not leave a message. Ideally, you want to have as many calls as possible answered in person, as many times people don’t want to leave a message. One investor I know uses a stay-at-home mom to take the calls during the day. She pre-screens the callers for him, asking the qualifying questions.

If you can, have callers call your cell phone if you are not home. That way you can take most calls you get. If you are a stay-at-home parent, then use your home number for starters. When someone calls from your ad, you need to know the following things:

- How much are they asking for the house?
- What kind of condition is it in?
- What types of repairs do they think it needs?
- How much is owed on the mortgage or mortgages?
- What is the estimated after-repair value?
- Why are they selling it?

There are different reasons why you want to know the various pieces of information. You want to know how much they are asking as a starting point for your offer. If they are asking close to retail for the house, there is no need to go any further, as you can not make any money assigning the deal. You want to know the condition of the house to get an idea of the extent on the repairs needed. Is it just paint and clean-up? Does it need new carpeting, drywall, a face-lift in the kitchen or bath? Is the roof OK or does that need to be replaced? Does it have structural problems like a shifted foundation or a bulging exterior wall? These are the basics you need to know. Knowing this, you can get an estimate of what

repairs are going to be needed. Depending on how involved you want to get in this business, you can pick up a couple of books on rehabbing properties and use the property analysis checklist they would contain., Or, you can use the property analysis checklist provided in this package in your forms directory. As far as the outstanding mortgage, if the homeowner is interested in selling it for what is owed on the mortgage, you can propose buying it subject to that mortgage, meaning your end buyer will not have to qualify for funding on his own. This is an excellent way to be able to increase your assignment fee to the end buyer. If the mortgage balance is lower than the asking price, either offer a lower asking price, or a combination of a subject-to deal with cash to cover the equity due to the seller. Regarding the after-repair value, you need this to get an idea of what the property would sell for once fixed up and to make sure that you are able to stick to the magic number 65% of ARV that you want to be in the property for (purchase price and rehab costs). If you intend to make an offer on the property, obviously you want to verify on your own what the ARV would be by getting comps on similar properties in the area. Finally, you want to know why the owner is selling the home. Do they need the cash? Are they tired of owning an eyesore? Is it tied up in a divorce settlement? Do they need out of the payments and taxes on a house they can't rent? Are they a burned out landlord looking to unload a property where the rents are below market value? All these things tell you how motivated the owner is. If the owner is not truly motivated to sell, you will not be able to make an offer that makes you and your end buyer money.

Magnetic Signs and Bandit Signs

Another effective way to advertise is to use magnetic signs on your vehicle and to buy "We Buy Houses" signs to place on street corners. These methods are fairly cheap to use and you can find dozens of sources online. Just do a Google search for "magnetic signs" or "bandit signs" and you will find plenty of options. Bandit signs are the signs you see on street corners. I personally have not used them because my other methods provide me with enough leads to work with. However, I know a few investors in Philadelphia who find these signs to work well for them in bringing them leads. They do have to worry about getting calls to remove the signs however, as the City's rules prohibit this form of advertising. In fact, did you know that in Philadelphia it is illegal to have a "For Sale" sign in your car if it is parked on a city street? That's brotherly love for you.

When you use magnetic signs for your car, the signs should simply say, "We Buy House. Any Condition. Fast Cash." Of course, your phone number needs to be on the sign. Depending on the type of vehicle you have, consider putting them not only on the doors, but on the back as well, if you have the space. If you have a big window on the back of your vehicle, get a window decal made for it. If you have a website with a short or easy to remember URL, then use it on your sign. Forget something like "WeBuyHousesThatAreUgly.com" as that is too long. All the good names are already taken as well, so you really need to be creative. When looking for a URL, remember that you don't have to limit yourself to just ".com". You can use ".net", ".org", ".biz", ".us", and ".info". You may find that the domain name you want in a ".com" is not available while another domain extension is.

Taking the vehicle advertising one step further, if you can afford to buy an old work van, do it and get lettered to look like a billboard for your business. Park it daily in different shopping centers or malls in a visible spot and leave it there for the day. One extra thing to do is to leave a few of your business card magnets on the side of it for people to take.

Now for bandit signs. The first question you may have is, "What are bandit signs?" These are simply the plastic or corrugated plastic signs that you see on street corners. You can get these made for about a buck each. Go around to the various neighborhoods where you would like to purchase homes and place the signs on a wooden stake or tack them to telephone poles. You should check with the various townships you are considering as far as specific ordinances or fine they may have before placing the signs. In some cases you will just get a call asking you to remove the sign. One trick is to put your signs out on Friday evening and pick them back up on Sunday night. Usually the code enforcement personnel do not work on weekends, so there will be no one around to see your signs.

Fliers

Another way that works well to generate leads is to place fliers in area stores, restaurants, banks and Laundromats. These fliers would have the "take one" tear offs on the bottom of the page, with your phone number. You can print up other fliers and leave them in take-out restaurants and pizza shops, near the entrance. Usually there are freebie newspapers and apartment-hunting publications there, along with the various real estate publications. Another thing to do with the fliers is to have kids insert them on the windshields of vehicles in parking lots of places like The Home Depot, Lowes, and other home centers. Not only are these stores frequented by homeowners with projects, but also with landlords and contractors, who may be able to provide you with leads.

Another use for fliers is to distribute them to homeowners in various neighborhoods. You can either use the "We Buy Homes" theme, or ask if the recipient knows anyone who may be interested in selling their home. You can hire kids to distribute these fliers to the front doors of homes.

Mailings to Realtors

One way that I have used to find properties of interest is to find a few real estate agents who can send you properties that come their way. Send them a letter, indicating that you are looking for potential rehab properties. You may find that some agents are not too keen of submitting offers with an "and/or assigns" phrase in the purchase agreement, as they may feel that you are not a serious buyer and thus not worth taking up the homeowner's time or tying up their property until you do find your end buyer. If you already have assigned contracts to other investors and can demonstrate this to the agent, then you should have no problem with the agent accepting an "and or assigns" offer. If you want to tap the potentially lucrative market of agent referrals, I would suggest that you wait until you know that you have a rehabber to work with and then go in on a partnership deal, where

you form a partnership to buy the property with the rehabber, then after the work gets done you split the profits. Obviously, the best way for you to do it is to suggest a 50-50 split, with each one of you getting half the net profits. You may find however, that some rehabbers who have their time and money tied up in a project will want better terms, either 60% - 40% or even 70% - 30%. Don't be greedy. If you were to compare a deal where on a simple assignment you would have made \$3000 to one where you will be making \$6000 for waiting till the property was finished, does it really matter to you how much profit the rehabber made? He was going to make this profit anyway if you just assigned it to him, so don't hold out for a big piece of the profit pie if you do not have any capital tied up in the deal. Focus on bringing more deals to the table and your profits will take care of themselves.

Real estate agents are also a good source of expired listings. These are listings on the MLS system that have expired before the property was sold. Ask several real estate agents if they can provide you with expired listings. There may be several reasons why no one bought the house, with the main ones being it was over priced, or it was not in good shape. You want to focus on the ones where the house was not in good shape. When you contact the owner, find out how motivated he or she is. If mortgage payments and property taxes are being made on this house and they are not living in it, they can be very motivated. If you can show the homeowner how much he is losing each month by holding onto the property, you may be able to convince him that he should sell it to you for a much lower price so you can take it off his hands. Real estate agents are also a good source of finding listed homes that are vacant, as this is a criteria on the listing form.

A real estate agent can save you a lot of time, especially if you work a full-time job. The agent can do the preliminary look at properties that you come across from your mailings or from your ads. The agent can then work the numbers for you to give you an estimate of what the property can return in value Remember, a real estate agent has powerful tools available to him or her to find accurate comps for similar properties in the area. The most you will probably have to pay an agent is 3% of the purchase price. If you do not find any properties on which to make an offer during the agreement period, you don't owe anything.

Real estate agents can also query the MLS database to find homes that indicate that the seller is motivated. You can find bargain listed homes by having the Realtor search for keywords. There are several keywords that will tell you if a seller is motivated. Here they are:

1. Priced Below Market Value
2. Seller Needs Quick Sale
3. Price Reduced
4. SARO (Submit All Reasonable Offers)
5. Below Appraisal
6. Divorce

7. Vacant Property
8. Motivated Seller
9. Desperate to Sell
10. Needs Work
11. Bank Owned
12. Foreclosure
13. Estate (Home that is being sold to close out an estate)
14. Fixer Upper or Handyman Special
15. Relocation (Seller is forced to Sell due to a Relocation)
16. HUD
17. REO (Real Estate Owned by the Foreclosing Bank)
18. TLC (many homes are listed as needing "Tender Loving Care")
19. Allowance (Some Sellers offer a buyer an allowance for closing costs or repairs to the home. I have found that Seller's offering an Allowance of some sort are motivated.)
20. Price Negotiable

Malings to Contractors

Here is a great way to find properties. I put together a letter and sent it to 200 area contractors, along with one of my business card magnets. In the letter, I offered contractors a \$500 fee if they found a property that I get under contract. I spelled out what I was looking for and also offered them the opportunity to submit a bid on the rehab of the property should I purchase it. Contractors are in a great position to find you leads as they see a lot of potential customers who have properties that are a wreck but who don't have the financing to get the work done. They also tend to know their neighborhoods well and serve as excellent bird-dogs. To this day I have received several good leads from contractors and am looking at a property now that is nothing but a shell of a home (a row house in Philadelphia). This home can be obtained for \$65,000, rehabbed for about \$40,000 and resold for \$160,000.

REO and HUD Properties

Lenders have properties that they don't want that are taken back through foreclosure. These are REO's, which does not mean REO Speedwagon, but "Real Estate Owned". To the bank, these are liabilities, as they represent non-performing assets and bad loans. While many banks will attempt to sell REO's at full value, they typically can't if the property is in need of repair. You may find a real bargain by calling banks, or finding out from your local investors' group which banks and other lending institutions may have ugly properties on their books.

Regarding HUD properties, typically they are bought via a sealed bid at the price that remits the most net proceeds to HUD. The houses are also initially offered to owner-occupants and not investors. However, there may not be any takers for the ugly homes and you may be able to purchase these directly from a Realtor who deals with HUD. Contact a few Realtors in your area and let them know that you are interested in looking at HUD homes that are in need of repair and are available to investors. Chapter 7 goes into more detail on buying HUD properties.

Affiliates

Start your own network of affiliates, which are individuals who are marketing your service to their customer base in exchange for a split of the assignment fee. Here you are looking for an individual who will put out their own ads, such as magnetic business cards, brochures or fliers, complete with their own phone number. They take their own incoming calls and refer them to you. For a business that has a lot of retail customers, explain to the owner how to get business card magnets made. You can get a lot of resources for this online by doing a Google search on the phrase "business card magnets". Have the business owner make up a few hundred magnets, then display them in their place of business with a sign that says "Free Refrigerator Magnet". Other suitable business owners to contact are contractors, lawyers and debt councilors, as these individuals can bring you leads. Mom and Pop hardware store owners and paint stores are also good candidates. You can use the sample affiliate letter I have included on your disk.

As an option, you can send out letters to contractors simply offering them a \$500 fee on any property that they refer to you that you purchase. This is similar to the bird dog program, but just targeting those who come across ugly homes in their line of work.

Internet Chat, Forums and Classified Ads

The internet can bring you plenty of leads. The trick is how to get the word out. If you are familiar with internet chat, you can find area chat rooms on AOL, Yahoo or other services. Simply join in on any conversations and let people know that you are looking for anyone with a house to get rid of. You can do the same on real estate forums. A search that I did on Google while writing this for "real estate forums" brought me 10,100 results. If you committed to spending an hour a day posting messages and reading those posted by others about properties they are looking to get rid of, you will get a fair amount of leads.

Internet classified ads are another free way to let people know you are looking for homes to buy. Again, when I did a Google search for "free classifieds", I got 1,500,000 results. Post an ad that says, "We buy homes in any condition. Handyman specials are our specialty. Call 215-555-5555 or send an e-mail to me@myaddress.com." As I am writing this, I got an e-mail from someone who found an ad of mine on a real estate investing website. He has a little house that has been in the family for decades and which they are now looking to get rid of. I am deciding between assigning it to a rehabber or keeping it for myself to have done.

Letters to Out-of-State Homeowners

Sometimes the most motivated sellers are owners of property in another state. If it is a rental property, the landlord may be tired of dealing with tenants from a distance. If it is a vacant property, there are the issues of hazard insurance and property taxes to keep up with. Whatever the case, targeting out of state homeowners is worth your while.

To do this, you would go to your county courthouse and ask if they have the ability to provide you with out-of-state property owners. They may have a website where you can do a search, or they may be able to generate a list for you for a small fee. Once you have the list, send out a letter, similar to the one included in your package, and send them one of your magnetic business cards. Even though they may not be interested in selling right away, they may at some point in the future, and instead of sending out a series of mailings over time, your message will always be in their face if they keep your magnet. Appendix K contains a sample letter you can use.

Letters to Homeowners Facing Foreclosure

I touched on this briefly in the beginning of this book, but in spite of the fact that targeting homeowners in pre-foreclosure is a competitive market, it is still a lucrative market. If you want to educate yourself on the pre-foreclosure market, consider visiting any of the real estate forums that specialize in this. Here are a few sites:

<http://www.reitoolbelt.com/pforums/forums.cfm?forum=20>
<http://www.mrpreforeclosure.com/forum/>
<http://www.thecreativeinvestor.com/ViewForum18-17563.html>

Once you have become familiar with the process, you need to start marketing. What you need is a source of names and addresses. You can get these from your courthouse and often in your newspaper. What you are looking for here are for homeowners where a "Notice of Default" has been filed. Another name for Notice of Default is "Lis Pendis". You can also get lists of homeowners in pre-foreclosure from several websites. Again, here are a few sites where you can subscribe to a lead service:

<http://www.foreclosureworld.net/>
<http://www.realtytrac.com//home.asp>
http://www.foreclosures.com/pages/free_from_title.asp

Keep in mind that these lists are often heavily subscribed, meaning many others will be evaluating the same properties that you are. Also, many times the lists are dated, meaning that the properties have been available for some time before they got on the list, and a smart local real estate agent could already have picked through the profitable properties.

Again, you can do a Google search on "foreclosure lists" to get plenty of other resources. Once you have a source for lists, you need to filter your list down to the areas where you want to target, or to filter by price range. You want to stay away from "war zone" houses, which would typically be shown to be worth less than \$20,000, and you may want to stay away from the high-priced homes as these are harder to assign. Homes that have an average ARV of \$50,000 to \$200,000 are good choices for the beginner.

What to send out to the homeowner is the most vexing step of this process. The average homeowner who is on any of these lists will receive a lot of mail from people like you. Thus, you need to make your message stand out. You need to be sensitive to their situation, meaning don't send out postcards that say "STOP FORECLOSURE" or other embarrassing phrases. Nothing like the mailman and the neighbors knowing that the homeowner is in financial trouble. Your postcard will only see the inside of a trash can if you send out stuff like this. From my research, the best way to reach this type of homeowner is to make it seem like you are there to help the homeowner either save his or her property or prevent losing the home to a foreclosure. You also want to show the homeowner how you can keep a bankruptcy off of their records. Since this is not a publication on buying pre-foreclosure properties, I will not go into details here. I will give you somewhat of an overview of how to go after this market. However, there are many excellent articles and forum topics in the Creative Investor website at <http://www.thecreativeinvestor.com>. I highly suggest that you get a free membership to this site and begin your education process.

When you write your letter, indicate in your letter that you are a private investor looking for property in that part of town. Let the property owner know that you may be able to help him with his financial problems. Demonstrating an understanding the homeowner's dilemma will help your efforts. Indicate in your letter that you may be able to stop the foreclosure, save his credit rating and provide cash for use in paying his bills and/or for relocating. You don't want to make it appear that you are there to simply steal the homeowner's existing equity. Appendix L contains a letter that you can use. Again, don't attempt this unless you have studied this process in more detail.

Be professional and gracious in your correspondence. Invite the homeowner to call you at his convenience. If you don't hear from him in a reasonable amount of time, say three or four weeks, follow up with another letter, perhaps worded a bit more urgently. As you get closer to the auction date you may want to send two or more letters per month. You will find the auction date in the data from the foreclosure list service or from the court house.

Follow up with phone calls if you can. Be courteous, never pushy. Never interview the owner on the phone. Merely state that in order to determine whether or not you can help him, you will need to meet with him at the property. Make sure he understands that the meeting will be more productive and less time consuming if he will have the loan, mortgage and insurance documents available, as well as the foreclosure notices.

If you are going to make an offer on the property, you must have the loan, ownership, and debt or lien information. You must also assess the condition of the property and the property owner. This is discussed in Chapter 4. Combined with the market value and the default amount, you have all the ingredients necessary to formulate your offer.

If you feel comfortable with it, you can visit the property in person. You may be confronted by an angry homeowner. Be polite and leave if you are asked to. Never, under any circumstance, snoop around, inspect or generally trespass unlawfully on somebody's property. Always make sure you speak with the homeowner before walking around the house or looking inside.

Again, this is just an overview of how to market to homeowners facing foreclosure. Do your research to become more knowledgeable if you want to market this way.

Along with the foreclosure lists, you can also do a search using any of the following:

- Classified ads
- Legal newspapers
- Attorneys
- For Sale By Owners
- Real Estate agents
- Banks – REO departments
- IRS auctions
- Registry of deeds

Letters to Townships

One possible source of leads is to send a letter and a business card magnet to various township inspectors. You can use the "blue pages" section of your phone book in the "government listings" section to find whom to contact. If you get to know the person who performs the inspections for Certificates of Occupancy or Licenses and Inspections, you can perhaps find out about properties that are township eyesores or where it is clear that it is a vacant or otherwise run-down property. You also should ask about any condemned properties that the inspector is aware of. You can use the sample letter in the forms directory of your package. I highly suggest that you first call the township, city or borough hall and ask for the name of the person who inspects properties. Send a personally addressed letter to that individual, as opposed to "Dear Property Inspector". Appendix M contains a letter you can use.

Business Card Marketing

You can get a lot of mileage by finding places to put your business card magnets. Here are some ideas:

- Gas pumps
- Bathrooms in restaurants, bars or night clubs
- Phone booths
- Elevators
- Tool booths

The more business card magnets you get out, the better the chance you will have of getting a good lead from your card. And the best part about these leads is that

for the most part, they are non-competitive, meaning you are probably the only one getting the call.

Business Card Marketing, Part II

Here is another great way to use business cards as a marketing tool. Go to any office supply store and purchase a bunch of plastic business card holders. These card holders hold about 30 business cards, on average. Go around to businesses in the areas where you are looking for properties and ask the store owner if you can place a card holder there. Target places include gas stations, convenience stores, pizza places, or anywhere else where there is high traffic. Offer the store owner a free gift for letting you place the card holder there. If you need something cheap, I will give you a zip file of 80 PC games and other programs, including an office suite, a spyware zapper, and all kinds of goodies for just a \$10 charge. You can burn these files onto a CD and then hand it out as a gift in exchange for taking up a tiny bit of counter space. If you want more info on what is in the software package, just send a note to info@FindandAssign.com. Oh, the card holders are about 70 cents each, so your cost to put out a pack of 30 cards is dirt cheap. Do this in dozens of places and you are in business!

T-Shirts

If you spend a lot of time out in public, be it at the shore, the boardwalk, casinos, malls, etc..., why not turn yourself into a walking billboard? You can do this by getting t-shirts made that say, "We buy houses. Fast Cash. 215-555-5555". Get several of these made and start wearing them. Along with someone writing down your phone number, people may actually come up to you and start asking you questions! One way to get T-shirts made cheaply is to purchase a package of transfer sheets to use with an ink-jet printer. You need to have image software that lets you reverse the image, or else your words and phone number will be shown as a mirror-image. Print up a few sheets and iron the image on to plain T-shirts that you get at any store. If you have an "A.C. Moore" near you, you can get shirts for less than \$5 each. Now, wear these shirts everywhere you go, except perhaps to work or your place of worship. You will become a walking billboard for your business.

These are just some of the many ways you can find prospective sellers of properties. But, remember what I said earlier, you only want to deal with motivated sellers! How do you know if someone is truly motivated? When you have your conversation with the seller, listen for any of the following key phrases:

- "I am being transferred next month and we have to get it sold before we move."
- "We are getting divorced and neither one of us can make the payment by ourselves."
- "We are moving into our new home next month and can't afford 2 house payments."
- "Our tenants haven't paid rent in 4 months."
- "The house has been listed for 5 months with no offers on it."

- "I just want to get rid of it!"

When I hear something like the phrases above, I know I just might be talking to someone who will be open to most anything I might suggest, like a lower price or taking the deal subject to the existing mortgage. If I don't hear something close to one of those phrases, I don't waste much more time with them.

Short Sale Primer

You may have heard about doing what is called a "short sale". Basically, that is a situation where a person about to go in foreclosure has no equity on the property because of a first and second mortgage on it. In a foreclosure, typically the second mortgage ends up getting wiped out, so the mortgage holder gets nothing. From your perspective, why would you want to buy a property with no equity? Well, if you could get the second mortgage discounted, or "shorted", you will have plenty of room to work with.

In a short sale, you contact the loss mitigation department of the bank or mortgage company that holds the mortgage and you explain to them that the house is not worth what the combination of the two mortgages is. In many cases, the house will need to be repaired or rehabbed, and is not in good condition. Why will the bank take less than the amount due on the note? Banks don't want excess inventory and bad loans on their books; therefore, if they see an opportunity where they can sell the property without a huge loss, they will do it. Secondly, lenders know they could lose a lot more money if the property goes to auction. There are so many fees involved if the property goes to auction, that they would be better off taking the discount beforehand and be finished with the headache of it all.

The best properties to perform a short sale on are the houses that need lots of work and repairs because lenders will give you a bigger discount if they see they are "don't wanters". Properties that are over leveraged are also prime candidates. Most rookie investors who see a house over leveraged with an upside-down mortgage may think there is no hope for this property. On the other hand, this is a sweet deal to the savvy investor. Properties with large 2nd mortgages are also treated as gold because the 2nd mortgage is wiped out at the foreclosure auction. Lenders with a 2nd and 3rd mortgage position would rather have something than nothing.

One of the most important steps in the short sales process is getting the deed. Too many times, beginning investors will skip this vital step. Why do we want to get the deed from the homeowner? Because all too often, homeowners change their minds, or want to back out of deals because they are scared, or they want to re-negotiate. Without the deed, they can back out of the potential short sale even after you have spent hours working on their property. This only has to happen once and I guarantee it will never happen again. One investor I know lost \$30,000 on one deal because he failed to get the deed. That was a costly mistake. When

the homeowner signs the deed over to you, now you control the property and you can go to work by calling the bank.

There is a certain process for calling the bank when your doing short sales. When you call the bank, you never want to tell them you are the buyer. This one of the biggest mistakes beginners make and will almost always result in the lender not accepting the short sale offer. Therefore, when you call the lender to request the short sale packet, you want to tell them you represent the homeowner. Sometimes they may ask if you are a real estate attorney. Again, just tell them you represent the homeowners. Then you'll want to request the "short sale packet" or "workout packet". When the packet arrives it will explain exactly what you need to do to accomplish the short sale properly.

The lender will usually request a hardship letter in the package. A hardship letter is telling the lender why the homeowners are not making their mortgage payments. Sometimes they will request bank statement, pay stubs, income statements, and so on. Be prepared to send them everything they ask for because if you don't it will not be accepted. They will almost always ask for a HUD-1 and a real estate purchase and sales agreement. Send everything the lender asks for back ASAP. It usually takes 3 weeks or more to get an answer back from the lender, so you can't afford to wait. If the auction is approaching, you can ask to extend the auction which in most cases they will, if they know it is a legitimate offer.

Next in the short sale process is the BPO. This stands for Brokers Price Opinion. A real estate agent will come out and give their opinion on what the house is worth. The key to short sales is the BPO. You want to try everything you can to influence the BPO to come in as low as you can. The lower the better. It takes a few times to get good at this, but once you do, I guarantee you will try to get short sales on every real estate foreclosure you encounter. Ways of influencing a low BPO include having a high repair estimate made on the property. Instead of just fudging numbers, you will want to use the property checklist that comes on your disk, plus the Property Analyzer software to come up with realistic, but complete estimates on what the true condition of the property is.

Here is an example to demonstrate how a short sale process would work.

300K house that's going into foreclosure
1st mortgage = \$225K
2nd mortgage = \$75K
300K owed against property worth \$300K means **No equity**.

Meet the seller in default and explain to them:

"You have no equity here, but I might be able to save you from foreclosure. What if I were able to buy from the lender and negotiate a price low enough where I can still make this work for me and buy the property all cash. You wont see any of the cash because you don't have any equity here, but it would save a foreclosure from

being on your credit... Is that something we should talk about? Some people don't care about their credit, but perhaps you do"

Sign it up at a purchase price that you want. For example. In this property you could sign it up for \$240,000. You may be thinking you CANT buy it for \$240,000 because they owe \$300,000. This is where you negotiate with the bank for a short sale.

Make the contract Subject to your ability to get the 2nd and 1st mortgage holders to accept a short sale for the money they're owed.

There are two ways to approach the bank (note buyer and investor)

1) "Hi, I'm an investor in the area who buys notes that are in distress. I see that you have a \$75K mortgage on the property at 1234 street that is in default. I don't know if it makes any sense for us to talk about me giving you a cash payment in the next 14 days, or the next 21 days to buy that note. In return, I am going to get as much money from that owner as possible."

2)" I am an investor. I see that you have a house that's going into foreclosure. If it does go into foreclosure you wont get much at all, because I'm looking at the comps and really I cant see how it would sell for more than \$290- \$300K, Plus it looks like it needs anywhere from \$7-\$15 thousand in repairs. If it goes into foreclosure - it's probably going to be bought by an investor. As you know it might get completely wiped out at the sale. Now, I cant pay a lot for it because I need to make a profit, but what if I were to give you, gosh, I don't know \$7000 for what you're owed, or maybe even a little more - but I can get to you as cash in the next 21 days. Is that something we should talk about? Or would you rather just go ahead and foreclose?"

In order to contact the Loss Mitigation Department who handles these foreclosures, you're going to need the following:

- 1) Authorization to Release Information form signed by the seller
- 2) Purchase contract between you and the seller
- 3) Support documents that support a LOW value
 - Comps
 - Ugly pictures of the house in disrepair
 - Contractors estimates (choose the more expensive contractors)

If they won't accept \$7000, go into further negotiations. "Gosh, you tell me, what's the lowest price you would be willing to accept, knowing that if it's too much I wont be able to buy, and you will have to foreclose."

You may end up with a \$15,000 2nd mortgage.

At this point, you have:

\$225,000 1st + \$15,000 2nd = \$240,000

The house will sell for \$300,000 which gives you \$60,000 in equity. You can either assign it to another investor or sell it on your own. Here's how. Put an ad in the paper that says this:

Motivated (desperate) Seller
Will carry back large 2nd to help you
Qualify with nothing down
Bad credit - OK
Must sell 14 days or less.
(215) 555-1212 HURRY!

Explain to them how you will help them buy the property for \$300,000. On paper you might be able to show them how its probably worth closer to \$310,000. Your purchase price was \$240,000 (\$225,000+\$15,000). Your sales price is now \$300K. Their mortgage is \$260,000. This covers the 1st, the 2nd and leaves you with a profit \$20,000 upfront. It may take \$10,000 to cover closing costs so then you have \$10,000 profit left. You carry back a 2nd mortgage for \$40K at 9-10% interest, with a balloon payment in 2-3 years. You may even sell this note for 50 cents on the dollar for immediate \$20,000 by using any of the note brokers listed in the Rehabbers Network.

There is a whole package of documents you will want to use, some of which are mentioned in this section. If you decide you want to use this approach, there are many excellent resources on our Rehabbers Network Site on doing short sales.

Chapter 4. Analyzing a Deal and Making an Offer.

Once you start getting phone to ring, you need to talk to the sellers. You are looking for a motivated seller, not someone trying to sell you their home for a retail price. Talk to the seller about the particulars on the house again, finding out the following:

- Where it is located
- Why they are selling the house
- How much they want for it
- If there are any outstanding liens or back taxes
- What the estimated ARV is
- What repairs they think are needed
- If there is an existing mortgage on the house
- How quick they would like to sell

Once you have gone over the basics about the property, ask the homeowner this question – “If I were to pay cash and close quickly, what is the least amount you would take for this property?” After the homeowner gives you an answer, ask, “Is that the best you can do?”. Let the homeowner do all the talking. You may find that you get an excellent price, below what you would be willing to offer. What is considered to be an excellent price? If the asking price plus the estimated repairs plus any liens or back taxes is equal to or less than 65% of the estimated After Repair Value (ARV), then you have an excellent price. Remember, most hard money lenders that are used by rehabbers will only fund up to 65% of the ARV on a rehab house. You will make your deal a lot easier to assign to an investor if you can come in with a total price that meets this target.

Doing Deals “Subject to”

Before you go to visit the home, get some of the financial data. Ask the owner if her or she has a recent copy of a mortgage bill showing the current balance. You need to know this because if you make an offer you are going to want to do it subject to the existing mortgage. This will greatly speed up the time to get to settlement and reduce your end-buyer’s closing costs. It will also reduce the amount that he or she needs to come up with as far as cash or financing from a hard money lender. If you want to learn more about doing deals subject to an existing mortgage, I would suggest that you visit the following site - <http://www.sub2deals.com/home.php>. Another site to visit is “The Creative Investor” at their “subject 2” forum - <http://www.thecreativeinvestor.com/ViewForum34-5603.html>. You need to be comfortable in discussing this with the homeowner as essentially you are asking him or her to give you the deed to the house while taking over the payments on the house and the seller still being liable for the mortgage. Are deals done this way? Yes, many times over. It all depends on how *motivated* the seller is in getting rid of the house. One of the biggest concerns about a “subject to” deal is the “due-on-sale clause”. Banks began using “due on sale” clauses in their mortgages in the 80’s when interest rates rose significantly and homebuyers were assuming lower rate mortgages instead of obtaining the higher rate, new loans.

Banks also did not want a loan to be assumed by someone with credit below their lending standards. The due on sale clause gives banks the right, at their option, to call the loan due upon transfer of title or beneficial interest in the property with a few exceptions such as transferring title into a land trust for estate planning purposes. With today's interest rates, the likelihood of any bank calling a performing loan due would be very small. Since almost all mortgages these days are non-assumable, when the title is transferred to a new owner, the mortgage company has the right to call the mortgage due, meaning the full balance must be paid if they call it due. Note that it is not illegal to do a deal subject to the existing mortgage, it just can be a potential obstacle. However, there are a few things in your favor here:

- As long as the mortgage payment is being made, the mortgagor usually does not bother.
- Many investors have done hundreds of deals without ever running into this problem.
- You or your end buyer will only be holding the property for a few months, and will have it sold long before the lender sees the title transfer and calls the loan due.

When doing a deal subject to the existing mortgage, you do need to have some extra paperwork done. You will learn all this if you study the indicated websites or get a book or course on doing these types of deals. In short, you will need the following:

- A power of attorney document so you can deal directly with the lender for payment information or in case there are issues with the deed and you can't get in touch with the seller.
- Get the address of the lender so you can send in a change-of-address form.
- Get the seller to sign a due-on-sale acknowledgement letting him or her know that you are not assuming the mortgage, that it will still appear on his or her credit report and that the seller is still liable for it. This is known as a "CYA" document, for "Cover Your Ass".

Avoid Analysis Paralysis!

Many a real estate investor tries to analyze a deal to death, and in the mean time, another investor comes in and takes the property. You need to learn to not get bogged down in the details and not be able to make a decision on the property. Remember, you will have your weasel clauses in the agreement of sale in case you or your buyer finds that the property is not a good deal. Cover the basics as described in this course and start making offers. If you are afraid to make an offer on a house, visit any of the real estate forums in Appendix A and post questions related to your concerns. You will get a lot of positive advice from others who were once in your shoes. The biggest obstacle to succeeding in this business is getting started! Once you make your first couple of offers, you will be amazed at how simple this can be.

Inspecting the Home

If you feel like you have a potential deal, make an appointment to see the home. Bring yourself a property inspection checklist (sample included in your package), a good flashlight, a tape measure, an outlet tester and a digital camera (make sure you have fresh or fully-charged batteries!). After you meet the homeowner and get the 50-cent tour, begin your property inspection. Start from the top of the house and work your way down to the basement or crawl space. The more professional you look, the more the homeowner will respect you and your opinion of the property. Your notes will serve two purposes, to make a home report to give to the potential end-buyer and to possibly reduce your asking price. Here are some of the areas you want to look at and make notes:

Attic

If there is an attic, look at the ceiling. Are there water stains? If so, there could be a leaky roof. Do you see rotted wood? This can indicate a termite problem. Is the ceiling cracked? Is it made out of plaster? Can it be converted to an extra bedroom or a study? Is it insulated?

Bedrooms

Check for water stains on the ceiling. If there is a drop-ceiling, lift up some of the tiles and look for water damage on the true ceiling. Check the condition of the walls. Look for buckling and rotted wood. Check the condition of the windows.

Bathrooms

Check the condition of the tub and shower. Does it need to be replaced or just refinished? How about the toilet? Does that need to be replaced? Does the floor show water damage from sink, tub or toilet overflows? Does the wall need to be patched or replaced?

Living Room and Dining Room

Measure the square footage of each room, not just the living room and dining room. Check for the number of outlets and note if they are two-prong or three-prong (grounded) outlets. Many older homes are still using two-prong outlets and many of today's appliances and computers need a grounded outlet. Look for the condition of the walls. Do they need to be knocked out and redone, or just have the holes patched and re-taped? How is the floor? Is it sturdy? Does the carpet smell of cat urine?

Kitchen

Are the appliances up to date? Is the electrical system up to local code? One thing to look for is a GFI outlet near the sink. This is the type of outlet that trips if an appliance shorts, cutting off current to the outlet. Most township codes require this in kitchens and bathrooms if an outlet is within 4 to 6 feet of a sink. Is there a dishwasher or the space for one? Do the cabinets need to be replaced or just refaced? What is the condition of the floor? Does the tile need to come up? Is there water damage from a rusted drain pipe or defective dishwasher? Do the counters need to be replaced?

Basement or Crawl Space

Is the house heater and hot water heater in good condition? Do they need to be replaced? If so, can you get them out of the basement or crawl space? Is there a water problem in the basement? Is there a sump pump? Does it work?

Plumbing and Electrical

If the water is turned on, check out the water pressure and look for plumbing leaks. Flush the toilets to see how fast they drain. If the water is off, check to see if the plumbing system is intact. If the power is turned on, test each outlet with a pocket outlet tester. Does the house have circuit breakers or a fuse box? How many amps is the service rated for? Do any exposed wires in the basement or crawl space show deterioration of the rubber case?

Exterior Items

What is the condition of the roof? Are shingles missing or damaged? How many layers of shingles are already on the roof? Are there signs of wood rot? Does the siding need to be replaced? If the exterior is made of brick, are there any signs of crumbling? Do any of the exterior walls bulge out? Are there structural cracks that run from top to bottom of the house, fracturing along the brick lines? Is the chimney sound? Are there any visible holes at the foundation of the house? Is the porch in good condition? If there is a railing, is it rusted or rotted out? Are the windows broken? Is any of the exterior trim missing?

These are the basics of your property inspection. You are not trying to be a certified property inspector here, but are instead putting yourself in a position to ask the homeowner for a lower price and making it easy to find an end buyer. Once you have your report together, you can put it up on your website with the photos you took. Take a picture of anything that looks suspicious, plus a couple photos of each room so that a rehabber can get an idea of what the place is like. Take pictures of each ceiling, a set of walls, the kitchen appliances, the floor, the heater, the basement or crawlspace walls and floor, the tub, the roof, the outside walls, the porch or patio or deck, railings, foundation problems and the property itself.

After you do your inspection, take note for anything major that the homeowner forgot to mention to you when indicating what repairs they figured were needed. If it is obvious that the heating system needs to be replaced (look for rust!), or that the ceilings show water damage from the roof, tell the homeowner that these are extra items that need to be accounted for in the price.

If you have a laptop, take it with you, and make sure you have Microsoft Excel installed, so you can use the Property Analyzer worksheet that came with this course. You can enter your comments in the spreadsheet, plus if you partner with a person who does rehab work, you can get a fairly good estimate on what the property needs in terms of material and labor. This may let you make a lower counter-offer to the seller on the spot, with the seller seeing that you have

realistic numbers to back up your claim. This makes you look more professional and the seller will understand that his property is not worth exactly what he thought.

Making the Offer at the Maximum You Should Pay

Your maximum allowable offer (MAO) should be based on the following equation:

$$\text{MAO} = (\text{ARV} \times .65) - \text{RC} - \text{CC} - \text{AF}$$

Where:

ARV = After Repair Value

RC = Repair Cost

CC = Carrying Cost

AF = Assignment Fee

The Carrying Cost is the finance charges incurred during the rehab process. As a rough estimate, assume 15% per year (typical for a hard money lender), and 6 months to do the job. The 15% per year works out to 7.5% of the cost of the loan. Oh, and don't forget the points! A hard money lender may charge 5 points. 1 point is 1% of the loan amount, so 5 points is another 5%. Add that to the 7.5% in finance costs, and you have a carrying cost of around 12% of the amount of the loan. Assuming that the rehabber will be financing 80% of the purchase price and 100% of the rehab cost, you can rewrite the equation as:

$$\text{MAO} = (\text{ARV} \times .65) - \text{RC} - (\text{RC} \times .12) - (\text{MAO} \times .8 \times .12) - \text{AF}$$

Where did we get this? Well, the $(\text{RC} \times .12)$ part means there is a carrying cost (points plus 6 month's interest) of around 12% of the repair costs. The $(\text{MAO} \times .8 \times .12)$ part means that the carrying costs of the purchase price (MAO) is 80% of the 12%, since we are assuming that the investor will be financing 80% of the purchase price. If you rework the equation, you will come up with a simplified formula of:

$$\text{MAO} = (\text{ARV} \times .6) - \text{RC} - \text{AF}.$$

This will give you the best chance of getting your contract purchased by an investor. If you are prepared to make an offer on the spot, tell the homeowner the following, "Based on what I have found on my inspection, I am prepared to make you an offer of (homeowner's best price less a couple thousand dollars)". Pull out your purchase agreement and begin filling it out. If there is an existing mortgage on the home, now is the time to explain to the homeowner about taking the property subject to the existing mortgage. Basically, you should say something like this:

"Miss homeowner, I would like to close on this deal as soon as possible and take this mess off of your hands. I notice that you currently have a mortgage on it for \$35,000. Instead of applying for a new mortgage, which could take a few months

because of the condition of the house, I would like to simply take over your existing payments while keeping the mortgage in your name. I will make the payments while I am having the house repaired, then when it is resold I will have the new buyer get conventional financing and pay off your current mortgage. Based on my offer price of \$50,000, you will get \$15,000 at closing, less and closing fees that need to be paid."

If you do a decent job of getting yourself educated on doing deals subject to the existing mortgage, you will be able to sound like a professional when presenting this concept to the homeowner and should have no problem answering any questions or overcoming any possible objections.

My Property Analyzer spreadsheet package now has a complete Maximum Purchase Price Calculator that you can use to accurately determine the most that you should offer for the property. It takes into account all the cost variables that you will face when buying a property either for you to purchase or to assign.

Negotiating Price

If, during your property inspection you find items that have not been disclosed by the seller, be sure to bring them up. For example, if the water heater is rusted, or there are signs that the roof may need to be replaced, mention this to the seller and ask that the price be reduced to account for the extra repairs. You need to make sure that your estimated repair price plus the purchase price plus any back liens does not exceed 65% of the estimated ARV.

When you decide you want to make an offer, you need to fill out a purchase agreement. I have included a free version on your disk, but you may want to get a specific state version for you to use. You can get a fill-in-the-blanks contract and addendums for any state by visiting any of the links below. I have found that you can spend as little as \$9.95 to get a state-specific contract.

<http://www.nupplegal.com/salandpurag.html>

<http://www.mybusinesskit.com/kit/re/contracts/overview.htm>

<http://www.1stoplegal.com/forms/realpurchase.htm>

<http://www.myfsbo.com/real-estate-contracts-and-forms.php>

Escape Clauses

In your purchase agreement, you want to make sure that you have included escape clauses that let you get out of the deal if you need to. Since you are not going to take ownership of the property, you need to be able to walk away from the deal if you can't get a buyer. Since you don't want to come right out and tell the seller this, you can achieve the same goal by using the inspection clause:

This offer is contingent on representatives of the Buyer inspecting the property and the Buyer's approving these inspections. The Buyer shall have 21 days from the date of this agreement to have the inspections performed. In the event that

the Buyer decides to terminate this agreement, any and all earnest money will be refunded.

Your representative will be either the prospective buyer or, if you are getting near the end of the 21 days and you have no potential buyers, a friend or family member. Simply have your inspector provide an unsatisfactory inspection to you.

The next contingency is if your buyer can not come up with the money to buy the house. Basically, because of the condition of the house, your buyer would be using a hard money lender, which is a lender that lends based on the true ARV of the house. The lender will lend up to 65% of the final value, and the borrower pays about 15% annual interest plus 3 to 5 points up front. 1 point is 1 percent of the loan amount, and usually the points are added to the mortgage balance. If for some reason the true ARV is a lot lower than the estimated ARV, then the amount the hard money lender will be less than originally thought, and there may not be enough money to get the deal done without the buyer going out-of-pocket to cover the difference. Here is the financing clause:

This offer is contingent on the Buyer being able to obtain any needed financing. The Buyer shall have 21 days from the date of this agreement to have the financing in place. The Buyer is not required to accept a loan with an interest rate higher than ____ percent over ____ years, nor is the Buyer required to accept any loan that requires more than \$____ in points, closing costs or other fees. In the event that the Buyer is unable to obtain financing at acceptable terms, this agreement shall be terminated, any and all earnest money will be refunded.

The next contingency clause you will need will be based on a more exact appraised value of the house. Suppose the seller tells you that the house should sell for \$200,000 once repaired, but when you check for comparable sales (comps), or have an appraiser do an appraisal for you, the value comes in at \$150,000. How could this happen? Perhaps the seller was over-optimistic about the value of his house. Perhaps the values dropped recently due to higher interest rates or a change in the neighborhood. Perhaps the seller had no clue as to the value of the home. If your purchase price plus back liens plus rehab costs plus closing costs plus holding costs plus your assignment fee come in close to or exceed the true ARV, then this is losing proposition. In any case, you don't want to have to try to assign a rehab deal to another investor if there is not enough room for him to make his desired profit. Thus, we have the ARV clause:

This offer is contingent upon an acceptable professional appraisal by a Realtor or a property appraiser. The Buyer shall have 15 days to order an appraisal and shall have 72 hours after that to have the appraisal done. If the appraisal is not satisfactory to the Buyer, this agreement shall be terminated, any and all earnest money will be refunded.

Remember the story about the couple in Washington who were denied coverage because they made an inquiry about water damage? Well, how do you know if the

property you are looking to acquire has had any claims or inquiries on it? The fact that it is a property in rehab could indicate that a claim had been made or at least an inquiry about some prior damage. You don't want your buyer to buy a property that can not be insured. Some agencies will not provide water damage coverage if a claim had been filed within the past 5 years. Since your buyer will be rehabbing and then reselling the property, he needs to be able to have an insurable property, since not only is it hard to sell a property on which insurance can not be obtained, but almost all mortgage companies require a homeowner's policy as a condition for getting a mortgage. What good is trying to get a buyer for the fixed-up home if the buyer can not get a mortgage due to lack of insurability?

Thus, you should insert a clause that states that the property is not currently in the CLUE database. If it is in the database, you want to option to walk away from the deal. Here is the CLUE clause:

This offer is contingent on the property not being in the Comprehensive Loss Underwriting Exchange (CLUE) database. If the property is in the database and a claim or inquiry has been made within the past 5 years, the Buyer has the option to terminate this agreement, and all earnest money will be refunded.

Another clause you need covers any liens that have not been disclosed or are in amounts greater than what the seller told you. For example, suppose the seller tells you there are \$3500 in back taxes due, but failed to tell you that there were another \$1000 in penalties, legal fees and interest on the amount. Or, suppose they had prior work done on the house by a contractor and due to a failure to pay the full bill the contractor placed a mechanics lien on the house. Or, suppose they were delinquent in paying their water or sewer bill and a lien had been placed on their home. Or, consider the purchase of a condo where the utilities are in the seller's name but were supposed to be paid by the tenant and there is a large balance that is unpaid. Again, in the case of buying a property that is in a condo or townhouse development, there could also be unpaid association fees and penalties. When you or your investor/buyer goes to settlement, these items will need to be paid for. So, what happens when this unexpected bill comes up? Since the end buyer is now so ready to start rehabbing the property, and has gone through getting financing lined up, he may not want to walk from the table, yet he may also not be able to afford to cover these costs. Thus, you want to make sure that the seller is responsible for the bill in the form of additional closing costs being borne by the seller. You do not want your buyer to deal with this issue. Here is a clause to use:

Seller agrees to pay for any and all outstanding liens and other unpaid items including, but not limited to tax liens with penalties and interest, association fees, utilities, and mechanics' liens. Seller agrees to pay these costs at settlement.

The last clause we want to use is based on being able to get clear title to the property, or at least being able to get title insurance. This should be standard in your purchase agreement. Check with the title company you will be using before

you make an offer to ask about terminating an agreement if clear title can not be provided. Here is a clause you can use:

This offer is contingent on the Seller providing a clear title to the Buyer. The Buyer will have 21 days to determine if the title is insurable. If the title is not insurable, this agreement shall be terminated, any and all earnest money will be refunded.

Here is another scenario. Suppose you are making an agreement based on taking title subject to an existing mortgage plus some cash for the equity and the loan balance is less than both you and the seller thought? Without a clause to protect you in this situation, you or your buyer would have to come up with extra cash at settlement. To prevent this from happening, you need to add the following clause to your agreement:

If the actual loan balance is less than stated in this agreement, the purchase price shall be reduced by the difference between the stated amount and the actual amount. If the actual loan balance is more than the stated amount, the amount of cash paid by the Buyer to the Seller will be reduced by this same difference.

The Right to Assign

Since you will be assigning the purchase agreement to an end buyer, you need to insert the right to assign the contract. If the agreement does not state otherwise, a contract is usually assignable. However, by placing "and/or assigns" after your name, you automatically give yourself the right to assign the contract. If, however, there is a pre-printed clause in the agreement that forbids this without the seller's permission, be sure to cross that part out and have it initialized by you and the seller.

The Right to Access the Property Before Closing

Since you will be assigning the agreement to an end buyer before settlement, you need the ability to get into the property with potential buyers or contractors to do inspections. Thus, you need to insert the following clause into your agreement:

Buyer shall receive a key and be permitted access to the property to show partners, contractors, lenders or inspectors prior to closing.

One Weasel too Many?

You may find that a seller may balk at taking an agreement with a lot of contingency clauses. If the seller balks, then offer to present a clean deal in exchange for a reduced earnest money deposit. The earnest money deposit is the only thing they can keep if you break the contract and don't settle on the property. You are not on the hook for anything else, financially. You can say to the seller, "OK, Mr. Seller, I understand you are concerned about the clauses I have in the agreement. How about this. I will remove the clauses in exchange for a lower deposit, with the rest paid at settlement." The seller may agree to this without realizing that you are only on the hook for the deposit! For an added layer of protection against a seller going after you for more, make sure that you sign the

contract as a member of your LLC, not as an individual. Thus, you are not personally liable for anything else other than the assets in the LLC.

Finalizing the Agreement

Once you and the seller pen your names and signatures to the purchase agreement and you pay a token amount of consideration known as the “earnest money deposit”, you now have control of the property. The amount of the consideration should be \$100 or less. At this point, you are now in a position to assign your contract to another buyer. Before you do so, you should prepare a Property Overview Package (POP) to make it easier for prospective buyers to get the information they need to make their purchase decision. In the next chapter, we will discuss preparing a Property Overview Package.

Earlier I talked about using an option to purchase the property. If you want to use this approach, you can tell the homeowner, “Mr. homeowner, I may have someone else who may be interested in buying your property. I work with a lot of investors, and your property is exactly what a couple of them are looking for. What I would like to do is to have an option to purchase your property at the same price and terms we discussed. I will pay you an option fee of \$100 and would like 60-90 days to get the agreement finalized. If I don’t get it done in the 60-90 days, you get to keep the \$100. Is that Ok with you?”

If the homeowner agrees to this, then simply fill out the option agreement. In paragraph 2, insert the price, terms and purchase conditions you agreed to. Sample conditions include taking the property subject to the existing mortgage, the seller carrying back financing, or whatever else you agreed to. This way, the buyer will get the same terms that you and the seller agreed to.

Chapter 5. Preparing a Property Overview Package

You will make it easy to assign your property to another investor if you provide a comprehensive property overview package (POP). The POP will address many of the issues that an investor will want to know. You can print it out on your computer, or put it up on a website. If you are using our web-based POP generator (coming soon) and having us list your property for prospective buyers, then you can simply give out the URL of your page.

What goes into a POP? Here is what you want to include in your property overview:

- Interior and exterior photos with descriptions
- Contract price
- Offer type (all cash, subject to existing mortgage, etc...)
- Outstanding liens
- Mortgage balance
- Annual property taxes
- Estimated ARV
- Average estimated repair costs
- Number of bedrooms and baths
- Description of the property, including existence of a garage, basement, type of heating system, overall condition of the property, year built
- CLUE report

Where to Obtain Property Information

If you are looking for a good place to get solid information on the property, consider visiting the following website - <http://www.searchrecords.com/>. Here is a summary of what they offer for a one-time fee of \$29, taken from their website:

- **Current owner:** Identify the actual owner/seller of the property you are interested in. List of other local addresses included.
- **Appraised or assessed value:** Document the true appraisal value of the home, to help figure its market value, and property tax amount.
- **Purchase price / date:** Determine how much the current owners originally paid, and how long they have owned the property.
- **Mortgage amount:** How much did the current owners borrow to buy the house? Has it been refinanced recently? What bank(s) hold the loans? Prior mortgages and document numbers are listed as well.
- **Liens / Judgments / Lawsuits:** Does the seller have current or prior financial problems? This can help you in negotiating a better price.
- **Deed Information:** Copy of current deed or deed data showing property conveyance (most counties). Previous owner history and sales also included.
- **Structural record:** Shows the actual number of bedrooms, square footage, and lot size legally recorded. Don't rely on seller provided or MLS info, which may not be accurate. Parcel number, year built, construction details, and legal description provided as well.

- **Zoning status:** Be sure that property is legal for intended usage.
- **Other properties owned:** Lists the location of other real estate holdings of the seller. Is the seller an investor? Did he already buy a new house, and needs to sell you this one more urgently?
- **Comparable sales:** Records of sales of similar properties in the area, to help determine market conditions.

Obtaining Comps

Perhaps the most important item you need to provide to a buyer is an accurate guide to what similar homes are selling for in the area. You can do this by pulling comparables, or comps as they are known. You can get comps online by going to <http://homeradar.com> and entering the property address. Yahoo also has a service at <http://realestate.yahoo.com/re/homevalues/> where you can research property values. When doing comps, make sure you are comparing similar homes, as far as size in square footage and number of bedrooms and baths. Appendix A contains a complete list of sites where you can get comps online. Keep in mind however, that online comps are only an estimate of the true value of the property. Once you make an offer on a property, you or your end buyer should either have a real estate agent perform a detailed comp on it, or you should have an appraiser get it done. If your buyer is going to use a hard money lender, then that lender will order a formal appraisal.

Obtaining a CLUE Report

You can find out about the insurability of the property by visiting Choice Trust at <http://choicetrust.com> and purchasing a Property Loss History Report for only \$9.00. This will tell you and your buyer if the property is insurable.

Obtaining Estimates and Qualifying the Contractor

You can save your potential buyer a lot of time and provide him with a valuable service by obtaining estimates on rehabbing the property. Call at least three qualified contractors who will come out to give free estimates on a job. Let them know that you have just bought the house (technically, you did as you have a purchase agreement) and that you are looking to have the property rehabbed. You don't have to tell them that you are going to assign the deal to another buyer. When calling on contractors, ask them the following questions:

1. ***"Are you licensed?"*** Ask the contractor to show you a copy of a valid license, and I don't mean a driver's license. Make sure the license is not expired. In most cases, a license means that the contractor is capable in the eyes of the State to be in business. However, even having a license can mean nothing. In a recent investigation about badly-built homes in New Jersey, a local TV station sent in undercover investigators to get a contractor's license. They registered a business name then filled out some paperwork and paid a \$200 fee. Within days their license was sent to them!
2. ***"Do you carry liability insurance?"*** This type of insurance protects your property in case the contractor or his employees cause damage. Their insurance

company will be responsible for making good on any damages. Ask to see a copy of the insurance policy.

3. *"Do you have workers' comp insurance?"* This protects you from liability if a worker is injured while on your property. If a contractor does not carry such insurance, then you may be liable for any injuries suffered by the contractor or his employees.
4. *"Do you offer financing?"* Many contractors are lined up with one or more lenders who will provide financing on large jobs. This can be beneficial to a buyer who needs financing to get the rehab work done.
5. *"Will you obtain the required permits?"* If the rehab job requires any local permits, ask if the contractor will be doing it. If so, then you know the job will be done according to the local building code. Also, many homeowners insurance policies require that you obtain permits where needed. If a contractor is unwilling to get the permits, it could mean that he is unlicensed or that the work is outside the scope of his license.
6. *"Do you guarantee your work?"* Your contractor should guarantee his work for at least a year. He should also be able to get a performance bond that will pay to have the work completed should the contractor fail to do so. Hard money lenders will require such a bond as they need to insure that the house can be resold.
7. *"Can you provide references?"* Get at least three references from previous jobs over the past year. Contact the homeowner and ask about the quality of the work. Be wary of "shills" who are sent by the contractor to say nice things about the work but who never had any work done.

You may be asking why you would be asking all of these questions if you are not going to be doing the work yourself. There are three good reasons why – A contractor who carries no insurance, does not pull permits and can not guarantee the work or get a performance bond in case he does not finish the job will probably be giving you a much lower quote than would a contractor who is paying the fees to insure that the job gets done properly. You don't want to give inaccurate quotes to the end buyer. The second reason is that you can save the buyer the time of getting his own estimates as he can use one of the contractors you have already interviewed. The third reason is that many hard money lenders will only deal with a reputable contractor who can provide the documentation that such a lender would require. Oh, I do have a fourth reason – if you decide to move from wholesaling to rehabbing properties, it does not hurt to get experience in interviewing contractors. Plus, if you live in the Philadelphia area and want to participate in our Joint Venture program where we use hard money lenders to buy and rehab properties, you will need to provide us with estimates from contractors who meet these criteria. For more information on our rehab programs, visit <http://HomeInvestorsLLC.com>.

To make sure you are having all the contractors provide you with an estimate on the same items, use the Rehab Estimate form in Appendix O, and of course, in the forms directory of your disk.

Once you have the written estimates from three contractors, make several copies of each and staple each set together. Make these available to potential buyers. Take the average of the estimates and use this in your POP.

If you want to post your info on your website, here is what the form looks like. It is on the next page. You will find the HTML form on your disk, titled "[property_overview.html](#)".

PROPERTY OVERVIEW

Address:	[INSERT ADDRESS]	Outstanding Liens:	[INSERT AMOUNT]
Sale Price:	[INSERT PRICE]	Estimated ARV:	[INSERT PRICE]
Estimated Rehab Costs:	[INSERT COST]	Mortgage Balance:	[INSERT BALANCE]
Number of Bedrooms/Baths:	[INSERT # BR/BA]	Size of Yard:	[INSERT SIZE OF YARD]
Garage?	[YES/NO]	Finished Basement?	[YES/NO]
Recent Insurance Claims:	[PROVIDE DETAILS]		
Property Condition:	[DESCRIBE PROPERTY CONDITION]		
Photos			
[INSERT PHOTO]		[INSERT PHOTO]	
[INSERT PHOTO]		[INSERT PHOTO]	
[INSERT PHOTO]		[INSERT PHOTO]	
Other Information:	[INSERT OTHER INFORMATION]		
Contact Info:	[YOUR NAME]	Phone Number:	[YOUR PHONE #]
E-Mail:	[YOUR E-MAIL]	Fax Number:	[YOUR FAX #]

To use the form on your disk, look for a file called "property_overview.html", then open it up in either a visual HTML editor like Microsoft Front Page, or Netscape Composer, or any other HTML editor. If you don't have one, you can open the file in a text editor. To fill in the details, simply replace the text shown in the [BRACKET] with the real information. For the photos, you will see where in asks for the image name. This image should either be in a ".jpg" or ".gif" format, with the ".jpg" format being the better choice. When you load the HTML page to your website, make sure you also load the pictures in the same directory! Now, just make a link to this page (you can rename it if you wish) from somewhere else on your site and then you can promote it to another buyer.

Now that you have a property under contract and have all the information you need on it, it is time to assign it to another investor/rehabber. In the next chapter you will learn how to find these buyers.

Chapter 6. Finding Buyers for Your Contracts

Now we come to the point where it is time to start making money. You will find an investor/buyer to take your contract and pay you your assignment fee. You will get a token downpayment on the fee when you both sign the assignment agreement, and the balance at settlement. First, let's see how to find buyers for your contract.

When you get a house under contract, the race is on to get a buyer. Let me just say a couple things about experiences with finding wholesale buyers. There are a lot of "investor wanna-be's" out there. You'll meet a lot of them at your association meetings and at real estate seminars. Some of them are serious and some just think they're serious. You'll need to find this out for yourself. I have met many newbies who say they want to rehab, but when I presented them with an actual deal, they didn't follow through, meaning "show me the money". I am an investor on a deal that was presented to me by a property scout who wanted to do a profit-split on a rehab deal. His biggest complaint was getting someone to come up with the cash. Fortunately, he has not only me to send deals to, but others he has found from his efforts. If your deal is riding on someone that doesn't follow through, you will not be able to flip the property and get your assignment fee. So, really, they have to convince me that they're serious and can follow through if they want to do business with me. That's why I ask a lot of probing questions. But also, have a back-up buyer lined up on any given property. How do you get a back-up buyer? Well, call more than one investor or follow-up with multiple investors who call you. The first one that makes an offer gets the deal, but the second and then the third get a back-up deal. You simply tell number two and three that you have a buyer but, if the deal does not go through, you'll sell to them, and work out the details from there. It's that easy.

I highly suggest that you get a website to use to present your properties. You can then easily direct prospective buyers to your URL, be it over the phone or from your forum marketing. This will save you a lot of time on phone calls, and can help keep your cell phone bill from going through the roof!

Once you get going in this business, you will find many buyers for your properties. There are a lot of individuals who want to get into rehabbing properties but they do not have the time or the ability to prospect for properties. Many of them have come straight out of seminar school and want to put their "degree" to work. Once it is known that you have properties, you will be sought out and will have offers on every viable deal you can put together. Here are a few ways to find buyers:

Run Ads

You should run an ad as follows:

Handyman special. Cheap.
Call 215-555-5555.

You can also try the following:

Rehab special. Deep
Discount price.
Call 215-555-5555.

Or try this one:

Fixer Upper - 123 Main St.
\$90k comps, only \$40k 215-555-5555

Here is another one that will work for you:

Do you buy homes for cash?
If so call 215-555-5555
Investors and Wholesalers welcomed

When you get calls, you need to pre-qualify the buyers to make sure they can come to the table, meaning the settlement table, with cash for the property and for your assignment fee. You want to ask the callers how quickly they can close and what their source of cash is. Make sure that the potential buyer is already pre-qualified with a hard money lender or other commercial lender or he can demonstrate that he has the cash in the bank to close the deal. You can use the Buyer's Questionnaire below.

Call on other "We Buy Houses" Ads

If you go through the various newspapers in your area you will see others who are looking to buy houses. They may be actual rehabbers who are looking for deals. Call them and find out their needs. Ask them if they are interested in purchasing rehab properties. Screen them with the same questions about their ability to quickly fund a deal.

Local Real Estate Investor Group

If your area has a real estate investor group, join it. If you are not sure if there is one, do a Google search with the phrase "real estate investor group" and your city (or the nearest city to where you live). Some of these groups have a newsgroup, or an e-mail discussion list where you can post questions, including looking for investors or buyers. This could be your quickest way to find takers for your properties. When you go to one of their meetings, make it a point to meet 5 new people each time. Hand out your business card magnets to everyone you meet. That means you must actually meet people. Don't go to the meetings and just sit around. Look to see if there is a table where you can leave some flyers or business cards. Join in any of the breakout sessions the group may offer where you can tell new prospective investors that you are a source for properties. It is my experience that once the word gets out that you are wholesaling properties by assigning contracts, you will become sought after and will have more buyers than you do properties.

Attend a Sheriff Sale

Where is the best place to find real estate buyers with cash? At a sheriff sale, foreclosure sale or other real estate auction. Find out from your local investor

group or newspaper when the next property sale is and go there, loaded with your business card magnets. Walk around and introduce yourself to others there, and let them know that you acquire ugly houses. Hand out your business card magnet, and if possible, leave some of them on a table if there is one in the room. These people are looking to buy properties, and if you have any to offer, as long as the price is right, you will have no problem finding buyers.

Attend a Real Estate Seminar

Here is a great way to find established and new real estate investors. Listen to your radio for ads for any real estate seminar. Also, go through your newspaper's business section to look for ads. Some of the freebie papers delivered to your home also will have ads for a real estate seminar. You may also get a solicitation in the mail. These seminars are usually free, because the speakers will be there selling their home study courses and boot camps at the seminar. You will see a lot of success stories being told, with copies of checks showing how much money people are making at their investments. What you need to do is to capture these investors and let them know that you have properties that they can rehab and make the same kind of checks that others are making without paying \$1000 for a home study course.

The best way to do this is to make up some flyers or business cards and casually lay them out on the tables. Or, take a stack of cards and stick them on the sink of the washrooms where the seminar is held. You can also stick copies of your fliers and perhaps a business card magnet on the windshields of cars (well, the magnet needs to go on a door) in the parking lot. Your card should not be a "We Buy Homes" card, and neither should your flier. It should read something like this:



Internet Forums

I have found the Internet to be a valuable source of finding potential investor-buyers. If you monitor the various real estate forums, you will find people in your area who are active in real estate investing. You can send them a private message, letting them know you are a "bird-dogger", or you can post your own messages to these forums, letting everyone know that you have properties to assign. As long as you live in a metropolitan area, you will find many investors looking for properties to fix up. In Appendix A, you will see my list of real estate

sites that I highly recommend you to visit. For one of my current rehab projects, I met the person I am doing this with on a forum at <http://thecreativeinvestor.com> I read a lot of his posts, then contacted him by e-mail. We now have a few more deals we are looking at.

Radio Commercial

Once you get going in this business, you can find even more buyers by advertising on your local talk radio station. Typically, listeners to talk radio are less likely to switch off during commercials, and depending on the station's talk format, you may find a show regarding real estate investing or other financial matters. In Philadelphia, there are two perfect stations – 1210 AM and 860 AM. The first station is known as "The Big Talker", and has a weekend radio show on real estate. The second station is the area's "Money Talk" station, and has several shows on real estate and other forms of investments. You can target your market by advertising on stations and shows such as these, and not on a "Top 40" music station. The radio station will assist you with developing your commercial. You may also try to get yourself interviewed on a relevant radio show.

Direct Sale to a Homeowner

Lets say that the property does not need major improvements, just cosmetic repairs such as drywall, carpet, paint, siding, etc... Instead of offering it to a rehabber, why not try to offer it directly to a person who could buy it, move in to it and fix it up? The only issue you have here is whether the property will appraise for enough to cover the seller's price plus your profit. If for example, you negotiate a deal to buy the house for \$50,000, and it appraises for \$70,000 in its current condition, you can make a quick mark-up of \$10,000 by running ad as follows:

Handyman Special
Cheap. Built-in equity
215-555-5555

An ad like this will bring in a lot of callers. Not only are you offering the property at a good price, you are giving them built-in equity, as you are selling it for less than the appraised value. Once you can qualify a buyer (by having him show you a pre-qualifying letter from a mortgage company) and can verify that he has the money for the down payment and your assignment fee, you can then assign the contract to him. Don't assign it to anyone unless you verify that he has access to the money to come to the settlement table!

Buyer Questionnaire

Here are some questions to ask of your potential rehab buyers.

1. What type of properties and what areas (cities, neighborhoods, etc.) do you wish to purchase?
2. What is the maximum percentage or ratio of price to fair market value after repairs (ARV) will you pay?

3. Is there anything I should know about what types of property you wish to buy that we haven't discussed?
4. Is there a price range for purchasing any individual property that you need to work within?
5. When I have a property that fits your purchasing requirements, how quickly can you close?
6. Are you cash buyer or will you be purchasing with financing? What type of financing do you use and do they have any requirements that may potentially delay a closing?
7. How many properties have you already purchased?
8. How many properties do you purchase per year or intend to purchase per year?
9. If you are using a hard-money lender, can you show me your pre-approval letter or proof of funds?
10. How long have you been in this business?
11. Can you give me any referrals of other people you have done business with? This can be other investors, buyers, sellers, contractors, bankers, etc. The point of this question is to learn whether this person has followed through on other projects and to learn whether they are reliable.
12. Do you know any other investors that purchase properties in areas beyond where you would like to purchase? If so, ask for their names and numbers so that you can further expand your buyer's list. This question is to learn whether this person has followed through on other projects and to learn whether they are reliable.

Getting to Settlement

Once you find an investor you are comfortable with, it is time to fill out the assignment agreement. You will find an agreement in the forms directory on your disk and in Appendix D. Fill it out and take it to a Notary where you will both sign it. Each of you should keep a copy of the agreement. Have the buyer pay you a \$1,000 Earnest Money Deposit with the signed contract. I've found that this \$1,000 deposit separates the buyers from the tire kickers. Anyone who does not have the ability to put up a \$1,000 Earnest Money Deposit is not a real cash buyer. Make sure that the buyer knows to pay you the balance at settlement. If the buyer is not willing to pay you a deposit, due to not trusting in your ability, then have him make it out a check for the full amount of the assignment fee to the escrow account of the title company you will be using. This protects the buyer's money, should there be a problem with his ability to close on the property. It also

protects your interest in the assignment fee, as the funds will be released from the escrow to you at settlement.

Once the contract has been assigned, your buyer will now take over the responsibilities of getting the deal closed. He may be using his own money, or may be using a hard money lender. If he is using a hard money lender, then that lender will do their own property evaluation and pull their own comps. I can not stress that if your buyer says he is going to use a hard money lender, you should make sure he has already been pre-approved. Two of the leading hard-money lenders are Rehab Funding (see <http://www.rehabfunding.com>) and Brookview Financial (see <http://www.brookviewfinancial.com>). If your buyer is not able to show you a pre-qualification letter from his hard-money lender, then DO NOT rely on this buyer to be able to come to settlement. If your buyer says that he will be paying cash, then ask to see a current bank statement, or a copy of the latest statement from the bank that provides his equity line of credit. The statement will show the available credit. If your buyer balks at providing this information, let him know that you have another buyer who can provide this information and that you need it to make sure that you can get an end-buyer to go to settlement. Let the prospective buyer know that you are on the hook to come to the settlement table with cash, and that you can only assign the contract to a buyer who has the funds available.

Assuming that you have a qualified buyer, the next step is to let the buyer do his homework and move on the property. If your buyer already has a title company that he works with, you need to find out if they will handle the payment of your assignment fee by the buyer at closing. If they do not do that, you will need to discuss this payment with your buyer and be comfortable with how it will be paid. The title company will schedule a closing date, and at this point, there is nothing much for you to do, except show up at settlement and collect your assignment fee!

If you use the option agreement instead of the purchase agreement, the process is a bit easier. You will collect your assignment fee when you assign the option to the investor/buyer. There is no need to wait until settlement. In the assignment agreement in your forms package, you will see that I added a clause that the assignee must pay you using certified funds, or a money order. You don't want to take a personal check and then assign the option to the buyer. If the check bounces, you may have a problem on your hands.

When using the purchase option package, you get paid right away. If the buyer does not close on the property, you still got your money, as the assignment fee is listed as non-refundable.

Going Forward

After you complete a few assignment deals, you will want to go for a bigger piece of the pie and get involved in rehabbing properties yourself. I would suggest that you spend some time getting educated about the process, and ask a lot of

questions. If you take the time to participate in the various forums dedicated to real estate investing and rehabbing, you will be in a good position to get started. From my experience and that of other rehabbers, the hardest part of the rehabbing business is finding properties. If you start developing your marketing abilities, you will be able to find properties on a regular basis. You will really only need to hone your skills on evaluating rehab costs and knowing when to walk from a property to move forward. It does help to have good personal credit or have a business partner who does, as even the hard-money lenders do require a personal credit score of at least 650 in order to qualify for funding. Once you have a couple of reliable investor/buyers to work with, consider forming a partnership where you each get half of the profits on any deal you bring to the table, if you are not capable of qualifying for a hard money lender, or if you don't want to take on the responsibility of getting properties rehabbed and resold.

In the forms package, you are getting a comprehensive rehab profit analyzer, complete with a cost estimator to determine if you should put in an offer to purchase a subject property. As long as you have Microsoft Excel, you will have a very powerful tool with which to evaluate a rehab deal. If you have attended one of my seminars, you will have had an opportunity to learn about using a local joint venture group to have the money to purchase and rehab a property without using a hard money lender or worrying about one's personal credit. I highly recommend that you consider going the rehab route at some point as there is more money to be made this way than in assigning deals.

If you are serious about trying to create a rehab joint venture in your area, send me an e-mail at JoefromPhilly@aol.com. If you are willing to run an ad in your local papers for investors, I will talk with them and will be willing to head your joint venture group, including assisting you with evaluating the deal, getting estimates and comps, following up with the management of the project and then getting the property listed with a local agent for resale. My fee is 10% of the project price.

How to do a Joint Venture with the Seller

Here is an interesting twist on the joint venture deal. Suppose you come across a seller who is really motivated to sell the property, but there are reasons why you may not want to purchase it outright before doing the rehab. As an example, consider the situation I ran into recently. I got a call from a woman near Hazleton PA about a house that was about to be demolished because of a lot of code violations. It had been condemned and the woman made no effort to get the home fixed. She owned the home free and clear. In a traditional purchase or assignment deal, I would have had a heck of a time getting the Township Council to sign off on issuing a Certificate of Occupancy, as the house was not habitable. Plus, it was an end unit row home, with an ARV of no more than \$40,000. Clearly, the expense of closing costs to buy it from her would not have been worth it.

So, as a solution, I proposed to her that I have her get a few estimates from local contractors to determine what would be needed to bring it up to code, and to work

with the township officials to make sure that everything was covered. I have determined that in the home's present condition, it is worth no more than \$15,000. Heck, in its present condition, it's not worth squat, as it is due to be demolished in a few months. But, for the sake of granting some value to the new roof that was recently added and the fact that there is the land value, I convinced the owner that the base worth is \$15,000.

The way the joint venture will be done is this – I will finance the repair work and that cost will be added to the base price (plus the finance charges on the money I am borrowing to do it). Once the house is sold, she will get her \$15,000 and I will get my rehab fees back. What is left will be split 50-50. The advantage for me is that I did not have to lay out money to purchase the property or to pay closing costs. I did insist on her paying for a new title search to make sure that the township or anyone else had any liens on the property. To protect my position in the property, I will hold a mortgage (and have it recorded) on the property for the amount of the repair work, plus 50% of the estimated net profits. That way, when the property goes to settlement, I am the FIRST lien holder on the property, and the title company who will handle settlement will issue a company check to me for the amount of the mortgage. If there is any difference in the profits, either way, we will just settle that as per the joint venture agreement.

Why else would you want to do a joint venture similar to this with a seller of a property? Well, suppose the seller already has a mortgage on it. Unless you want to go through the methodology of using a land trust to avoid triggering the due on sale clause, you need another way to tie up your interest in the property. You can do this by having the seller grant you a second mortgage on the property for the amount invested plus your estimated share of the profits. For example, suppose the seller owes \$50,000 on the property. If you want to purchase it to do a rehab job on it, you would need to cover the \$50,000 mortgage with new money. If you wanted to borrow the money from a hard money lender, you would face at least 5 points, or \$2500, plus the app fees, the rest of their closing costs, and about 1.25% interest per month, or around 7.5% on a 6-month project (\$3750). Now you are already over \$7500 in the hole in finance costs just to cover the cost of buying out the \$50,000 mortgage balance! Suppose the purchase price was \$80,000. In many states, the transfer tax would be 2%, with the buyer and seller usually splitting it. So, you have another \$800 in fees, plus a deed recording fee, title insurance fees, etc..., that can run another \$700 or more, for a total of \$1500 in closing costs. Now you are up to \$9000 in fees on the property. If you negotiated a joint venture deal with the seller, letting the seller know that he or she will benefit from the finished job, you avoid these fixed costs. While in the end, your net profits may be lower, you significantly lower your risk by avoiding taking ownership of the property! It is the same reason why many non-real estate investors invest in money market funds or certificates of deposit, instead of stocks, or index mutual funds instead of aggressive funds. While the returns may be lower, so is the risk.

Remember, when you compute the profits, you don't base it on what the seller owes on the original mortgage. You base it off the base purchase price. If you are a good negotiator, you may be able to get the base price near the outstanding balance on the mortgage. If not, take the base price, add the rehab expense, including any finance costs on the money (if borrowed on a credit card, home equity loan, private investor, etc...), add the closing costs on the resale of the property (sales commission, closing costs, transfer taxes) and then split the difference. You should use the Property Analysis workbook for Excel to figure these costs. If you are really good, you can agree to a split other than 50-50. Perhaps you ask for 60% of the profits. If you throw out the number, it might be accepted.

The beauty of using a mortgage to guarantee that your interest in the property can not be terminated by the seller is that the filing cost is nominal, about \$50 or less in most counties. There is no transfer tax or deed exchange, but as the first or second mortgage holder, no settlement proceeds can be dished out to the seller until the mortgagee has been paid! By adding some of the estimated profits to the amount of the mortgage, you are guaranteed to receive some return on your investment even if the seller tries to stiff you on the joint venture agreement. Hey, you could always fight the seller in court, but at what cost and at what ability to collect? For a mere filing fee, you are guaranteed to get your money at settlement!

Chapter 7. Investing in HUD Homes

One of the types of properties you can purchase are those owned by the U.S. Department of Housing and Urban Development (HUD). HUD was established in 1968. It's original purpose was to manage federal housing and community development programs.

HUD incorporated numerous housing agencies and assumed administrative responsibility for them. One of these agencies was the Federal Housing Administration (FHA). Since 1971 the agency has been commonly known as HUD/FHA.

How They Get the Property

The old FHA programs and the newer HUD programs act as an insurance agency for banks, savings & loans and mortgage bankers who make real estate loans to buyers and investors. HUD/FHA does not make the loan, they only insure the lender against loss in the event of default.

You apply for a real estate loan through an approved HUD lender, the lender determines whether your application is accepted, and if so, gives the money to you. Once the money has been given, the lender will receive an insurance policy from HUD that protects its financial interest.

HUD properties are sold to the public when HUD/FHA mortgages are foreclosed. HUD pays the original lender the amount of the loan due and other expenses. HUD then resells the property.

Once the loan is made by the bank, savings & loan or other authorized lender, that lender does have the right to foreclose on the property if the borrower fails to make their monthly payments on time. When the foreclosure process has been completed, the lender submits its HUD insurance policy back to them with foreclosure costs, accumulated interest and legal fees for reimbursement.

HUD will reimburse the lender. With the lender paid off and no longer in the picture, HUD, who now owns the property, can dispose of it in any manner deemed reasonable.

How They Sell Property

When HUD gets a property back, it turns it over to its Property Disposition Department which first secures the property from vandalism or damage. Next, this department determines if the property will be sold directly or through an outside broker.

If a broker is used, he must complete the necessary repairs required by HUD, secure the property, advertise the property, accept sealed bids, control the escrow account and make sure the escrow closes. HUD will pay a 6% sales commission to agents involved in the sale, whether sold through a broker or sold by HUD directly.

HUD will allow real estate agents to acquire HUD properties. An agent bidding on a HUD property, could effectively reduce his bid price by the amount of commission he may earn on the sale. In addition, an authorized HUD broker will receive lists of HUD properties before the general public does. A broker could prevent the public from having access to properties. To buy a HUD property, you must contact a licensed and approved HUD broker or other agent authorized to sell HUD owned homes. All offers are submitted through him. It is important that you develop a good relationship with a HUD agent, as this agent can get you access to properties before the general investors do.

HUD properties are sold "as is." There is no offer/counter offer provision. HUD will not pay anything to fix up the properties. However, any property needing repairs may be heavily discounted to reflect this, so you get the chance to pick up a property that you can either rehab and then resell, or rehab and then keep as a rental. Check with your agent as to whether or not you can assign the HUD contract to another investor. All properties are sold on a cash basis. While paying in cash is not required, having your financing arranged without HUD is. HUD will not be required to arrange or carry financing themselves. You will need the services of a conventional mortgage lender. Remember that on most sales, the buyer can request HUD to pay all or a portion of the financing and closing costs. Your real estate agent will have details.

When you purchase a HUD property, the sale is final. If you really want to get the property, you may need to bid over the asking price. Your agent will know the details on what it takes to submit a winning bid. However, before you do this, you need to know what the comps are for similar properties in that area if you want to do a resale on it. You also need to have a good handle on the repairs that are needed so that you don't end up spending more than you will get on a resale.

Condition of Property

HUD homes can be of low to moderate value. Traditionally, however, HUD homes have been in better shape than the average VA property. As discussed earlier, if a real estate agents can bid on and buy HUD homes at an unfair advantage to the home buyer and investor, then it stands to reason that many of the nicer properties are bought by these agents. The result may be lesser quality homes left for the general public. However, if you are working with an agent and have bought and sold a few properties with him or her, you may get access to these properties before others do.

Locating HUD Homes

You can find HUD properties by calling a local real estate agent or authorized HUD broker, looking in the newspaper for HUD property sales or by calling HUD directly. You can also go to this website and do your own search:

<http://www.hud.gov/offices/hsg/sfh/reo/homes.cfm>

Check you local phone book for HUD registered real estate agents. Here is a website where you can do a state and city search for authorized HUD agents:

<http://nyny.towerauction.net/hud/PAB.htm>

Another entity you need to be aware of if you want to invest in HUD homes is First Preston. First Preston specializes in the marketing and management of real estate portfolios owned by mortgage banking companies, government agencies and others. They are an important resource for HUD investing. Their website is: <http://www.firstpreston.com/index.asp>

A direct website put out by the U.S. Government, <http://homesales.gov>, provides current information about single family homes for sale by the U.S. Federal Government. These previously owned homes are for sale by public auction or other method depending on the property. Anyone can buy a home for sale by the U.S. Government, but you must work with a real estate agent, broker or servicing representative to submit an offer or bid.

Currently the U.S. Departments of Housing and Urban Development (HUD), Agriculture (USDA/Rural Development), and Veterans Affairs (VA) have homes listed on this site.

If you contact HUD directly, they may not send you a list of properties, but they can send you a list of HUD authorized brokers in your area. HUD brokers receive new listings of HUD homes every week. If sold directly, HUD will generally place ads in newspapers, rather than place individuals on mailing lists for their single family homes.

The Buying Process

Armed with your list of available properties narrow your selection by price, neighborhood, size, whatever. Try to drive by the property if possible. HUD restricts the sale of some properties to "owner occupant" only. Generally advertised under the heading, "New Listings," HUD wants the buyers of these properties to actually reside at that property, for at least one year. However, once you have a real estate broker to work with, you will be able to find HUD properties that are available to investors.

Back to the HUD advertisement. The advertisement will indicate the case number, address, number of bedrooms and bathrooms, price, an un-repaired price and repair escrow amount if available. Due dates for bids are listed. There will also be a statement indicating whether or not these properties are eligible for FHA insured financing.

If you are still interested, contact an authorized HUD agent. The bid package will state whether the home can be insured through HUD from a private lender. If the property can not be insured by HUD, ask yourself why and do you really want the property?

If you are interested in working with me or anyone in my network on submitting winning HUD bids, send an e-mail to info@HomeInvestorsLLC.com and I will get right back with you to help guide you through the process. I can refer you to experienced HUD agents in your area, if you are not in the Philadelphia area.

Once you are on the path to HUD houses, there are steps you need to take. Inspect the property. Always do a thorough inspection inside and out of a property you intend to purchase. If necessary, hire a professional inspection service. Compare the asking price to the "sold" prices of comparable properties in the area. There is a good chance the asking price will be around fair market value.

HUD claims to use current appraisals to establish each homes value according to age, condition, size, location, lot size, etc.

If you still want the property, you must submit a bid package containing a complete set of contracts to a HUD field office with your deposit of 5%. The deposit must be in cash, cashiers check, money order or appropriate letter of credit.

The bid package contains instructions, a sales contract, a "forfeiture of earnest money deposits" document and an addendum regarding lead-based paints. You can see a copy of the sales contract by going to this link:

<http://www.firstpreston.com/documents/9548.pdf>

The "Forfeiture of Earnest Money Deposit" document clearly states that if an individual buyer submits a contract to purchase a HUD home and does not perform, the 5% deposit will be retained by HUD on a non-refundable basis.

The buyer has 30 days to close escrow once the bid has been accepted. Extensions of this deadline can be authorized by HUD by prior written approval. Extensions are normally granted when a private lender has agreed to finance the property but needs more time to process the loan application.

The "Lead Based Paint Addendum" disclaims any and all responsibility from the government if illness is caused by owning a HUD owned property, whether or not it contains lead based paint. When signed, this document completely declares HUD immune to any future claims.

HUD defines a one-to-four unit property as either a single family, duplex, triplex or fourplex. These are properties that can be sold through HUD brokers. HUD defines an apartment complex as a property which has five or more units contained within it. They can be walk-ups, townhouses rented as apartments and have either no garages or detached garages.

Unlike the procedure for single family to four-plex properties, HUD likes to sell the multi-family properties directly through their Property Disposition Department in Washington, D.C.

To be placed on the mailing list, write to:

HUD / FHA
Property Disposition Department
U.S. Dept. of Housing & Urban Development
Washington, D.C. 20410-8000

You may bid more or less than the asking amount for any HUD home. If you are not the successful bidder, your earnest money deposit will be refunded to you. If you are the successful bidder, the earnest money deposit is credited toward your down payment. Depending on the asking price, earnest money deposits generally range from \$500 - \$1,000.

Some benefits to buying HUD homes (according to HUD) are that a real estate broker will prepare and submit your offer and deposit for you without charging you. HUD pays up to 5% of the closing costs, saving you thousands. You can move in faster if you purchase a HUD home eligible for FHA-insured mortgage, because it has already been appraised. HUD homes may be eligible for repair loans built into the mortgage and buyers may qualify for 3% down payments.

A Word on Foreclosures

If you are interested in buying foreclosures or pre-foreclosures, make sure you are working with a good real estate agent and not just working off a list that you have purchased over the Internet. There are two real big problems with these lists. The first is that the list is already old news when it comes out, meaning that other investors have already had a chance to screen these properties, and the second is that the competition is often fierce for these properties, meaning that if you are going to send out information to names and addresses you have purchased, you are going to be one of perhaps dozens of investors. I would highly suggest that you work with a real estate agent in your area if you are going to purchase foreclosures.

Chapter 8. Cash Flow and ROI Analysis

This chapter looks at some of the basics you need to understand when buying property as an investment to hold for at least a year before selling. Perhaps you will find that you can rehab a property and then rent it out for awhile to make some rental income, then sell it at a higher future value and at a lower tax rate, due to the profit being taxed as a long-term taxable gain. This chapter will take you through most of the analysis you need to decide if you should purchase a property as a long-term investment.

A major consideration when investing is trying to maximize your appreciation while minimizing negative cash flow. In one example, you might be able to purchase a less expensive house and still have a reasonable rent that minimizes your negative cash flow or even puts you slightly positive. But houses in this price range tend to be in the less than desirable neighborhoods, and those neighborhoods will tend to appreciate less rapidly compared to other more expensive neighborhoods.

On the other hand, you might like the idea of owning a larger or more expensive property, which tend to be in higher appreciating neighborhoods. The thing to watch is that you don't incur too many extra fees (condo and fees are the biggest). Additionally, if the house is too large (as well as the mortgage), you won't get a corresponding increase in rent. The point is to find the set of criteria that gives you the best overall ROI (Return On Investment) at the end of the year.

One other trade-off you need to look at is how much to put down on a property. If your down payment is low, you will be highly leveraged, meaning you have borrowed most of the money needed to purchase the property. If the net rents on the property can not support the debt service, you will have to have cash to make the mortgage payments. If you have more cash to put into the property, you can have lower payments with positive cash flow. Our Property Analyzer spreadsheet can help you see the trade-offs using different downpayments.

If you are like many rental investors, you will initially be in a negative cash flow situation. It is possible that soon you will be in a neutral or positive cash flow situation. All things remaining the same, less than 2 years you'll have more than 20% equity in your investment. You can have the PMI removed and that will increase your cash flow. Over time, you will have enough net equity in a property through normal appreciation and mortgage reduction to take out an equity line of credit to fund additional investments. Keep in mind though that when you do that, you need to make sure that the net rent will support the new debt.

One interesting point to keep in mind is that your net equity in a property is a lot different than what you would get to keep if you sold it. If you look at the Property Analyzer worksheet, you will see what I mean. When you sell a property, you get hit with a lot of expenses, including the real estate broker's commission, transfer

taxes, miscellaneous fees, and taxes on your capital gain and on the recaptured depreciation.

A Depreciation Overview

When you purchase a residential investment property, you get to take an annual deduction based on the value of the improvements to the property. Improvements mean anything other than the land, since land is considered to be a “non-wasting” asset. A building can and will wear down over time, and our tax code lets you account for this. On a residential investment property, you can depreciate the building over a 27.5 year schedule. This means that you take the non-land portion of the purchase price (actually the lower of the price or market value), divide it by 27.5, and deduct this amount from your other taxable income each year. The average improvement/land ratio is 80%, meaning you take 80% of the purchase price and use that as your base amount. You should consult with an accountant or real estate expert in your area, for the exact percentage you should use, as a condo may have a higher ratio, while a large property with a small house on it will have a smaller ratio.

Lets look at an example. Suppose you buy a property for \$343,750 with an 80% allowance to the price of the improvements. Your depreciation base is \$275,000. If you divide this by 27.5 years, you get an annual depreciation is \$10,000. You can deduct this off your other taxable income. If you are in a 28% tax bracket, meaning your last dollar of income is taxed at 28%, a \$10,000 deduction will give you a \$2,800 refund. This is known as a tax-shelter, and a legal one. It lets you shelter other income from taxes.

All is not as it seems though. What the IRS gives, it also wants back. When you eventually sell the property, the IRS will “recapture” the depreciation, meaning you have to pay the tax on the total depreciation taken. Right now, in the 28% bracket the depreciation recapture is taxed at 25%. Thus, when you sell an investment property, this depreciation recapture tax will result in a lower profit.

Lets now look at the property analyzer worksheet. Suppose you purchase a property for \$100,000, and the value is worth \$100,000. (There can be a difference if you purchase a property below market value). Depending on what you put down for a down payment, you may have negative or positive cash flow. Suppose you put down 10% and have a 6.5% mortgage for 30 years. Your monthly interest payment will be \$569. In most cases, you will need something called Private Mortgage Insurance, or PMI, since the loan to value is greater than 80%. PMI is about a half percent of the loan amount per month. In this case, it is about \$38 per month.

Now, on the rental side of the equation, here is an example:

Monthly Rent	\$1,200
Property Tax	\$150
Hazard Insurance	\$80
Private Mortgage Insurance (PMI)	\$38
Landlord-Paid Utilities	\$100
Vacancy Allowance (percentage)	4.00%
Maintenance / Advertising	\$60
Condo/Association Fees	\$130
Net Rent (Gross Taxable Income)	\$595

You can see that have \$595 per month to spend on the debt service, or on the loan. Since your mortgage payment is \$569, you will have a pre-tax cash flow of \$29 per month.

Lets look at what happens from a tax-perspective. When you figure your taxable income, you don't subtract your mortgage payment. You only deduct the interest portion of it, plus the monthly or annual depreciation. In this example, you have the following:

Monthly Interest	\$485
Monthly Depreciation	\$242
Pre-Tax Net Monthly Income	(\$133)

The monthly interest is the average of the 12 months' interest. Remember that with each payment you make, the interest part goes down and the principal amount goes up. We are taking the average interest of the 12 months. This will not matter, since you pay your income taxes annually, not monthly.

This example shows that your pre-tax income is a loss of \$133. This means that for tax purposes, you lost \$133 for the month, while in reality, you made \$29 in cash flow. Now for the good part. If you are in the 28% tax bracket and 3% state tax bracket, you get back 31% of the \$133, meaning your after-tax cash flow is now \$67, or \$804 for the first year.

Here is a 4-year cash-flow analysis using the above data, and a 4% annual inflation rate:

INCOME & EXPENSES	Year 1	Year 2	Year 3	Year 4
Monthly Rent	\$1,200	\$1,248	\$1,298	\$1,350
Property Tax	\$150	\$159	\$169	\$179
Hazard Insurance	\$80	\$83	\$87	\$90
Private Mortgage Insurance (PMI)	\$38	\$38	\$38	\$0
Landlord-Paid Utilities	\$100	\$104	\$108	\$112
Vacancy Allowance (percentage)	4.00%	4%	4%	4%
Maintenance / Advertising	\$60	\$62	\$65	\$67
Condo/Association Fees	\$130	\$135	\$141	\$146
Net Rent (Gross Taxable Income)	\$595	\$617	\$640	\$701
Monthly Interest	\$485	\$479	\$473	\$467
Monthly Depreciation	\$242	\$242	\$242	\$242
Pre-Tax Net Monthly Income	(\$133)	(\$105)	(\$76)	(\$8)
CASH FLOW				
Federal Income Tax Rate	28%	28%	28%	28%
State Income Tax Rate	3.00%	3.00%	3.00%	3.00%
Local Income Tax Rate	0.00%	0.00%	0.00%	0.00%
Total Monthly Income Tax	(\$41)	(\$33)	(\$24)	(\$3)
Monthly Pre-Tax Cash Flow	\$26	\$48	\$71	\$132
Monthly After-Tax Cash Flow	\$67	\$80	\$94	\$135

Note that in Year 4, the PMI component goes away. This is because your loan-to-value ratio has dropped below 80%, so the mortgage company no longer needs the insurance.

What you want to do as an investor is to put down as little as possible while watching for negative cash flows. If you can handle a negative cash flow, then put down less money than this example shows. If you try different values in the property analyzer, you will see the effect on your cash flow for different down payments.

The reason for this is that your return on investment from appreciation will be much higher if you put less down. Consider an investment of \$10,000 and one of \$20,000. If the property was \$100,000 and it appreciates 6% in one year, the value would go up by \$6,000. On the \$20,000 investment, your return would be 30%, while on the \$10,000 investment, the return would be 60%!

Lets look at the 4-year return on investment from our example. The following section of the worksheet shows what you can calculate with the property analyzer:

LINE		Year 1	Year 2	Year 3	Year 4
1	Property Appreciation Rate	6%	6%	6%	6%
2	Inflation Rate (For rent and expenses)	4%	4%	4%	4%
3	Value of Property (End of Year)	\$106,000	\$112,360	\$119,102	\$126,248
4	Annual Mortgage Reduction	\$1,006	\$1,073	\$1,145	\$1,222
5	Accumulated Mortgage Reduction	\$1,006	\$2,079	\$3,224	\$4,446
6	Annual After-Tax Cash Flow	\$802	\$966	\$1,134	\$1,617
7	Accumulated After-Tax Cash Flow	\$802	\$1,768	\$2,902	\$4,519
8	Annual Equity Build-up	\$7,006	\$7,433	\$7,887	\$8,368
9	Accumulated Equity Build-up	\$7,006	\$14,439	\$22,326	\$30,694
10	Accumulated Cash + Equity Yield ROI	52.05%	108.05%	168.19%	234.75%
	NET SALE PROCEEDS				
11	Sale Price	\$106,000	\$112,360	\$119,102	\$126,248
12	Mortgage Balance	\$88,994	\$87,921	\$86,776	\$85,554
13	Sales Commission (6% of sale)	\$6,360	\$6,742	\$7,146	\$7,575
14	Miscellaneous Fees (2% of sale)	\$2,120	\$2,247	\$2,382	\$2,525
15	Net Settlement Proceeds	\$8,526	\$15,450	\$22,798	\$30,594
16	Taxable Capital Gains	(\$7,480)	(\$1,629)	\$4,573	\$11,148
17	Accumulated Depreciation	\$2,909	\$5,818	\$8,727	\$11,636
18	Tax on Accumulated Depreciation	\$902	\$1,804	\$2,705	\$3,607
19	Federal Capital Gains Tax	(\$1,496)	(\$326)	\$915	\$2,230
20	State Capital Gains Tax	(\$224)	(\$49)	\$137	\$334
21	Local Capital Gains Tax	\$0	\$0	\$0	\$0
22	Total Taxes	(\$819)	\$1,429	\$3,757	\$6,171
23	Net After-Tax Profit	(\$5,655)	(\$979)	\$4,041	\$9,423
24	Total Profit (Includes net cash flow)	(\$4,853)	(\$13)	\$5,175	\$11,040
25	Net ROI (After-tax)	-32%	0%	34%	74%
26	Net Compound Annual ROI (After-tax)	-32.35%	-0.04%	10.38%	14.79%

Look at the difference between Line 9 and Line 23 on this table. You can see that there is a big difference between your net equity in the property and what you can walk away with after settlement and taxes. Thus, many long-term investors do not sell their properties, rather they either borrow against them, tax-free, or do what is called a 1031 Exchange. That is way beyond the scope of this course.

To summarize, a larger down payment can provide a positive cash flow as well as make some newer investors more comfortable. As the investors become more aware, more experienced, they learn the power of leverage and learn why negative cash flow is not such a bad thing. The most important thing in the beginning is that you work within your comfort zone. Once you get the hang of it, you can start using leverage to your advantage.

Capital Gains Tax Info

Capital gains tax rates have changed considerably since 1997, including some *even lower*, very-long-term tax rates that went into effect on January 1, 2001. What capital gains tax rate applies to you specifically? It all depends on:

- Your cost basis
- The length of time you held the asset before selling it
- Your income level

Qualifying for the lowest rates are stocks, bonds, mutual funds, and many other capital assets. Taxed at a slightly higher rate are business or rental real estate, collectibles, depreciation, and some other things we won't get into here.

There are three holding periods for capital assets sold:

- Those held for one year or less are considered short-term and receive no preferred tax treatment. You'll simply pay taxes at your "normal" tax rate on those gains.
- Those held for more than one year are considered long-term, and you will receive a tax break on the sale of those assets.
- Those held for more than five years are considered "super-long-term" and are taxed at an even lower rate than long-term gains. But, there are restrictions about when the assets were purchased that vary depending on your tax bracket.

Here's the bottom line:

If you're in the 15% income tax bracket:

- Capital Gains on assets held for a year or less are taxed at your ordinary income tax rate (in this case 15%).
- Capital Gains on assets held for more than a year, but less than five years, are taxed at a reduced rate of 10%.
- Capital Gains on assets held for more than five years are taxed at a reduced rate of 8%.

If your ordinary income tax bracket is greater than 15%:

- Capital Gains on assets held for a year or less are taxed at your ordinary income tax rate (anywhere from 28% to 39.6%, depending on your specific ordinary tax rate).
- Capital Gains on assets held for more than a year are taxed at a reduced tax rate of 20%.
- Capital Gains on assets held for more than five years are taxed at a reduced rate of 18%, **but only if the assets were purchased on or after January 1, 2001**. Assets purchased *before* January 1, 2001 that fall into this holding-period range are still taxed at the 20% long-term rate.

A Word on Deducting Closing Costs on a Rental Property

If you buy a rental property, you need to know what to do with the closing costs, as far as deducting them from your taxable income. The deduction depends on the type of item:

Costs related to purchase, such as the appraisal, title insurance, closing fee, etc, are added to the cost of the property and depreciated over the 27.5 year period. Everyday expenses, such as prorated utilities, HOA dues, are deductible in the year of purchase. Prorated rents are income, and must be declared as such. Items paid into escrow (property taxes, insurance) are not deductible until they are paid out of escrow (usually shows on your 1098 statement from your mortgage company). Points on the loan used to purchase the property are amortized over the life of the loan.

Chapter 9. Basic Principles of Real Estate

This chapter teaches you some of the basics of real estate so you can be a more-informed investor. It helps to have an understanding of what you are purchasing, and to be aware of some of the pitfalls there may be, especially if you do not use the services of a buyer's agent. A buyer's agent is required to be loyal to you and to act in your best interests, not in those of the seller. You will learn more about the advantages of using a buyer's agent when you are looking to purchase your investment or rehab/assignment property later in this chapter.

Basic Concepts

In real estate, there are two categories of property, real and personal. Real property is defined as the land and whatever is attached to it, known as improvements. Personal property is everything that is not attached to land or buildings. This is often known as chattel. A fixture is an item of personal property that has been converted to real property by permanently attaching it. Two examples include chandeliers and cabinets. When they were at the store, they were personal property. Once they are attached to the property, they become real property. A listing agreement and an agreement of sale specify what is considered as a fixture. If you are purchasing a property, you should carefully inspect this clause to see what you are getting and what you are not getting.

Bundle of Rights

When you purchase real property, you get what are known as a "bundle of rights". These are the rights of ownership. They include the right to occupy, to use, to allow others to use, to rent, to restrict, to construct buildings, to keep others off, to leave and abandon, to convey ownership and to encumber. In some cases, if you don't use your rights, you can lose them. For example, if someone occupies your property, or a part of it for 21 years and you have done nothing to keep them off, they can go to court to sue for possession or to have an easement added to your deed, giving them permission to use the property.

Property Limitations

Even though you have the bundle of rights, these rights are superceded by government powers. The government has the right of police power, meaning they can enforce laws for the good of the general public. This includes zoning laws, building codes, environmental protection laws, subdivision regulations, and local ordinances. Without these laws, you could have people doing whatever they wanted with their properties, to the detriment of those around them.

Other government powers include eminent domain, taxation and escheat. Eminent domain is the power that lets the government take, with fair compensation to the owner, property for the benefit of the public. Examples include when a new highway or interchange needs to be built. The government can, through eminent domain, take whatever property they need and pay the owner the fair market value. Taxation is seen as the ever-increasing property taxes that are assessed

based on the property's market value and the tax rate. Escheat is where a property is returned to the state when the owner dies and he or she has no heirs. A property can be gifted to another through a will, or a "devise".

There are other forms of restrictions placed on a property. One is a deed restriction. A property owner can specify how a property can be used in the future by all future owners by including any new restrictions into the deed. An example includes specifying the minimum size that any building can be. Another example is where a large landowner declares that anyone who purchases a parcel of land from him can not build a swimming pool! Builders and developers use something called restrictive covenants to maintain the development conformity. Violations of a restrictive covenant can be enforced by any other property owner. Another limitation can come from your mortgage. A mortgage can include provisions that require a property owner to get written permission from the lending institution to make any structural changes to the property. Why? Because they have an interest in the property maintaining its value, should they need to foreclose on it.

Environmental Issues

As an investor, you need to be aware of environmental issues that can affect a property's value and the inhabitant's health. These include asbestos, electromagnetic fields, groundwater contamination, lead in the pipes or paint, radon, underground storage tanks (leakage of oil into the soil), carbon monoxide, waste disposal sites, and mold. When you are looking at a property, you need to make sure that your agent gets any of these issues disclosed before you make an offer on a property. You could be in for a surprise if you bought a property, intending to assign the contract and you had no escape clause for the 50 year-old oil tank in the ground that is leaking oil into the groundwater. Most real estate agreements of sale now include as standard language such contingency clauses.

Encumbrances

An encumbrance is a special claim or interest in real property that is held by someone other than the owner and it creates a limitation or burden to the property owner. Examples of these include a deed restriction, easements and liens. Deed restrictions were mentioned above. An easement is the right of some other person to use your land for a specific purpose. Examples include the permission for another property to use your driveway to access their property, for a utility company to run electric, gas, telephone and cable lines through your property, or to provide other access to another property through yours.

A lien is a legal claim by a creditor against the property of a debtor to obtain payment of a debt. It is an encumbrance on title to real estate. Examples include a judgment, mortgage lien, property tax lien or a mechanics lien. A judgment is a general lien against an individual, while the other liens are specific, and attached to a property. A mortgage lien leads to a foreclosure. A tax lien leads to a tax sale. Mechanics liens are interesting in that they can be levied by a subcontractor against a property that he worked on, if he does not get paid for his work. A mechanics lien can be placed on a property even if the owner paid the general

contractor for the work, but the general contractor did not pay the subcontractor. Thus, you may want to discuss the possibility of this with your agent and perhaps purchase mechanics lien insurance to protect you against a claim. Typically, a contractor has 4 months from when he last did any work on a property to file a lien. If you purchase a property that has just been rehabbed, you need to ask the seller for copies of a "release or waiver of lien", or for the names of the contractors used to do the work. Find out if they have been paid and if their subs have been paid. If in doubt, get mechanics lien insurance, or else you could be hit with a lien up to 4 months later.

If a lien is discovered to have been filed on a property between the time that you sign the agreement of sale and settlement, the seller is responsible to have it removed.

Freehold Estates

A freehold estate refers to an ownership interest in property for an undetermined period of time. It is a form of ownership that you get when you purchase a property. There are various types of freehold estates, with the most preferred type being called fee simple. It is the highest and most complete form of ownership possible. It gives you the full bundle of rights, including the right to pass your ownership interest on to your heirs when you die. A second type of freehold estate is called a defeasible fee estate. It is a conditional form of ownership. An example could be where a person could receive ownership of a farm as long as the owner uses the property as a working farm. Failure to meet this condition would result in the property being returned to the former owner or to a designated future owner. A third type of freehold estate is known as a life estate. A life estate occurs when the ownership interest in the property is based on the life of a person. When that person dies, the property goes back to the original owner or to someone called a remainderman. The only important concept here for you is to make sure that the property you are going to purchase is not a life estate. If you did make that purchase and the person on whom the estate is based dies, you could find yourself with no property at all. Thank goodness for title insurance.

Leasehold Estates

As an investor, you may be involved in conveying a leasehold estate to a tenant. When you rent out a property, you give the tenant the right of possession and occupancy of the leased property. The standard lease gives the tenant an estate for years, or a tenancy for years. This type of estate has a fixed start and end date. A one-week vacation rental for a shore property is also an example of a tenancy for years. Neither the landlord nor the tenant must give notice to the termination of this type of lease.

Another form of leasehold estate is a periodic estate or periodic tenancy. An example of this is the month-to-month lease. It automatically renews, period after period, until a notice is given by either party to terminate the interest of the tenant.

One final form of leasehold estate that all investors hate to have is an estate at sufferance, or a holdover tenant. This means the tenant maintains occupancy at the suffering of the landlord. If the tenant remains following the expiration of a lease, he is a holdover tenant. Technically, he is trespassing and they you the landlord may begin the eviction process. However, should you decide to accept rent from the tenant at that point, his interest coverts to what is called an estate at will, where he is there at the will of the landlord. It gives the tenant the right to remain there for an uncertain duration.

Ownership

There are different forms of taking ownership to a property, and you need to understand each one and what it means. They are severalty, tenancy by the entirety, joint tenancy and tenancy in common. If you are not sure what form to take ownership with, consult with your attorney. A real estate agent is not permitted to give out this type of advice, as it is outside the scope of his or her license.

Tenancy by Severalty

This is the most common form of ownership of real estate when the property is held by one person or one legal entity such as a corporation, a limited partnership or an LLC. The word severalty may be confusing, because it sounds like it means "several". It does not. It means to "sever", or stand alone, as would be the case with a single owner.

Tenancy in Common

With tenancy in common, two or more individuals hold ownership interest in the property, with each receiving an undivided, fractional interest in severalty. Three people could have a tenancy in common, with one person having half an interest in the property and the other two each holding a one-quarter interest. The severalty interest feature means that each co-owner has the basic right of ownership to sell, mortgage, or will away his interest separately from the other co-owners. Note that this is different than a group of individuals who form a limited or general partnership or corporation to own the property. In that case, the new entity owns the property in severalty, while the individuals own an interest in the business entity only.

Joint Tenancy

To obtain a property via joint tenancy, all the co-owners must get their ownership interest at the same time, in the same title document, and with the ability to possess the whole, undivided property. The fractional ownership interest must ALWAYS be equal!

Joint tenancy gives the right of survivorship. This is triggered by the death of a co-owner. In the event of the death of a co-owner in joint tenancy, the fractional ownership interest of the deceased would pass directly to the other co-owners, and could NOT be willed away to the deceased's heirs. The survivors get the right of

ownership in the event of death. This type of ownership has been called a “prro man’s will”.

Tenancy by the Entirety

This type of ownership is reserved for a husband and a wife. It provides for automatic right of survivorship. It lets the ownership pass directly to the surviving spouse without a will. The only ways to end tenancy by the entirety is by divorce, decision or death. Upon divorce, ownership of real property would convert to tenancy in common.

Trusts

Ownership of real property can also be held in a trust. A trust is a legal instrument that is used to protect family ownership interests. A trust has three parties, a trustor, a trustee and a beneficiary. The trustor conveys ownership of the property into the trust, which is then held by the trustee. Based on some event according to the terms of the trust the property is eventually conveyed to the beneficiary.

A special form of a trust is a land trust, and it is often used by real estate investors to conceal who is buying the property (the beneficiary). It is used in many times when a property is taken subject to the existing mortgage, as the title is not really transferred to a new individual, but placed in the trust. This helps to avoid the due on sale clause on the mortgage. With a land trust, the public records only indicate the name of the trust and the trustee.

Condominium and Cooperative Ownership

If you buy a condo, you are purchasing one or more individual units plus an interest in the common areas. From a technical standpoint, you are really only buying air, since you do not own the walls, the ceiling or the floor of the unit! Common areas include the parking lots, grass areas, health club, swimming pool, etc...

With a coop purchase, you are buying a share in the corporation that owns the building and then getting a leasehold estate to live there. You do not get the full bundle of rights that you get with a traditional purchase, but basically the right of possession. The lease is called a proprietary lease, in that it gives the leaseholder the right to deduct his or her share of the building’s property taxes and interest on its mortgage from his or her own income for income tax purposes. A coop owner can not sell his unit on the open market, but rather can only sell his share back to the corporation.

Title to Real Property

So far, we have talked about estates and forms of ownership, but now let’s look at the concept of title. Title is the right of ownership of property. There are five basic kinds of title – naked possession, color of title, right of possession, good title and complete good title. Lets look at each of these in more detail.

Naked Possession

This form of title takes place when someone having no real property rights takes physical possession of a property and claims through actual occupancy to have an ownership right in the property. It is referred to as “squatter’s rights”. Technically, it is called naked possession. In reality, it is trespassing, but if a squatter stays at the property for a number of years, a claim of title can be made in the courts.

Color of Title

Color of title occurs when a person has a mistaken impression of having good title to real property. Here is an example of how this would work. Owner A leases real property to Tenant B. Tenant B, without having ownership rights, fraudulently sells the property to Buyer C. Buyer C would take possession of the property with the belief that he has good title to it. Since Owner A has good title, Owner C would only have color of title.

Right of Possession

This is the next higher form of title, and it is what a tenant gets when an owner leases him the property. The tenant gets the right to possess the property.

Good Title

Good title is also known as marketable title, because it can withstand claims of ownership against others and is insurable. With good title, the owner has full ownership but not necessarily the right of possession, in the situation where the property is rented to someone else. The landlord lacks the right of occupancy of that property until the tenant’s leasehold estate expires.

Complete Good Title

This is the strongest form of title. It is the same as good title, except that the property is owner-occupied. This gives the owner the full bundle of rights, including the right of possession.

Equitable Title

There is another category of title called equitable title. It occurs when a party does not hold legal title but has the right to obtain full legal title at some point in the future. The most common example of this is when a buyer signs an agreement of sale, but settlement has not yet occurred. During this time, the seller still holds title to the property. It will not be conveyed to the buyer until settlement. If a buyer is concerned about the property not being damaged or destroyed by fire or other causes, he can obtain insurance or an insurance binder on it, since he has equitable title. This can happen if during the examination of the seller’s insurance policy it is discovered that the seller is under-insured. Thus, if you are a buyer of a property, you should check on how much insurance the seller has on it. You need to make sure that if there is not adequate replacement coverage, you have the right to obtain additional insurance on your own.

Another example of equitable title happens when a purchase is made using an installment sale. This is also known as a land contract or a contract for deed. In

this type of sale, a buyer makes a purchase but makes payments over a period of time to the seller. The buyer is usually given the full right of possession to take occupancy of the property. The seller holds the actual title since there is a risk that the buyer may not make all the payments. By holding the title, the seller avoids having to go through the foreclosure process. If all the payments are made, the seller conveys real title to the buyer after the last payment is made.

Title Search and Title Insurance

As a buyer of a property, you not only have to inspect the condition of the property, but also the title to make sure that good title exists. Fortunately, we have title companies to do this. A title company, or abstract company, will do a complete title search to discover if there are any "clouds on the title". If someone had placed an option to purchase the property with the seller and the seller did not tell you about this, if the option was recorded, then the title company would see this, and thus there would be a cloud on the title, until that option expires. As good measure, if you ever purchase an option to buy a property from a seller, have it recorded at the courthouse so that the seller can not go around you and sell the property!

Theoretically, the chain of title can go all the way back to colonial times, and in the Philadelphia area, back to William Penn. In practice, a title search only goes back 70 years or so. If a cloud on the title exists, a "suit to quiet title" may be required to be filed to establish good title by satisfying any and all claims to the title. In the Philadelphia suburbs, a major mall in King of Prussia had to settle a claim of about a million and a half dollars by a person who found out that his ancestors failed to include him in their will because they assumed he was dead. He was in fact, a drifter, but some attorney who had made his fortune was giving back to the community and invited parishioners to bring about any legal issues they had. Somehow, upon going through the drifter's possessions, he came across a document that showed that the drifter held a claim on the title to the property that was sold to the mall developers. The mall's title insurance company paid off the drifter and the drifter then relinquished his claim to title on the property.

When a title search is done, the person doing the search checks the chain of title by examining the records of ownership, and any liens and encumbrances that may exist. Other records that are checked include the recorder of deeds, tax assessment, tax collector, prothonotary, as well as offices involving zoning, probate, marriage, divorce, adoption and federal liens. If there is no evidence of defects, a title insurance policy can be issued. This insurance protects the new owner during his time of ownership against any claims that may arise. Typically, the insurance will cover up to 150% of the appraised value of the property.

Deeds

A deed is a written document that conveys title of real property to an owner. The person who gives or grants the deed is called the grantor. The person who receives the deed is the grantee. A deed is not a contract as the buyer does not sign it. A deed does not guarantee ownership either. Suppose two individuals have

a deed to the same property. If there is no fraud involved, the person who had recorded the deed first would be recognized in Pennsylvania as the rightful owner. Other states may be different, so you should talk with your real estate agent to make sure you understand how deeds work in your state.

A question is sometimes asked, "What if the seller can't find their deed?" That is not a problem. You do not need the original deed to prepare a new one. If you are going to do a "sub 2" deal, you can just have the seller go online (or you can do the same) and get a blank deed to be filled out. One place where you can find a selection of free and paid legal forms, including deeds, is at <http://www.kaktus.com/re/formslst.html>. As long as the deed is filled out properly and it is signed by the seller (and, preferably notarized), you hold title to the property.

There is a difference between title and deed. Title is the right of ownership of property. A deed is a written document that conveys title to the property. Title is a right. A deed is a document. The two most basic types of deeds are the quitclaim deed and the warranty deed.

Quitclaim Deed.

Some people mistakenly call this a "quickclaim deed". That is not the case. It is a deed where the grantor quits his claim to title of the property. It is typically used between family members or when a divorced spouse gives up his or her claim to the property they used to own as tenancy in the entirety. This type of deed does not provide any guarantee that the new owner is receiving good title to the property. It is not normally used to convey title from a seller to a buyer since there are no warranty provisions.

Special Warranty Deed

There are two types of warranty deed, a special warranty deed and a general warranty deed. A special warranty deed provides a guarantee of good title by the grantor (the seller) to the grantee (the buyer). The guarantee is limited only to liens placed on the property during the seller's ownership period. The seller warrants that during his time of ownership, there were no acts taken to create a claim against the title that is being transferred and that the grantor will defend the title against the claims of others during this time.

General Warranty Deed

A general warranty deed provides a guarantee of good title not only by the seller, but back through the chain of title through all the previous owners of the property. It asserts that the seller will defend the title against all claims through the chain of title. It is the strongest type of deed that provides the greatest liability to the grantor. It also provides the strongest title protection to the grantee, or buyer. The general warranty deed is the most common deed used in the US. However, in Pennsylvania, the PA Association of Realtor's agreement of sale conveys title using the special warranty deed, as this is in the best interests of the seller. Remember when I told you that you should use a buyer's agent when purchasing property?

This is because traditionally, the real estate agent had a fiduciary responsibility to the seller, not the buyer. The seller is the agent's client, while the buyer is just a customer. If you use a buyer's agent, the allegiance is the other way around, giving you the strongest protection in making a purchase.

In either case, the issuance of title insurance makes it easy to satisfy any claims from either a special or general warranty deed. Suppose a claim is to be made against the seller of the property, but the owner can't find him, or if he does, there is no money to pay the costs. What is the owner to do? Contact the title insurance company to satisfy the claim.

The Reasons to Use a Buyer's Agent

When you are going to purchase real estate, you really should use your own buyer's agent and not rely on the agent who has listed the property. This agent is bound to represent the best interests of the seller, not you. A seller's agent is bound to not disclose anything that he or she knows about the seller's interest in selling the property, or how low the seller is willing to go on the price. Even though the seller's agent is bound to inform the buyer of any material defects about the property that may affect its value, the seller's agent may not disclose everything that you need to know. Examples include the rate of appreciation of properties in the area, the quality of the schools there, or whether or not there will be a tax revaluation, leading to larger property taxes. Remember, the seller's agent has a fiduciary relationship to the seller, not to you. Consider the analogy of an attorney representing both the defendant and the plaintiff at a trial. Would you be comfortable being on either side? Or how about a sport's agent for a player who also works as an agent for the team with whom he is negotiating a contract for the player? Can you see how there is a conflict of interest? The real estate agency is a bit unusual in that there is the concept of dual agency, meaning a real estate broker can represent both the buyer and the seller. Clearly that is not in your best interests as a buyer, thus you are better off using your own buyer's agent.

If you use a buyer's agent, you agree to pay the agent a fee, usually half the average listing fee, or 3%, if you purchase a property during the agreement period. You will sign a buyer's agent agreement, which will protect the buyer's interest in spending his or her time with you to help you find a property. If you are purchasing a property listed with another agent, the fee is already covered, as the typical listing arrangement calls for paying the buyer's broker or agent 3% of the purchase price. If you purchase a property not through an agent, there are a few ways to work the 2% or 3% fee into the purchase price of the property. Talk with your agent for specifics.

Chapter 10. Creating Cash With Discounted Notes

This chapter will teach you how to create cash on properties you may have to sell, and how to create cash from other peoples' properties. I am going to introduce you to the concept of note brokering, or converting a stream of payments, secured by a mortgage, to up-front cash.

If you sell a property to someone using "owner-financing", you will be taking back a first or second mortgage on the property. You are taking a first mortgage if you own the property free and clear and you either have a buyer who could not qualify for traditional financing, or you wanted to get a higher rate of return on your money than you would have received from a bank. For example, if you sold a property for \$100,000, you could have had the buyer qualify for a mortgage for the full amount, and you get the proceeds. Or, you could hold the mortgage, charging perhaps 9% interest, which sure beats the rates offered by any other secured investment. I say secured, because if the borrower fails to make payments, the seller can foreclose on the home and get it back, along with all the monies already collected!

Along with taking back a first mortgage, a seller can have a buyer qualify for a traditional first mortgage on part of the sales amount, then offer to take back a second mortgage to cover the balance. This lets the seller get a higher prices for his property, while letting the buyer still qualify for a mortgage.

Now, you have a seller who is collecting monthly payments from his buyer. Over time, the seller may want to have the money for some other investment or financial need, or he may find that collecting payments is not all that fun. Most note-owners have no idea that they can get a cash balance for their note, discounted of course. If you know this, and know how to find both note buyers and note sellers, you can act as a broker and collect a fee for this service. So, how do you do it?

Finding those holding mortgages is simple. You can do it in one of two easy ways – either running a classified ad looking for note holders, or using the public records of recorded mortgages looking for those who are carrying a note. In the case of the classified ad, it would look like this:

Collecting monthly payments?
We pay cash for your note.
Quick funding. 215-555-1234

You should run these ads in the "Real Estate Services" section of your Sunday newspaper, or in any of your local weekly papers. The secret to finding notes is PATIENCE. Frankly, you won't get many calls, just because the percentage of people who own notes isn't very high. The more papers you advertise in day after day, the more calls you'll get. Keep running your ads, week after week. Rural, small and medium-sized papers can be ideal - they're cheap and you have no

competition. A good criteria is this: If you've located no notes after two months in a larger daily paper, 6 months in a small town daily or 1 year in a weekly, drop the ad for 6 months and then try again. If you just hit those averages, you are doing just fine.

What will you say when people call? Just use the enclosed Note Information Form. Ask the questions on it, copy down the information and then get it to whomever is going to buy or broker the note. This should be enough information that most note buyers would need to give a quote. In the section below, you will learn how to find note buyers and note brokers. I suggest that you hook up with a couple of sources before you start advertising for notes.

If you're going to be an active note finder you have to let people know about you. It's a long process before you get results, and the principle of "out of sight, out of mind" applies. You have to keep reminding people that you're out there waiting for notes. Obviously, you should concentrate your efforts on people who are in a position to bring notes your way, primarily real estate agents and brokers, title company employees, bank trust officers and bank loan officers, and attorneys with a real estate practice.

Look for advertisements placed by real estate agencies promoting their top producers. These are the leaders in the local real estate community. Call them and tell them you're looking for "owner financed" notes and ask them to call you with any they know about, either now or in the future. You can even offer them a modest referral commission, say \$100 for every note they bring you that is purchased (when you're making \$500 or more for one phone call to the note owner and a fax to us, paying the agent \$100 is smart!). Note that in some cases real estate agents are prohibited from receiving such commissions, but that is their decision, not yours.

Follow-up with a brief letter and enclose your card - or, better yet, your own rolodex card! You could have some color rolodex cards printed with "CASH FOR NOTES" on the tab, and your name, phone number and other information on the card, and hand them out to real estate agents and others. Keep in touch with these folks with a letter every couple of months and it will begin to pay off.

Make a habit of dropping in on every open house you see, look around a little bit, and then get the conversation with the agent around to your real purpose: let him or her know you buy notes. Be sure to leave them with your card (or rolodex card) that indicates you buy notes -- in fact, give them several to pass around their office. Follow up your open house visits with a phone call or personal letter to the agents, thanking them for their time and reminding them you buy notes. Ask them to tell other agents about you, and send more cards they can pass around the office and post on the bulletin board.

Networking

Networking shouldn't be restricted to real estate agents. Attorneys, accountants, title company officials and bankers often have notes crossing their desk. Use the personal contacts you already have with these people to let them know you are interested in notes. A tasteful letter indicating the same, mailed to names you find in legal directories at the library or simply culled from the phone book, may produce results. Your letter must be low-key and professional if you expect results.

The Bulletin Board Method

You can always put up little signs on community bulletin boards advertising that you buy notes. Remember that the stores, community centers and other establishments that permit notices remove them on a regular basis (such as every two weeks). It becomes almost a full-time job just to keep your notices up. If you're going to do this, you're eventually going to have to hire someone like a high school student to do the legwork.

This technique has one great advantage: you can do it yourself for free. Therefore, it's a way you can get started this afternoon with no up-front investment. Be sure you handwrite your ad, and use the same wording advised for your newspaper ads. Handwritten ads are much less threatening than printed ones; simply write it out with a black felt-tip pen and have it reproduced on index cards at a quick print shop. Put up your cards with a stapler, which is much faster and less expensive than thumbtacks. Print "cash for mortgages" and your phone number on tabs they can tear off.

Again, this is a method that requires patience. You have to keep putting your notices back up and keep working at the program. This is really a supplement to your other efforts and should not be your only method. The downside to the bulletin board method is that the response will be so poor that you could be discouraged from notes altogether, which would be a disaster. If you try this, convince yourself not to expect any response at all. Then you might be pleasantly surprised.

Regarding contacting note holders directly, a mailing to real estate attorneys, accountants, title companies, escrow companies, and/or abstract companies, can produce a substantial amount of business. All mortgages and trust deeds are filed in the county clerk's office and this information is available to the public. You can obtain these names from the county clerk or from a mailing list broker. By making a direct mailing to these mortgage and trust deed holders in your area, you will receive a great deal of response to the service you are offering them.

On the next page, you will see a letter you can send to note holders, plus a follow-up letter you can send after your conversation with the note buyer.

Now, where do you find buyers for these notes? There are plenty of sources online. Here are a few that you may want to look at and call to find out how their program works, and also find out how you get paid. It may be directly from them, or you may need to have an agreement with the note seller that the seller will pay you a "finder's fee" for getting them the money. A typical fee may be 10% of the amount funded. The note brokerage or note buyer will be able to tell you these details. Here is the list of sources:

<http://www.kerklin.com/index.html>

<http://www.wallstreetbrokers.com/>

http://www.wes-state.com/note_brokering_opportunity.html

<http://www.papersourceonline.com/faq.html>

<http://NoteTrades.com>

<http://www.google.com/search?hl=en&lr=&q=%22note+brokers%22>

If you want to learn even more about this business, here is a great link where you can get articles for a buck each:

<http://www.cashflows.org/>

On the following page is a form you can use to screen those who call or respond to your ads or letters about selling their note. Here is the copy of a letter to use to send to those whom you find using the public records:

Dear _____:

We would like to send you an ALL-CASH quote for your note on the property located in XXXX County, XXXX (state). This is a free service to you.

If you would like to have a lump sum of cash, instead of waiting for monthly payments, now is the time to act. Or, if you would like to have a lump sum of cash but continue to receive part of your monthly payments, you can have that, too. It's up to you.

Best of all, there is no cost involved to you in any of this: No points to pay, no application fees, no charges whatsoever. We will pay all your expenses.

Please call me now at xxx-xxx-xxxx. Or return the enclosed card.

I look forward to paying you your cash!

Sincerely,

XXXXXXXXXXXXXXXXXX

President

P.S. This all-cash offer expires xxx

Here is the follow-up letter to send, once you have the net funding (after your fee) from the note buyer:

Dear Mr. Seller:

Here is the information you asked for when we spoke on the phone recently. Following is what I understand about your mortgage. I have calculated some figures based on what you told me:

Original Amount.....\$12,500.00
Current Balance.....\$11,729.70
Interest Rate..... 12%
Term..... 180 mos.
Monthly Payment..... \$150.13
First Payment Made..... 4/1/90
Final Payment Due..... 4/1/05
No. Payments Made..... 27
No. Payments Remaining. 153
Sale Price of Property. \$13,500.00
Cash Downpayment..... \$1,000.00
Type of Property..... 2/1 house on 1 ac.
Location of Property... Bloomington, Indiana

We can purchase the next 84 monthly payments for \$7,000.00. At the end of those 84 months, you would have the option of selling the remaining 69 payments or keeping them for income. The balance on the mortgage at that time would be \$7,454.40.

You would receive \$7,000.00 now + 69 payments of \$150.13, for a grand total of \$17,358.97.

Alternatively, we can purchase the entire mortgage, 153 remaining payments, for \$9,100.00.

Naturally, this offer is preliminary only and may be based on assumed or unverified information. A formal offer can be given only upon full examination of the property and all documents involved in the transaction.

Please contact me to go over how to get this agreement finalized.

Sincerely,

Your Name

INBOUND SCRIPT FOR NOTE REQUESTS

TO: _____ FAX (____) _____
BROKER'S NAME: _____ COMPANY _____
BROKER'S FAX (____) _____ PHONE(____) _____

Tell Us About The Property

What is the address of the property securing the note? _____

Does the note payor live there? _____ (If not) Is it currently rented? _____ For how much? \$ _____
What kind of property is it? (i.e., single family home, condo, duplex, apt. bldg., lot /land, etc.) _____ Describe the property & neighborhood in detail _____

What was the sale price of the property? \$ _____ What was the sale date? _____
How much cash did the buyer put down? \$ _____ How much was the 1st mortgage? \$ _____
If there is a current appraisal on the property how much did it appraise for? \$ _____ When was it done? _____ If there is no current appraisal, how much is the property worth today? \$ _____

Tell Us About The Mortgage (Trust Deed or Contract)

Is the mortgage you want to sell a 1st mortgage? Yes ___ No ___ (If Yes, skip the next 4 lines)

What is the name of the lender holding the 1st mortgage? _____

Is it a (check one) FHA mortgage ___ VA ___ Conventional ___ Private ___

What is the original amount of the 1st mortgage? \$ _____ Current balance? \$ _____

Interest rate ? ___% Monthly payment ? \$ _____ Does this include taxes & insurance? _____

What was the original balance of the mortgage you want to sell? \$ _____ Current balance? \$ _____

How long is the mortgage originally written for? _____ What interest rate? ___%

How much are the payments? \$ _____ per _____ Are they current? ___ If not, how far behind? _____

What was the date of the first payment? _____ When is the next payment due? _____

How many payments have been made? _____ How many remain? _____ If a balloon payment will be due, how much is it? \$ _____ What is the date the balloon is due? _____

Tell Us About The Payor

How often have they been late? _____ What is the payor's employment? _____

What is their name(s), address and (if known) S.S. No.? _____

Tell Us About Yourself

Why do you want to sell the note? _____

How much cash do you need right now? \$ _____ What else should we know about the note, the payor, the property or any other aspect of this? _____

____ What do you think is a fair price for your mortgage? _____

SELLER'S NAME: _____

(Put seller's address and phone on the back, not to be faxed to investor unless requested)

Help FSBOs Sell Their Home and Make up to \$2800

Here is a way you can capitalize on working as a note broker, and make from \$500 to \$2800 per deal you do. I represent a national lender of money who lets "For Sale By Owners" (FSBOs) sell their home by offering seller-financing to credit-challenged buyers. The program is remarkable in that they will assign a loan originator to every lead that comes in from their free report "How to Sell your Home in 2 days". You have a copy of this report in your forms package. It is about 10 pages long, and in PDF format.

The way it works is that prospects have a credit report run on them to determine which type of financing they would qualify for. At settlement, the loan company will cash out the seller, meaning they take the payments from the buyer and give the seller their cash up front, less a discount of around \$6000. It is out of this money that the company makes its profit, and in turn, pays people like you and me.

The marketing plan is very simple. You can contact FSBOs in your area or nationwide, using the Internet as a lead source. You will offer to send or e-mail them a free report on how to sell their home quickly and at full price. You will send them the report, then do you follow-up calls or e-mails a week later, then two weeks later and so on. When you have someone who is interested, I will assist you on your first two deals and you will make a \$500 commission on each one. After that, your commission goes to \$1000 per deal for your next two, then up to \$2800. To reach this level, you will need to register and train as a loan originator, as this person gets \$800 on each deal that is done.

The key concept that is taught in the booklet is to run classified ads using the lead line of "Owner Financing Available". This is what gets the phone to ring by those who may be looking for a way to qualify for a mortgage. The marketing piece is very good, and well worth your time to read.

You can either use the marketing PDF as it is, or you can have me customize it with your name, phone number, e-mail address and website URL included at the end of the booklet. I will also put your name and phone number as the footer on the bottom of each page. This way, if they forgot who sent it to them, or if they get material from others, your name will always be on each page of the guide.

You can find sources of FSBO leads at websites like:

<http://fsbo.com>

<http://www.forsalebyowner.com/>

<http://www.owners.com/>

<http://www.1800byowner.com/home.asp>

Just call the seller or send him an e-mail, message using the following in your letter:

Greetings,

My name is Joe. I work with those who are selling homes by themselves to show them how to sell the home quickly, and at full price. I am not a real estate agent, and I am not here to try to convince you to list your property.

What I do have for you is a 10 page booklet on how to sell your home at top dollar and in a very short time. I would like to send it to you at no cost. All you have to do is send me a reply back and I will send it right over to you.

Thousands of other "For Sale By Owners" have used the techniques in here to get to a fast settlement on their property. You will learn how the loan company I represent will let you advertise your property using the words "Owner Financing Available". This will attract many more callers to your ads and signs. However, instead of you carrying the payments on the mortgage, the loan company will do so. You will receive your cash at settlement. This company works with credit-challenged buyers, so your pool of prospective buyers will grow immensely.

I invite you to learn more about this program by asking for the free guide. It will also give you some tips on how to prep the property and show it. If you choose to offer the seller-financing program, you will be assigned to a loan officer who will help you every step of the way. There is no up-front cost for you to participate!

Thanks again for reading this message. I look forward to hearing back from you.

- Joe
215-480-2737

Why would I have you do it this way instead of just sending it out? Simple. I want you to have the permission of the recipient, because then you will be able to send follow-up messages to targeted prospects, instead of to everyone (suspects). Many times, a decision to do something does not happen right away. You need to follow-up with your prospects until they either say get lost or ask you how to proceed on them offering seller-financing.

If you have any questions on how to market this service to home sellers, please send me a note. I believe that this is a fantastic program that can make you some good money while providing a valuable service to home sellers.

Appendix A. Internet Resource Guide

This material only scratches the surface of the world of real estate investing. Over the past year I have been educated by many of the experts in the industry. I have spent hundreds (OK, over \$2000) on real estate home study packages from some of the real estate gurus, but I have found more value in what I have learned in the sites listed below. I have found many of these sites from doing Internet searches on various topics. If you spend some time visiting these sites, reading the articles, participating in the forums and downloading the free material, you will learn more than you will at any \$4000 boot camp.

General Real Estate Investment Sites

<http://loan-solution.com/index.html>
<http://www.legalwiz.com/realestatesites.htm>
<http://www.mortgage-investments.com/>
<http://ushud.com/dyn/pages/index/pages.html>
<http://www.realtytrac.com//home.asp>
<http://www.realestatelink.net/>
<http://www.realestateinvesting.com/>
<http://preforeclosureleads.com/>
<http://www.foreclosures.com/pages/glossary.asp>
<http://www.sub2deals.com/home.php>
<http://www.dealmakerscafe.com/>
<http://www.mrpreforeclosure.com/>
<http://buyincomeproperties.com>
<http://www.realestatetaxlaw.com/articles.php>
<http://www.reitoolbelt.com/>
<http://www.taxloopholes.com/default.asp>
<http://www.propertyinvesting.com/>
http://www.loansforallcredit.com/investor_resources.htm

Foreclosure Information

<http://foreclosurefreesearch.com>
<http://www.foreclosureworld.net/>
<http://www.realtytrac.com//home.asp>
http://www.foreclosures.com/pages/free_from_title.asp
<http://www.shortsaledeals.com>
<http://www.foreclosureuniversity.com/>
<http://www.shortsalecenter.com>
<http://www.legalwiz.com/articles/shortsale.htm>

Sources of HUD Homes

<http://nyny.towerauction.net/hud/PAB.htm>

100 Pages of Free Real Estate Secrets

<http://www.4-real-estate-investing.com/thanks1.html>
<http://www.resultsnow.com/freehowtoarticles.php>

Finding Sellers of Vacant Homes

<http://deadleads.com>

<http://findtheseller.com>

List of Investors Clubs:

<http://www.camerondirect.com/clubs/index.shtml>

Real Estate and Other Legal Forms

<http://www.dealmakerscafe.com/content/view/87/46/>

<http://www.dealmakerscafe.com/link/Free-Real-Estate-Forms/>

<http://www.legalwiz.com/forms.htm>

<http://www.ilrg.com/forms/>

<http://www.buyincomeproperties.com/FreeRealEstateForms.htm>

<http://www.totalrealestatesolutions.com/realestateforms/index.cfm#notice>

http://www.tannedfeet.com/legal_forms.htm

Being a Landlord

<http://MrLandlord.com>

Networking:

<http://www.camerondirect.com/networking.asp>

Spreadsheet Tutorial

<http://www.usd.edu/trio/tut/excel/index.html>

Forums and Discussion Groups

<http://www.gminvestors.com/talk/index.cfm>

<http://aireo.com/bbs/index.shtml>

<http://reiplace.com/newsgroup/list.php?f=1&ng=S2>

<http://www.thecreativeinvestor.com/Forum-index.html>

<http://dealmakerscafe.com/forum/index.php?act=idx&Itemid=47>

http://www.mrpreforeclosure.com/forum/forum_topics.asp?FID=2&PN=1

<http://www foreclosureforum.com/mb/index.html>

<http://www.uslandco.com/forum/index.html>

<http://www.creonline.com/legal/wwwboard7/index.html>

<http://creonline.com/clubs.htm>

<http://www.propertyinvesting.com/forum>

Hard Money Lenders:

Brookview Financial, Inc. - <http://www.brookviewfinancial.com>

Creative Finance - <http://www.creativefinancialcorp.com>

EQT Investments Inc. - <http://www.eqtinvest.com>

Fairfield Financial Services, Inc. - <http://www.altfunding.com>

Hard Money Store - <http://www.thehardmoneystore.com>

Lafayette Financial - <http://www.lafayettefinancial.com>

Ready Mortgage Corporation - <http://www.readymort.com>

Real Estate Investors Group - <http://www.flhardmoneylender.com>

Rehab Funding - <http://www.rehabfunding.com>
EZ Hard Money - <http://www.ezhardmoney.com/>
Statewide Capital Investments LLC - <http://www.statewideLLC.com>
No Seasoning - <http://www.noseasoning.com>
Atlantic Mortgage Loans - <http://www.loansforallcredit.com>

Sources Note Brokers:

<http://www.kerklin.com/index.html>
<http://www.NoteNetwork.com>
<http://www.wallstreetbrokers.com/>
http://www.wes-state.com/note_brokering_opportunity.html
<http://www.papersourceonline.com/faq.html>
<http://NoteTrades.com>
<http://www.google.com/search?hl=en&lr=&q=%22note+brokers%22>

Sources for Comps:

<http://www.ditech.com>
<http://www.dataquick.com>
<http://www.domania.com/homepricecheck/index.jsp>
<http://homeadvisor.msn.com>
<http://www.homebid.com>
<http://www.homegain.com>
<http://www.homepricecheck.com>
<http://www.homeradar.com>
<http://www.homesekers.com>
<http://homevalues.com>
<http://www.homevaluehunt.com>
<http://www.iplace.com/aboutus/turu.asp>
<http://marketdatacenter.com>
<http://www.netonline.com>
<http://www.octitle.com>
<http://www.owners.com>
<http://www.real-comp.com>
<http://www.realestate.com>
<http://realestateabc.homepricecheck.com>
<http://realestate.yahoo.com/realestate/homevalues>
<http://www.realtor.com>
http://homesales.basis100.com/home_sales_report/

Where to Advertise on the Internet for Investors

<http://Craigslist.org>

Due On Sale Clause Information

<http://www.legalwiz.com/articles/dueonsale-rightframe.htm>

50 Real Estate Investing Articles

<http://www.sub2deals.com/articles/>

Property Analyzer Software

<http://www.resultsnow.com/freesoftware.php>

Real Estate Success Stories

<http://www.creonline.com/success-stories/index.html>

Free Book – How to Create Multiple Streams of Income

<http://www.resultsnow.com/freebook.php>

FSBO Support Sites

<http://www.fsbosupport.com/>

<http://ownerbiz.com>

<http://fsbo.com>

<http://www.forsalebyowner.com/>

<http://www.owners.com/>

<http://www.1800byowner.com/home.asp>

<http://www.by-owner-ol.com>

<http://ByOwner.com>

<http://www.sellyourhomeyourself.com>

<http://www.fsbonetwork.com/>

<http://www.fsboonline.com>

<http://www.homesforsaleguide.com>

15 Free Real Estate Lessons

<http://www.freerealestatetraining.com/ec/ec001.php>

<http://www.freerealestatetraining.com/ec/ec002.php>

<http://www.freerealestatetraining.com/ec/ec003.php>

<http://www.freerealestatetraining.com/ec/ec004.php>

<http://www.freerealestatetraining.com/ec/ec005.php>

<http://www.freerealestatetraining.com/ec/ec006.php>

<http://www.freerealestatetraining.com/ec/ec007.php>

<http://www.freerealestatetraining.com/ec/ec008.php>

<http://www.freerealestatetraining.com/ec/ec009.php>

<http://www.freerealestatetraining.com/ec/ec010.php>

<http://www.freerealestatetraining.com/ec/ec011.php>

<http://www.freerealestatetraining.com/ec/ec012.php>

<http://www.freerealestatetraining.com/ec/ec013.php>

<http://www.freerealestatetraining.com/ec/ec014.php>

<http://www.freerealestatetraining.com/ec/ec015.php>

Internet Development Sites

Cheap Web Hosting: <http://DigitalSpace.net>

Domain Registration: <http://000Domains.com>

Free Logos and Buttons: <http://www.cooltext.com>

Appendix B. Real Estate Purchase Agreement

Purchase and Sale Agreement

This agreement is made this _____ day of _____, 20_____

between Seller(s) _____ Social Security

and Buyer

and or assignees. Seller agrees to sell and buyer agrees to buy the following described real property together with all improvements and fixtures and the personal property described below:

Street
Address _____

Legal description:

_____ County
_____.

Personal property included:

Earnest Money Deposit	\$ _____
Cash To Seller At Closing	\$ _____
Existing Loans & Liens	\$ _____
New Loan To Seller At Closing	\$ _____
Purchase Price	\$ _____

The purchase price to be paid as follows:

1. EARNEST MONEY to be deposited with licensed title company or attorney within 48 hours of acceptance by seller. The buyer will take title subject to the following loans on terms agreeable to the buyer:

A. Loan to _____ Balance
\$ _____
Interest rate: _____ %, Monthly Payment \$ _____ Loan
Number _____
Date last payment made _____ Loan current through

B. Loan to _____ Balance
\$ _____

Interest rate: _____ %, Monthly Payment \$ _____ Loan
Number _____
Date last payment made _____ Loan current through

Other liens:

Any overstatement in the above loan and lien amounts will be added to note to seller. Any understatement will be deducted from balance due at close.

2. THE BALANCE DUE SELLER in the amount of \$ _____ shall be paid as follows:

_____ including interest at the rate of _____%.

3. PRORATIONS, IMPOUNDS & SECURITY DEPOSITS: Loan interest, property taxes, insurance, and rents shall be prorated as of the date of closing. All security deposits shall be transferred to buyer at closing. All impound accounts for taxes and insurance are included in the purchase price and shall be transferred to buyer at closing. Any shortage in these accounts shall be charged to seller at closing.

4. CONDITION OF HOUSE AND APPLIANCES: Seller warrants that the house and all mechanical systems and appliances will be in good working order at closing. Buyer will have access to property for inspection and the cost of any needed repairs will be paid by seller at closing. Appliances and other personal property will be transferred by bill of sale free of encumbrances at closing.

5. CLOSING DATE AND TRANSFER OF TITLE: This transaction shall close on or before _____, 20____. Closing will be held at _____ and Seller(s) agree to transfer marketable title free and clear of all encumbrances except those listed and pay any required state taxes or stamps required to record deed and mortgage. Seller agrees to furnish title insurance in the amount of the purchase price, showing no encumbrances or exceptions other than previously noted.

6. DAMAGE TO PROPERTY: Seller shall maintain property in its current condition and keep it insured against all loss until closing in the event of destruction covered by insurance, buyer may elect to close and collect the insurance proceeds.

7. DEFAULTS: If buyer defaults under this contract, any and all monies deposited by buyer(s) shall be retained by seller as full liquidated damages. If seller defaults, buyer may pursue all remedies allowed by law and seller agrees to be responsible for all costs incurred by buyer as a result of seller's default.

8. SUCCESSORS AND ASSIGNEES: The terms and conditions of this contract shall bind all successors, heirs, administrators, trustees, executors and assignees of the respective parties.

9. ACCESS ADVERTISING AND REPAIRS MADE BY BUYERS: Sellers agree that buyers may advertise property and have access during reasonable hours to show property to others. If the property is vacant and in need of repairs, buyers at their expense may make repairs and improvements, and any improvements made shall become the property of the seller should the buyer default,

10. ADDITIONAL TERMS AND CONDITIONS:

The undersigned have read the above information, understand it and verify that it is correct.

SELLERS:

BUYERS:

Appendix C. Sample Cards and Ads

Here is a sample business card ad:

Cash For Your House	
Any Condition—From move-in to total rehab project Any Situation—Foreclosure, divorce, vacant, Take over payments. Fast Settlement—As quick as two weeks. No Broker Fees—We are not real estate agents.	
Joseph Kamenar 215-480-2737 877-231-6591 215-525-1309 (fax) JoeKamenar@aol.com	Tell Us the Following Information: Asking Price Estimate of Market Value Condition of the house—repairs needed Current mortgage balance and monthly payment Any back taxes or other liens.

Here is a sample flyer you can use:

WE BUY HOUSES			
Any Condition • Any Price • Any Situation			
215-555-5555			
Do you need to sell your home quickly? Are you behind on payments? Is it in need of repairs? Is it vacant? If you really need to get rid of it, we will make you an offer. We buy houses in any condition. We are NOT real estate agents. We are real estate investors who will work with you to get a quick sale with no hassles. Call now and let us know your situation!			
[Your Name]	[Company Name]	[Phone Number]	[E-mail Address]

Appendix D. Assignment Agreement

Assignment Agreement

This Agreement dated the _____ day of _____ is made between

(ASSIGNOR) and
(ASSIGNEE), regarding the
property described as:

The property address is known as _____ (SUBJECT
PROPERTY)

WHEREAS, _____ (ASSIGNOR) entered into a
Purchase and Sales Agreement dated _____, _____ with

(SELLER) for the purchase of the
SUBJECT PROPERTY, and whereas ASSIGNOR wishes to assign its rights and interest in the
Purchase and Sales Agreement, it is hereby agreed between ASSIGNOR and ASSIGNEE as
follows:

1. Assignment Fee.

ASSIGNEE shall pay ASSIGNOR an assignment fee of _____ U.S. Dollars.
Assignment fee is payable at close and shall not become due to ASSIGNOR until that time and
unless title to SUBJECT PROPERTY is delivered to ASSIGNEE as per the terms of this contract
and the Purchase and Sale contract.

2. Down Payment.

ASSIGNEE shall pay _____ U.S. Dollars of the Assignment Fee at the
signing of this contract. The Down payment is refundable only if the Seller does not perform.

3. Closing Date.

Closing is to take place on or before _____.

4. Contract for Sale and Purchase Acknowledgement.

ASSIGNEE accepts all terms and conditions of the original Contract for Purchase and Sale dated
_____, in its entirety including all addendums associated with this transaction.

5. Hold Harmless.

ASSIGNOR shall not be held responsible for the performance of the ASSIGNEE, and shall
further be held harmless for any other circumstances arising from or in connection with the
SUBJECT PROPERTY or the Purchase and Sales Agreement.

6. Non Performance Acknowledgement.

ASSIGNEE has read Paragraph S under Standards for Real Estate Transactions on the original
Contract for Purchase and Sale and hereby agrees to abide by its terms. ASSIGNEE agrees that

the terms of Paragraph S shall apply to all deposits and down payments tendered under this Agreement .

7. Ownership and Property Access Acknowledgement.

At the time of this Agreement, ASSIGNOR owns a contract for Purchase and Sale of SUBJECT PROPERTY, ASSIGNOR does not own title to the SUBJECT PROPERTY. ASSIGNOR and affiliated associates do not authorize ASSIGNEE to enter onto the SUBJECT PROPERTY. ASSIGNEE holds ASSIGNOR and associated affiliates harmless from liability arising from ASSIGNEE entering onto the SUBJECT PROPERTY.

8. Limitation of Assignment.

It is hereby acknowledged by ASSIGNEE that this Agreement to Assign Contract for Sale and Purchase and the original Contract for Sale and Purchase are not assignable by ASSIGNEE without the express written authorization of ASSIGNOR, authorization of which may be withheld for any reason by ASSIGNOR .

9. Additional Disclosures and Acknowledgements.

- a. Inspection Report and Subject Property Condition. Assignor and affiliated associates make no warranty express or implied regarding inspection reports, subject property condition or value or other reports provided to ASSIGNEE by ASSIGNOR or third parties concerning this property. ASSIGNEE is advised to independently verify the accuracy of all information contained in reports concerning this property.
- b. Real Estate Brokerage Disclosure. ASSIGNEE acknowledges they are conducting a transaction dealing directly with ASSIGNOR for the purchase of the SUBJECT PROPERTY. ASSIGNEE is not relying on or being represented by a real estate brokerage in this transaction.
- c. Affiliated Parties Disclosure. ASSIGNOR shall provide a statement of affiliated business arrangements. If any.
- d. Lead Based Paint and Energy Efficiency Brochures. ASSIGNEE acknowledges receipt of Lead Paint and Energy Efficiency Brochures.
- e. Entire Agreement This agreement constitutes the entire agreement and no modification of this Agreement shall be binding unless signed by the parties. No representation, promise or inducement not included in this agreement shall be binding upon any party hereto.

10. Additional Terms and conditions of this Agreement are as follows:

AGREED AND ACCEPTED:

ASSIGNOR Date ASSIGNEE Date

ASSIGNOR Date ASSIGNEE Date

Appendix E. Bird Dog Agreement

Bird Dog Consulting Agreement

This Agreement is made effective as of _____, 2002, by and between _____
_____ ("hereinafter "Buyer" or "Seller" [circle one]),
of _____, and _____, of _____.

In this Agreement, the parties who are contracting to receive services shall be referred to as the "Seller" or the "Buyer" [circle one], and the party who will be providing the services shall be referred to as the "Consultant". The Seller and/or the Buyer desire to have services provided by the Consultant. Therefore, the parties agree as follows:

1. DESCRIPTION OF SERVICES. Beginning on _____, 2002, the Consultant will provide the following services (collectively, the "Services"): a real estate, locator, referral and contact service.

2. PERFORMANCE OF SERVICES. The manner in which the Services are to be performed and the specific hours to be worked by the Consultant shall be determined by the Consultant. The Seller and/or the Buyer will rely on The Consultant to work as many hours as may be reasonably necessary to fulfill the Consultant's obligations under this Agreement.

3. PAYMENT. The Seller, through the Buyer, will pay a locator, referral and/or contact fee to the Consultant for the Services equivalent to _____ (___%) of the total proceeds derived from the sale and/or purchase of the certain property located, referred and/or contacted as requested by Seller and/or Buyer, or a flat fee in the amount of \$ _____ for services as described in Paragraph 1 above. All fees due to Consultant shall be payable in a lump sum upon completion of the Services unless otherwise further negotiated between the Seller and/or the Buyer and the Consultant. Upon termination of this Agreement, payments under this paragraph shall cease; provided, however, that the Consultant shall be entitled to payments for periods or partial periods that occurred prior to the date of termination and for which the Consultant has not yet been paid.

4. TERM/TERMINATION. This Agreement shall terminate automatically upon completion by the Consultant of the Services required by this Agreement.

5. RELATIONSHIP OF PARTIES. It is understood by the parties that the Consultant is an independent contractor with respect to each, and not an employee of either. Neither the Seller's and/or Buyer's business shall provide fringe benefits, including health insurance benefits, paid vacation, or any other employee benefit, for the benefit of the Consultant under this Agreement.

6. EMPLOYEES. The Consultant's employees, if any, who perform services for the Seller and/or Buyer under this Agreement shall also be bound by the provisions of this Agreement. At the request of either the Seller or the Buyer, the Consultant shall provide adequate evidence that such persons are the Consultant's employees.

7. CONFIDENTIALITY. The Business recognizes that The Consultant has and will have the following information:

- prices
- costs
- future plans
- business affairs

and other proprietary information (collectively, "Information") which are valuable, special and unique assets of the Seller and/or the Buyer and need to be protected from improper disclosure. In consideration

for the disclosure of the Information, the Consultant agrees that the Consultant will not at any time or in any manner, either directly or indirectly, use any Information for the Consultant's own benefit, or divulge, disclose, or communicate in any manner any Information to any third party without the prior written consent of the Seller or the Buyer. The Consultant will protect the Information and treat it as strictly confidential. A violation of this paragraph shall be a material violation of this Agreement.

8. UNAUTHORIZED DISCLOSURE OF INFORMATION. If it appears that The Consultant has disclosed (or has threatened to disclose) Information in violation of this Agreement, The Seller and/or the Buyer shall be entitled to an injunction to restrain the Consultant from disclosing, in whole or in part, such Information, or from providing any services to any party to whom such Information has been disclosed or may be disclosed, notwithstanding that this Agreement is not exclusive to the Seller and or the Buyer, and the Consultant shall be allowed to use such confidential information under identical agreement with any other third party who may be interested in purchasing the Seller's and/or selling to the Buyer up to and until the time the Seller and/or the Buyer have entered into their agreement(s) to consummate a financial transaction. The Seller and/or the Buyer shall not be prohibited by this provision from pursuing other remedies, including a claim for losses and damages.

9. CONFIDENTIALITY AFTER TERMINATION. The confidentiality provisions of this Agreement shall remain in full force and effect after the termination of this Agreement.

10. NOTICES. All notices required or permitted under this Agreement shall be in writing and shall be deemed delivered when delivered in person or deposited in the United States mail, postage prepaid, addressed as follows:

IF for The Seller and/or The Buyer:

Address: _____

IF for The Consultant:

Address: _____

Such address may be changed from time to time by either party by providing written notice to the other in the manner set forth above.

11. ENTIRE AGREEMENT. This Agreement contains the entire agreement of the parties and there are no other promises or conditions in any other agreement whether oral or written. This Agreement supersedes any prior written or oral agreements between the parties.

12. AMENDMENT. This Agreement may be modified or amended if the amendment is made in writing and is signed by all parties.

13. SEVERABILITY. If any provision of this Agreement shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any provision of this Agreement is invalid or unenforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.

14. WAIVER OF CONTRACTUAL RIGHT. The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver or limitation of that party's right to subsequently enforce and compel strict compliance with every provision of this Agreement.

15. APPLICABLE LAW. This Agreement shall be governed by the laws of the State of [YOUR STATE].

Party receiving services:

_____ **Buyer Seller**

By: _____

Name: _____

Phone: _____

Phone: _____ (Cellular)

Party providing services:

_____ **Consultant**

By: _____

Name: _____

Phone: _____

Phone: _____ (Cellular)

Appendix F. Limited Liability Company Agreement

LIMITED LIABILITY COMPANY OPERATING AGREEMENT FOR

[Insert Name of LLC]

A Manager-Managed Limited Liability Company

THIS LIMITED LIABILITY COMPANY AGREEMENT (the Agreement) is made and entered into this _____ day of _____, 20__ by: [insert name(s) of Manager(s)] _____

and each individual or business entity later subsequently admitted to the Company. These individuals and/or business entities shall be known as and referred to as “Members” and individually as a “Member.”

[Insert Member names]

As of this date the Members, through their agent, _____, _____ have formed the _____ Limited Liability Company named above under the laws of the Commonwealth of Pennsylvania. Accordingly, in consideration of the conditions contained herein, they agree as follows:

ARTICLE I

Company Formation and Registered Agent

1.1 **FORMATION.** The Members hereby form a Limited Liability Company (“Company”) subject to the provisions of the Limited Liability Company Act as currently in effect as of this date. A Certificate of Formation shall be filed with the Secretary of State.

1.2 **NAME.** The name of the Company shall be: _____, L.L.C.

1.3 **REGISTERED OFFICE AND AGENT.** The location of the registered office of the Company shall be:

1.4 **TERM.** The Company shall continue for a period [insert term length] _____ unless dissolved by: _____.

(a) Members whose capital interest as defined in Article 2.2 exceeds 50 percent vote for dissolution; or (b) Any event which makes it unlawful for the business of the Company to be carried on by the Members; or

(c) The death, resignation, expulsion, bankruptcy, retirement of a Member or the occurrence of any other event that terminates the continued membership of a Member of the Company; or

(d) Any other event causing a dissolution of a Limited Liability Company under the laws of the Commonwealth of Pennsylvania.

1.5 **CONTINUANCE OF COMPANY.** Notwithstanding the provisions of ARTICLE 1.4, in the event of an occurrence described in ARTICLE 1.4(c), if there are at least two remaining Members, said remaining Members shall have the right to continue the business of the Company. Such right can be exercised only by the unanimous vote of the remaining Members within ninety (90) days after the occurrence of an event described in ARTICLE 1.4(c). If not so exercised, the right of the Members to continue the business of the Company shall expire.

1.6 **BUSINESS PURPOSE.** The purpose of the Company is to engage in any lawful act or activity for which a Limited Liability Company may be formed under the Limited Liability statutes of the Commonwealth of Pennsylvania.

1.7 **PRINCIPAL PLACE OF BUSINESS.** The location of the principal place of business of the Company shall be:

[insert principal place of business address]

or at such other place as the Managers from time to time select.

1.8 **THE MEMBERS.** The name and place of residence of each member are contained in Exhibit 2 attached to this Agreement.

1.9 **ADMISSION OF ADDITIONAL MEMBERS.** Except as otherwise expressly provided in the Agreement, no additional members may be admitted to the Company through issuance by the company of a new interest in the Company without the prior unanimous written consent of the Members.

ARTICLE 2

Capital Contributions

2.1 **INITIAL CONTRIBUTIONS.** The Members initially shall contribute to the Company capital as described in Exhibit 3 attached to this Agreement. The agreed value of such property and cash is \$ [insert amount] _____.

2.2 **ADDITIONAL CONTRIBUTIONS.** Except as provided in ARTICLE 6.2, no Member shall be obligated to make any additional contribution to the Company's capital.

ARTICLE 3

Profits, Losses and Distributions

3.1 **PROFITS/LOSSES.** For financial accounting and tax purposes the Company's net profits or net losses shall be determined on an annual basis and shall be allocated to the Members in proportion to each Member's relative capital interest in the Company as set forth in Exhibit 2 as amended from time to time in accordance with Treasury Regulation 1.704-1.

3.2 **DISTRIBUTIONS.** The Members shall determine and distribute available funds annually or at more frequent intervals as they see fit. Available funds, as referred to herein, shall mean the net cash of the Company available after appropriate provision for expenses and liabilities, as determined by the Managers. Distributions in liquidation of the Company or in liquidation of a Member's interest shall be made in accordance with the positive capital account balances pursuant to Treasury Regulation 1.704-1(b)(2)(ii)(b)(2). To the extent a Member shall have a negative capital account balance, there shall be a qualified income offset, as set forth in Treasury Regulation 1.704-1(b)(2)(ii)(d).

ARTICLE 4

Management

4.1 **MANAGEMENT OF THE BUSINESS.** The name and place of residence of each Manager is attached as Exhibit 1 of this Agreement. By a vote of the Members holding a majority of the capital interests in the Company, as set forth in Exhibit 2 as amended from time to time, shall elect so many Managers as the Members determine, but no fewer than one, with one Manager elected by the Members as Chief Executive Manager.

4.2 MEMBERS. The liability of the Members shall be limited as provided under the laws of the Pennsylvania Limited Liability statutes. Members that are not Managers shall take no part whatever in the control, management, direction, or operation of the Company's affairs and shall have no power to bind the Company. The Managers may from time to time seek advice from the Members, but they need not accept such advice, and at all times the Managers shall have the exclusive right to control and manage the Company. No Member shall be

an agent of any other Member of the Company solely by reason of being a Member.

4.3 POWERS OF MANAGERS. The Managers are authorized on the Company's behalf to make all decisions as to (a) the sale, development lease or other disposition of the Company's assets; (b) the purchase or other acquisition of other assets of all kinds; (c) the management of all or any part of the Company's assets; (d) the borrowing of money and the granting of security interests in the Company's assets; (e) the pre-payment, refinancing or extension of any loan affecting the Company's assets; (f) the compromise or release of any of the Company's claims or debts; and, (g) the employment of persons, firms or corporations for the operation and management of the company's business. In the exercise of their management powers, the Managers are authorized to execute and deliver (a) all contracts, conveyances, assignments leases, sub-leases, franchise agreements, licensing agreements, management contracts and maintenance contracts covering or affecting the Company's assets; (b) all checks, drafts and other orders for the payment of the Company's funds; (c) all promissory notes, loans, security agreements and other similar documents; and, (d) all other instruments of any other kind relating to the Company's affairs, whether like or unlike the foregoing.

4.4 CHIEF EXECUTIVE MANAGER. The Chief Executive Manager shall have primary responsibility for managing the operations of the Company and for effectuating the decisions of the Managers.

4.5 NOMINEE. Title to the Company's assets shall be held in the Company's name or in the name of any nominee that the Managers may designate. The Managers shall have power to enter into a nominee agreement with any such person, and such agreement may contain provisions indemnifying the nominee, except for his willful misconduct.

4.6 COMPANY INFORMATION. Upon request, the Managers shall supply to any member information regarding the Company or its activities. Each Member or his authorized representative shall have access to and may inspect and copy all books, records and materials in the Manager's possession regarding the Company or its activities. The exercise of the rights contained in this ARTICLE 4.6 shall be at the requesting Member's expense.

4.7 **EXCULPATION.** Any act or omission of the Managers, the effect of which may cause or result in loss or damage to the Company or the Members if done in good faith to promote the best interests of the Company, shall not subject the Managers to any liability to the Members.

4.8 **INDEMNIFICATION.** The Company shall indemnify any person who was or is a party defendant or is threatened to be made a party defendant, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by or in the right of the Company) by reason of the fact that he is or was a Member of the Company, Manager, employee or agent of the Company, or is or was serving at the request of the Company, for instant expenses (including attorney's fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if the Members determine that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the Company, and with respect to any criminal action proceeding, has no reasonable cause to believe his/her conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of "no lo Contendere" or its equivalent, shall not in itself create a presumption that the person did or did not act in good faith and in a manner which he reasonably believed to be in the best interest of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his/her conduct was lawful.

4.9 **RECORDS.** The Managers shall cause the Company to keep at its principal place of business the following:

- (a) a current list in alphabetical order of the full name and the last known street address of each Member;
- (b) a copy of the Certificate of Formation and the Company Operating Agreement and all amendments;
- (c) copies of the Company's federal, state and local income tax returns and reports, if any, for the three most recent years;
- (d) copies of any financial statements of the limited liability company for the three most recent years.

ARTICLE 5

Compensation

5.1 **MANAGEMENT FEE.** Any Manager rendering services to the Company shall be entitled to compensation commensurate with the value of such services.

5.2 **REIMBURSEMENT.** The Company shall reimburse the Managers or Members for all direct out-of-pocket expenses incurred by them in managing the Company.

ARTICLE 6

Bookkeeping

6.1 **BOOKS.** The Managers shall maintain complete and accurate books of account of the Company's affairs at the Company's principal place of business. Such books shall be kept on such method of accounting as the Managers shall select. The company's accounting period shall be the calendar year.

6.2 **MEMBER'S ACCOUNTS.** The Managers shall maintain separate capital and distribution accounts for each member. Each member's capital account shall be determined and maintained in the manner set forth in Treasury Regulation 1.704-1(b)(2)(iv) and shall consist of his initial capital contribution increased by:

- (a) any additional capital contribution made by him/her;
- (b) credit balances transferred from his distribution account to his capital account; and decreased by:
 - (a) distributions to him/her in reduction of Company capital;
 - (b) the Member's share of Company losses if charged to his/her capital account.

6.3 **REPORTS.** The Managers shall close the books of account after the close of each calendar year, and shall prepare and send to each member a statement of such Member's distributive share of income and expense for income tax reporting purposes.

ARTICLE 7

Transfers

7.1 **ASSIGNMENT.** If at any time a Member proposes to sell, assign or otherwise dispose of all or any part of his interest in the Company, such Member shall first make a written offer to sell

such interest to the other Members at a price determined by mutual agreement. If such other Members decline or fail to elect such interest within thirty (30) days, and if the sale or assignment is made and the Members fail to approve this sale or assignment unanimously then, pursuant to the Pennsylvania Limited Liability statutes, the purchaser or assignee shall have no right to participate in the management of the business and affairs of the Company. The purchaser or assignee shall only be entitled to receive the share of the profits or other compensation by way of income and the return of contributions to which that Member would otherwise be entitled.

Signed and Agreed this _____ day of _____ 20____.

Member _____ Member _____

LIMITED LIABILITY COMPANY OPERATING AGREEMENT

FOR _____, L.L.C.

LISTING OF MANAGERS

By a majority vote of the Members the following Managers were elected to operate the Company pursuant to ARTICLE 4 of the Agreement:

Chief Executive Manager

Title:

Printed Name:

Printed Name:

Address Line 1

Address Line 1

Address Line 2

Address Line 2

Title:

Title:

Printed Name:

Printed Name:

Address Line 1

Address Line 1

Address Line 2

Address Line 2

Title:

Title:

Printed Name:

Printed Name:

Address Line 1

Address Line 1

Address Line 2

Address Line 2

Title:

Title:

Printed Name:

Printed Name:

Address Line 1

Address Line 1

Address Line 2

Address Line 2

The above listed Manager(s) will serve in their capacities until they are removed for any reason by a majority vote of the Members as defined by ARTICLE 4 or upon their voluntary resignation.

Signed and Agreed this _____ day of _____, 20__.

Member

Member

LIMITED LIABILITY COMPANY OPERATING AGREEMENT

FOR _____, L.L.C.

LISTING OF MEMBERS

As of the _____ day of _____, 20__ the following is a list of Members of the Company:

NAME:

ADDRESS:

Authorized by Member(s) to provide Member Listing as of this _____ day of _____, 20__

Member

Member

LIMITED LIABILITY COMPANY OPERATING AGREEMENT

FOR _____, L.L.C.

CAPITAL CONTRIBUTIONS

Pursuant to ARTICLE 2, the Members' initial contribution to the Company capital is stated to be \$_____. The description and each individual portion of this initial contribution is as follows:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

SIGNED AND AGREED this ____ day of _____, 20____.

Member

Member

Appendix G. Limited Partnership Agreement

REAL ESTATE LIMITED PARTNERSHIP AGREEMENT

THIS AGREEMENT is made and entered into this _____ day of _____, _____, by, between, and among the General Partners whose names and addresses are set out in Schedule I, attached hereto, (hereinafter referred to as the ("General Partners")), and the Limited Partners whose names and addresses are set out in Schedule 2, attached hereto, (hereinafter referred to as the "Limited Partners").

1. Name and Business. The name of the partnership shall be _____, (hereinafter referred to as the "Partnership"), and the principal office and place of business of the Partnership shall be at _____, City of _____, County of _____, State of _____. The parties hereby form a Limited Partnership pursuant to the provisions of the Partnership Laws of the State of _____ for the purpose of investing in real estate, the operation thereof for income, and holding for investment, as determined by the General Partners, including, but not limited to, real estate leases, or participation therein and subsequent sale thereof. The Partnership may enter into any other investments, ventures and business arrangements with respect to real estate deemed prudent by the General Partners in order to achieve successful operations for the Partnership.

2. Term. The term of the Partnership shall begin on the _____ day of _____, _____, and shall continue until the _____ day of _____, _____, unless terminated earlier as hereinafter provided.

3. Contributions of General Partners.

- a. Cash. The General Partners shall contribute to the Partnership capital the cash amount set opposite their names in the attached Exhibit "A".
- b. Other than Cash. In addition to the foregoing cash contributions, the General Partners shall contribute to the Partnership capital all of their right, title and interest in and to certain real property presently under a contract for sale and purchase, a copy of which is attached hereto as Exhibit "B", and the Partnership accepts the foregoing contributions and assumes all the obligations of the Purchaser under the aforementioned contract for sale and purchase, except that all incidental charges, fees and expenses in connection with taking title to the aforementioned real property, such as title insurance costs, legal fees, recording charges, and the like, in excess of the amount to be contributed toward the payment of such expenses by the Seller under said contract, shall be borne by the General Partners. The deposit made by the General Partners on the execution of the aforementioned contract shall be credited against their agreed capital contributions.

4. Capital Contributions of Limited Partners. The Limited Partners shall contribute to the Partnership capital the cash amounts set opposite their names in the attached Exhibit "C".

5. Profits and Losses.

- a. The net profits and losses of the Partnership shall be divided and borne by each of the partners in the proportions set opposite his or her name in the attached Exhibit "D", subject, however, insofar as the Limited Partners are concerned, to the limitation of their liability to the amount of their individual investment, as therein provided.
- b. The fiscal year of the Partnership shall be the calendar year. Notwithstanding anything to the contrary contained in subparagraph (a) of this paragraph, if in any fiscal year subsequent to December 31, _____, Partnership net profits distributable among the Limited Partners are not equal to at least _____ (_____%) percent of the aggregate original cash contributions made to the capital of the Partnership by the Limited Partners, as such capital contributions may have been reduced by any distributions previously made to such Limited Partners out of the proceeds of any mortgage refinancing, then the share of Partnership net profits distributable among the General Partners for such year shall be reduced to the extent of any such deficiency. This subparagraph shall be deemed null and void at and after such time as the Limited Partners shall have received aggregate total distributions from the Partnership, however arising, equal to 125% of the aggregate cash contributions made by the Limited Partners.
- c. In determining the share of Partnership net profits to which each partner shall be entitled, the Partnership profits shall be determined without taking into account any deduction for the following: (1) depreciation, and (2) the regular accounting fees of the Partnership and any expenses relating to distributing Partnership profits. The foregoing regular accounting fees and distribution expenses shall be borne by, and charged against, the distributed profits share of the General Partners in the proportions set opposite their names in the attached Exhibit "E". All depreciation and other deductions shall be allocated among the partners in proportion to their cash capital contributions.

6. Mortgage Refinancing. If net proceeds of a refinancing of any mortgage, constituting a lien against real property, held by the Partnership, exceed the principal balance of the mortgage immediately prior to such refinancing, and such proceeds of refinancing are received by the Partnership, then such net proceeds shall be distributed among the partners in the same ratios as set forth in paragraph 5(a) hereof.

7. Sale of Assets. If the real property or any other asset held by the Partnership is sold, the net proceeds realized from such sale, including the net proceeds derived from the sale or satisfaction of any purchase money mortgage, shall be allocated as follows:

a. Each partner shall receive an amount equal to the cash contributions made to the original capital of the Partnership as set forth in paragraphs 3 and 4 hereof, reduced by any amounts such partner may previously have received out of the net proceeds received as a result of refinancing any mortgage constituting a lien against Partnership property.

b. The next _____ (_____%) percent, after the allocations set forth in subparagraph (a) of this paragraph, shall be divided _____ (_____%) percent among the General Partners in the proportions set forth in paragraph 5(c) hereof, and _____ (_____%) percent among the Limited Partners in the proportions to which their capital contributions set forth in paragraph 4 hereof bear to each other.

8. Losses. The liability of any of the Limited Partners for Partnership losses shall in no event exceed the aggregate amount of his or her contribution to the capital of the Partnership. Any losses in excess of such amount shall be borne solely by the General Partners, who shall share such losses in the proportions set forth in paragraph 5(c) hereof.

9. Salaries, Drawings and Interest on Capital Contributions. None of the partners, General or Limited, shall receive any salary or draws for services rendered on behalf of the

Partnership in their capacity as partners, nor shall any partner receive any interest on his or her contribution to the capital of the Partnership.

10. Management, Duties, and Restrictions.

a. General Partners. The General Partners shall have equal rights in the management of the Partnership business and each shall devote such time to the Partnership as shall be reasonably required for its welfare and success. Without the consent of the other General Partner(s), no General Partner shall, on behalf of the Partnership, borrow or lend money, or make, deliver, or accept any commercial paper, or execute any mortgage, bond, or lease, or purchase or sell any property for or of the Partnership. No General Partner shall assign, mortgage, pledge, or sell his interest in the Partnership or in its capital assets or property, or without the consent of the other General Partner, enter into any agreement as the result of which any person shall become interested with him in the Partnership. No General Partner shall do any act detrimental to the best interests of the Partnership.

b. Limited Partners. No Limited Partner shall participate in the management of the Partnership business. A Limited Partner shall have the right to withdraw his or her capital contribution upon the termination of the Partnership as provided herein; provided, however, that no part of the capital contribution of any Limited Partner shall be withdrawn unless all liabilities of the Partnership, except liabilities to partners on account of their contributions, have been paid or unless the Partnership has assets sufficient to pay them. Except as otherwise provided in paragraph 18 hereinafter, no Limited Partner shall have the right to demand or receive property other than cash in return for his or her contribution. No Limited Partner shall have priority over any other Limited Partner either as to contributions to capital or as to compensation by way of income. No additional Limited Partners may be admitted to the Partnership. The Limited Partners consent to any sale or other disposition, encumbrance, mortgage, or lease by the General Partners on behalf of the Partnership, of any or all of the Partnership's assets, now or hereafter acquired, on such terms and conditions as may be determined by the General Partners and to the employment, when and if required, of such brokers, agents, and attorneys as the General Partners may determine, notwithstanding that any party may have an interest therein.

11. Banking. All funds of the Partnership shall be deposited in its name in such checking account or accounts as shall be designated by the General Partners. All withdrawals therefrom are to be made upon checks jointly signed by the General Partners, the survivor of them, or by the General Partner or Agent designated by all the General Partners.

12. Conveyance. Any deed, bill of sale, mortgage, security agreement, lease, contract for sale and purchase, or other commitment purporting to convey or encumber the interest of the Partnership in all or any portion of any real or personal property, shall be jointly signed by the General Partners, or by the survivor of them.

13. Books. The Partnership shall maintain full and accurate books in its principal office, or such other place as shall be designated for such purpose by the General Partners, and all partners shall have the right to inspect and examine such books at reasonable times. The books shall be closed and balanced at the end of each fiscal year.

14. Non-assignability. No Limited Partner shall have the right to substitute an assignee as contributor in his place. No assignment of any Limited Partner's right to proceeds distributed to him as a Limited Partner hereunder shall be valid unless consented to by the General Partners.

15. Death, Retirement, or Insanity of General Partner. Should a General Partner die, retire, or become insane, the Partnership shall be expeditiously terminated.

16. Death of Limited Partner. The death of a Limited Partner shall not dissolve the Partnership or terminate the Partnership business.

17. Termination. The Partnership may be terminated by the General Partners prior to the end of its term, after at least 30 days' prior written notice by the General Partners to each of the Limited Partners. In such event, or upon the death, retirement, or insanity of a General Partner, the General Partners or the remaining General Partner(s) shall wind up and liquidate the Partnership by either or both of the following methods:

- a. Selling the Partnership's assets and distributing the net proceeds therefrom after the payment of Partnership liabilities to each partner in satisfaction of his or her interest in the Partnership.
- b. Distributing the Partnership's assets to the Partners in kind, each Partner accepting an undivided interest in the Partnership's assets, subject to its liabilities, in satisfaction of his or her interest in the Partnership. Upon completion of the liquidation, the Partnership shall be deemed completely dissolved and terminated.

18. Distribution of Proceeds on Liquidation. The proceeds of liquidation shall be distributed, as realized, in payment of the liabilities of the Partnership in the following order: (a) to creditors of the Partnership; (b) to all of the Partners in respect of their capital accounts as determined pursuant to the provisions of this Agreement. The General Partners shall not be personally liable to the Limited Partners for any deficit in the Limited Partners' capital accounts or for the return of their contributions. In the event of a liquidating distribution of the Partnership's property in kind, the fair market value of such property shall be determined by an appraiser agreeable to the Partners and each Partner shall receive an undivided interest in such property equal to the portion of the proceeds to which he or she would be entitled under paragraph 7 hereof if such property were sold.

19. Power of Attorney. Each of the Limited Partners constitutes and appoints the General Partners the true and lawful attorney for the undersigned, to make, execute, sign, acknowledge, and file a Certificate of Limited Partnership or amendments thereto, and, upon termination of the Partnership, a Certificate of Dissolution, as required under the laws of this state, and also to make, execute, sign, acknowledge, and file such other instruments as may be required under the laws of this state. The General Partners are authorized to take title to the real property herein referred to and to execute any and all documents related thereto on behalf of the Partnership, whether or not a Certificate of Limited Partnership has been filed prior to the date of such acceptance of title or execution of such documents, and all of the parties hereto hereby ratify and confirm any such action by the General Partners. The aforementioned General Partners shall convey the real property, herein before referred to, to the Partnership upon the filing of a Certificate of Limited Partnership and the completion of any advertising and/or other requirements of the laws of this state.

20. Liability of General Partners. The General Partners shall not be liable for any action taken or omitted, which may result in loss or damage to the Partnership, if such action was taken or omitted in reliance upon the opinion of legal or other professional counsel for the Partnership.

21. Notices. All notices provided for in this Agreement shall be directed to the parties at the addresses hereinabove set forth and to the Partnership at its principal office by registered or certified mail.

22. Binding Effect. This Agreement shall be binding upon all the parties and their estates, heirs, or legatees.

23. Governing Law. This agreement, and all transactions contemplated hereby, shall be governed by, construed and enforced in accordance with the laws of the State of _____. The parties herein waive trial by jury and agree to submit to the personal jurisdiction and venue of a court of subject matter jurisdiction located in _____ County, State of _____. In the event that litigation results from or arises out of this Agreement or the performance thereof, the parties agree to reimburse the prevailing party's reasonable attorney's fees, court costs, and all other expenses, whether or not taxable by the court as costs, in addition to any other relief to which the prevailing party may be entitled. In such event, no action shall be entertained by said court or any court of competent jurisdiction if filed more than one year subsequent to the date the cause(s) of action actually accrued regardless of whether damages were otherwise as of said time calculable.

24. Agreement in Counterparts. This Agreement may be executed in several counterparts, all of which shall constitute one agreement, binding on all the parties hereto, notwithstanding that all the parties are not signatory to the original or the same counterpart.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals on the day and year first above written.

Signed, sealed and delivered in the presence of:
"GENERAL PARTNERS":

_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	

"LIMITED PARTNERS":

_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	
_____	_____
Witness	

Witness

Witness

Witness

Witness

Witness

Witness

Witness

Witness

Witness

STATE OF _____

COUNTY OF _____

BEFORE ME personally appeared _____, to me well known and known to me to be the person described in and who executed the foregoing instrument, and acknowledged to and before me that said instrument was executed for the purposes therein expressed.

WITNESS my hand and official seal this _____ day of _____, 20____.

Notary Public

(SEAL) State of _____

My Commission Expires: _____

STATE OF _____

COUNTY OF _____

BEFORE ME personally appeared _____, to me well known and known to me to be the person described in and who executed the foregoing instrument, and acknowledged to and before me that said instrument was executed for the purposes therein expressed.

WITNESS my hand and official seal this _____ day of _____, 20____.

Notary Public

(SEAL) State of _____

My Commission Expires: _____

STATE OF _____

COUNTY OF _____

BEFORE ME personally appeared _____, to me well known and known to me to be the person described in and who executed the foregoing instrument, and acknowledged to and before me that said instrument was executed for the purposes therein expressed.

WITNESS my hand and official seal this _____ day of _____, 20____.

Notary Public

(SEAL) State of _____

My Commission Expires: _____

STATE OF _____

COUNTY OF _____

BEFORE ME personally appeared _____, to me well known and known to me to be the person described in and who executed the foregoing instrument, and acknowledged to and before me that said instrument was executed for the purposes

therein expressed.

WITNESS my hand and official seal this _____ day of _____, 20
_____.

_____ Notary Public

(SEAL) State of _____

My Commission Expires: _____

SCHEDULE I

NAMES AND ADDRESSES OF GENERAL PARTNERS

SCHEDULE 2

NAMES AND ADDRESSES OF LIMITED PARTNERS

EXHIBIT "A"

CAPITAL CONTRIBUTIONS OF GENERAL PARTNERS

GENERAL PARTNERS CONTRIBUTION

EXHIBIT "B"

(Attach Copy of Contract for Sale and Purchase)

EXHIBIT "C"

CAPITAL CONTRIBUTIONS OF LIMITED PARTNERS LIMITED PARTNERS CONTRIBUTION

EXHIBIT "D"

PERCENTAGES OF PROFITS AND LOSSES TO BE BORNE BY PARTNERS

GENERAL PARTNERS PERCENTAGE

LIMITED PARTNERS PERCENTAGE

EXHIBIT "E"

PERCENTAGE OF FEES AND DISTRIBUTION COSTS CHARGED GENERAL PARTNERS

GENERAL PARTNERS PERCENTAGE



Appendix H. Letter to Vacant Property Owners

Howie Doin, Real Estate Investor • 215-555-5555 • 877-555-5555 • HowieDoin@xyz.com

Dear [Owner's Name],

Recently I was in Pleasantville and saw your house was vacant at 132 W. Upland Ave. I am interested in buying it. If you are interested in getting rid of it and stop making payments on it or paying taxes on it, I may be able to solve your problem.

Give me a call, or send me an e-mail and see if you can answer a few questions:

1. What your asking price would be.
2. What the outstanding mortgage balance or balances are (approximately).
3. Any known liens on it.
4. Any back taxes owed on it.
5. What kind of repairs may be needed.

Based on this information, I will be able to make you an offer on it. I have access to cash and credit to make a fast settlement.

If you have any questions about selling your home to me, let me know. I work during the day and may not be able to answer the phone when you call. But, please do leave a message and I will call you back after 5:00, or you can call me anytime after 5:00 or on weekends.

Sincerely,

Appendix I. Letter to Real Estate Agent

[Your Name] • Your Address • 215-555-5555

Dear [Agent's Name]

I am a real estate investor who specializes in working with properties in need of rehab with other investors. I am interested in working with you to see if you have any properties available that meet the following criteria:

- They do not have structural defects
- They are in nice neighborhoods
- The purchase price and repair cost can come in at 65% or less of the ARV

I do have a list of specific things I am looking for in a property or its owner, and would be interested in discussing this with you on the phone.

I am also interested in any properties that you are aware of that have expired listings. On these properties I would be able to pay you a 2% buyer's fee. Other properties of interest include HUD houses where the bidding period has passed, or REO properties, where in both cases the properties are in need of repair and selling well below market value once fixed up.

My investor partners either have the cash to purchase suitable properties, or they have commitment letters from an appropriate lender. We are prepared to make reasonable offers on any property that meets our criteria.

If you would like to discuss this further, please give me a call at 215-555-5555 or send an e-mail to myemail@me.com.

Sincerely,

[Your Name]

Appendix J. Letter to Contractor

[Your Name] • Your Address • 215-555-5555 • myemail@me.com

UGLY PROPERTIES WANTED - \$500 BONUS TO YOU

Greetings,

I am a real estate investor who is involved with rehabbing properties. If you present me with a property of opportunity and I purchase it, you will receive the opportunity to bid on the repair work, and if I do buy the property, you will receive a \$500 bonus.

The type of property I am interested in is where the purchase price and rehab cost comes in at less than or equal to 65% of the after-repair-value. It should also be a property that you would be comfortable in rehabbing.

I work with other investors who either have the cash or financing available to make the purchase and get the rehab work done. If you come across houses that are either abandoned, pretty beat up, or where the homeowner or landlord would be interested in dumping the property, then I would be interested in taking a look at them. I am interested in homes in the price range of \$40,000 to \$200,000.

If you are interested in discussing this program with me, either give me a call or send me an e-mail.

Sincerely,

[Your Name]

Appendix K. Mailings to Out of State Homeowners

[Your Name] • Your Address • 215-555-5555 • myemail@me.com

Dear [Owner's Name]:

I am a real estate investor who purchases and rehabs properties in your area. Through public records, I became aware of the property you own at [property address]. If you are interested in selling your home here, please contact me by phone or by e-mail, or if you prefer, you can fill out the bottom portion of this letter and mail it to us at the address above or fax it to me at 215-555-5555.

We guarantee you an offer, and we will be in contact with you as soon as we receive the information listed at the bottom.

We are looking forward to doing business with you, hope to hear from you soon.

Sincerely,

___ YES, I am interested in selling my property located at: _

I am asking \$ _____ for the property. It is ___ occupied ___ vacant.

Bedrooms _____ Baths _____ Garage/carport _____ Lot size _____

Why are you selling _____

Does property need repairs? _____

If so, what do think it needs? _____

Is there a mortgage? _____ Are payments. Current? _____

NAME: _____

ADDRESS: _____

CITY: _____ STATE: _____ ZIP: _____

PHONE# _____

COMMENTS: _____

We will inspect the property from the exterior and call you shortly with an offer.

Appendix L. Letter to Homeowners Facing Foreclosure

[Your Name] • Your Address • 215-555-5555 • myemail@me.com

Dear Friend;

We would like to buy your house! We are not realtors, nor are we associated with any real estate agency. But we are interested in buying your house directly. If our information is correct, you need to sell your home-quickly. If that is the case, read the balance of this letter and give us a call. We have a solution for you that will be mutually beneficial.

We understand that there are lots of reasons why people may need to sell a house quickly. Sometimes it's illness or divorce, a loss of a job or perhaps unforeseen expenses. When these things happen, it's easy to fall behind on payments.

So if this sounds like your situation, we can help--even if your house is already in the foreclosure process.

You might be tempted to just let the bank foreclose on your home, but that would be a big mistake. It would ruin your credit for many years, making it difficult to purchase a new home in the future at a reasonable interest rate.

Selling a house is usually a complicated and expensive process, that is why realtors charge commissions. But, since we are not real estate agents, there are no commissions to pay.

I work with other investors who purchase 3 to 6 houses a month, houses just like yours. We buy houses in nearly every area of the county and in every price range. If your house qualifies, we can guarantee you an offer within 48 hours after we see it. If we come to an agreement, we can handle all the paperwork, and make all the arrangements so you can get on with your life and save your credit.

We don't know your particular reasons for selling, but we do know how to get your house closed as quickly, and professionally as possible. We can help solve your problem!

You probably are getting plenty of letters and post cards by now. I understand that this is a rough period for you. All I ask is that you keep my business card magnet on your refrigerator, and if feel like discussing your options, give me a call, or send me an e-mail. There is no obligation.

We specialize in solving problems. If you need to sell quickly, call us today. Together we can find a solution!!

Sincerely,

[Your Name]

Appendix M. Letter to Townships

[Your Name] • Your Address • 215-555-5555 • myemail@me.com

Dear [Inspector's Name]

I am a real estate investor who purchases and rehabs properties in the area with other investors. We would be interested in finding out about any properties that you are aware of that are either abandoned, condemned, or in serious Code violations. If such a property can be purchased and rehabbed for a satisfactory price, we would be interested in making an offer to buy it.

There are a few benefits to the township in what we do. First, we remove an eyesore from the neighborhood, increasing the property value of the other properties in the area. Second, the property is no longer a potential liability or available for illegal purposes. Third, after we complete the rehab, the property will be resold to a new homeowner, providing new property taxes to the township and the school district.

If you are interested in talking with us, please give me a call or send me an e-mail. My investors either have the cash available or the letters of credit from a rehab property lender to get the job done.

Sincerely,

[Your Name]

Appendix O. Rehab Repair Estimate Form

Due to the full-page size of this form, it starts on the next page. Use it for your property analysis. In the "CONDITION" column, the letters stand for Poor, Fair and Good, meaning the condition of the item. This form is also in your Forms directory of your disc. It is also a worksheet in the Property Analyzer workbook package for Microsoft Excel. The worksheet will calculate the total material and labor expenses for you plus give you an estimate of you or your investor's hard money costs to rehab the property.

CATEGORY	ITEM	CONDITION	COMMENTS	REPAIR \$
Grounds				
	Landscaping	P F G		
	Patio / Deck	P F G		
	Pool	P F G		
	Driveway	P F G		
	Fence	P F G		
		P F G		
		P F G		
		P F G		
Exterior				
	Foundation	P F G		
	Roofing	P F G		
	Siding	P F G		
	Porches	P F G		
	Garage	P F G		
	Masonry	P F G		
	Gutters	P F G		
		P F G		
Interior				
	Windows	P F G		
	Carpeting	P F G		
	Hardwood Floors	P F G		
	Walls	P F G		
	Ceilings	P F G		
	Bedroom 1	P F G		
	Bedroom 2	P F G		
	Bedroom 3	P F G		
	Bedroom 4	P F G		
	Bath 1	P F G		
	Bath 2	P F G		
	Bath 3	P F G		
	Kitchen	P F G		
	Living Room	P F G		
	Dining Room	P F G		
	Den	P F G		
	Family Room	P F G		
	Attic	P F G		
	Basement	P F G		

CATEGORY	ITEM	CONDITION	COMMENTS	REPAIR \$
Systems				
	Plumbing	P F G		
	Electrical	P F G		
	Wiring	P F G		
	Heating	P F G		
	Hot Water	P F G		
	A/C	P F G		
	Sewer	P F G		
	Water	P F G		
Appliances				
	Stove	P F G		
	Washer	P F G		
	Dryer	P F G		
	Refrigerator	P F G		
	Dishwasher	P F G		
	Disposal	P F G		
		P F G		
		P F G		
Fixtures				
	Front Door	P F G		
	Side Door	P F G		
	Back Door	P F G		
	Basement Windows	P F G		
	First Floor Windows	P F G		
	Second Floor Windows	P F G		
	Other Windows	P F G		
		P F G		
		P F G		
		P F G		
Comments:				

Appendix P: Joint Venture Agreement

JOINT VENTURE AGREEMENT

THIS JOINT VENTURE AGREEMENT (the "Agreement"), made and entered into as of this ____ day of _____, 20____, by and between _____ of _____ (hereinafter "_____") and _____ of _____ (hereinafter "_____").

ARTICLE I

GENERAL PROVISIONS

1.01 Business Purpose. The business of the Joint Venture shall be as follows:

1.02 Term of the Agreement. This Joint Venture shall commence on the date first above written and shall continue in existence until terminated, liquidated, or dissolved by law or as hereinafter provided.

ARTICLE II

GENERAL DEFINITIONS

The following comprise the general definitions of terms utilized in this Agreement:

2.01 Affiliate. An Affiliate of an entity is a person that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control of such entity.

2.02 Capital Contribution(s). The capital contribution to the Joint Venture actually made by the parties, including property, cash and any additional capital contributions made.

2.03 Profits and Losses. Any income or loss of the Partnership for federal income tax purposes determined by the Partnership's fiscal year, including, without limitation, each item of Partnership income, gain, loss or deduction.

ARTICLE III

OBLIGATIONS

_____ is responsible for all operations and decisions of the Joint Venture and will be compensated for providing various services.

ARTICLE IV

ALLOCATIONS

4.01 Profits and Losses. Commencing on the date hereof and ending on the termination of the business of the Joint Venture, all profits, losses and other allocations to the Joint Venture shall be allocated as follows at the conclusion of each fiscal year:

_____ %
_____ %

ARTICLE V

RIGHTS AND DUTIES

5.01 Business of the Joint Venture. _____ shall have full, exclusive and complete authority and discretion in the management and control of the business of the Joint Venture for the purposes herein stated and shall make all decisions affecting the business of the Joint Venture. At such, any action taken shall constitute the act of, and serve to bind, the Joint Venture. _____ shall manage and control the affairs of the Joint Venture to the best of its ability and shall use its best efforts to carry out the business of the Joint Venture. _____ shall not participate in or have any control over the Joint Venture business nor shall it have any authority or right to act for or bind the Joint Venture.

ARTICLE VI

AGREEMENTS WITH THIRD PARTIES AND WITH AFFILIATES OF THE JOINT VENTURERS

6.01 Validity of Transactions. Affiliates of the parties to this Agreement may be engaged to perform services for the Joint Venture. The validity of any transaction, agreement or payment involving the Joint Venture and any Affiliates of the parties to this Agreement otherwise permitted by the terms of this Agreement shall not be affected by reason of the relationship between them and such Affiliates or the approval of said transactions, agreement or payment.

6.02 Other Business of the Parties to this Agreement. The parties to this Agreement and their respective Affiliates may have interests in businesses other than the Joint Venture business. The Joint Venture shall not have the right to the income or proceeds derived from such other business interests and, even if they are competitive with the Partnership business, such business interests shall not be deemed wrongful or improper.

ARTICLE VII

PAYMENT OF EXPENSES

All expenses of the Joint Venture shall be paid by _____ and shall be reimbursed by the Joint Venture.

ARTICLE VIII

INDEMNIFICATION

The parties to this Agreement shall have no liability to the other for any loss suffered which arises out of any action or inaction if, in good faith, it is determined that such course of conduct was in the best interests of the Joint Venture and such course of conduct did not constitute negligence or misconduct. The parties to this Agreement shall each be indemnified by the other against losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by it in connection with the Joint Venture.

ARTICLE IX

DISSOLUTION

9.01 Events of the Joint Venture. The Joint Venture shall be dissolved upon the happening of any of the following events:

- (a) The adjudication of bankruptcy, filing of a petition pursuant to a Chapter of the Federal Bankruptcy Act, withdrawal, removal or insolvency of either of the parties.
- (b) The sale or other disposition, not including an exchange of all, or substantially all, of the Joint Venture assets.
- (c) Mutual agreement of the parties.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.01 Books and Records. The Joint Venture shall keep adequate books and records at its place of business, setting forth a true and accurate account of all business transactions arising out of and in connection with the conduct of the Joint Venture.

10.02 Validity. In the event that any provision of this Agreement shall be held to be invalid, the same shall not affect in any respect whatsoever the validity of the remainder of this Agreement.

10.03 Integrated Agreement. This Agreement constitutes the entire understanding and agreement among the parties hereto with respect to the subject matter hereof, and there are no agreements, understandings, restrictions or warranties among the parties other than those set forth herein provided for.

10.04 Headings. The headings, titles and subtitles used in this Agreement are for ease of reference only and shall not control or affect the meaning or construction of any provision hereof.

10.05 Notices. Except as may be otherwise specifically provided in this Agreement, all notices required or permitted hereunder shall be in writing and shall be deemed to be delivered when deposited in the United States mail, postage prepaid, certified or registered mail, return receipt requested, addressed to the parties at their respective addresses set forth in this Agreement or at such other addresses as may be subsequently specified by written notice.

10.06 Applicable Law and Venue. This Agreement shall be construed and enforced under the laws of the State of _____.

10.07 Other Instruments. The parties hereto covenant and agree that they will execute each such other and further instruments and documents as are or may become reasonably necessary or convenient to effectuate and carry out the purposes of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written. Signed, sealed and delivered in the presence of:

Date

Date

Appendix Q: Contractor Agreement

CONTRACTOR AGREEMENT

THIS AGREEMENT made this _____ day of _____, 20____, by and between _____, hereinafter called the Contractor, and _____, hereinafter called the Owner.

WITNESSETH, that the Contractor and the Owner for the consideration named herein agree as follows:

ARTICLE 1. SCOPE OF THE WORK

The Contractor shall furnish all the materials and perform all of the work shown on the drawings and/or described in the specifications entitled Exhibit A, as annexed hereto as it pertains to work to be performed on property located at:

ARTICLE 2. TIME OF COMPLETION

The work to be performed under this Contract shall be commenced on or before _____, 20____, and shall be substantially completed on or before _____, 20____. Time is of the essence.

ARTICLE 3. THE CONTRACT PRICE

The owner shall pay the Contractor for the material and labor to be performed under the Contract the sum of _____ Dollars (\$), subject to additions and deductions pursuant to authorized change orders.

ARTICLE 4. PROGRESS PAYMENTS

Payments of the Contract price shall be paid in the manner following:

ARTICLE 5. GENERAL PROVISIONS

1. All work shall be completed in a workmanship like manner and in compliance with all building codes and other applicable laws.
2. To the extent required by law all work shall be performed by individuals duly licensed and authorized by law to perform said work.
3. Contractor may at its discretion engage subcontractors to perform work hereunder, provided Contractor shall fully pay said subcontractor and in all instances remain responsible for the proper completion of this Contract.
4. Contractor shall furnish Owner appropriate releases or waivers of lien for all work performed or materials provided at the time the next periodic payment shall be due.
5. All change orders shall be in writing and signed by both Owner and Contractor.
6. Contractor warrants it is adequately insured for injury to its employees and others incurring loss or injury as a result of the acts of Contractor or its employees and subcontractors.

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7. Contractor shall at its own expense obtain all permits necessary for the work to be performed.
8. Contractor agrees to remove all debris and leave the premises in broom clean condition.
9. In the event Owner shall fail to pay any periodic or installment payment due hereunder, Contractor may cease work without breach pending payment or resolution of any dispute.
10. All disputes hereunder shall be resolved by binding arbitration in accordance with the rules of the American Arbitration Association.
11. Contractor shall not be liable for any delay due to circumstances beyond its control including strikes, casualty or general unavailability of materials.
12. Contractor shall pay a penalty of \$100 per day for each day past the completion due date of ___ / ___ / ____.
13. Contractor will pay for any damage that he or his workers do to any other part of the property when they are on site.
14. Contractor License #: _____. Contractor's liability insurance is with _____ Policy #: _____.
Contact #: _____
15. Contractor warrants all work for a period of _____ months following completion.

ARTICLE 6. OTHER TERMS

Signed this ___ day of _____, 20_____.

Signed in the presence of:

 Witness

By: _____
 Contractor

By: _____

Appendix R: Option to Purchase Real Estate

Option to Purchase Real Estate

THIS AGREEMENT made by and between _____ (hereinafter called "Optionor") and _____, (hereinafter called "Optionee").

OPTIONED PROPERTY: Optionor, in consideration of the payment of an option fee under this Option Agreement, hereby grants to Optionee the right and option to purchase the premises below at any time during the term of this agreement, and subject to the covenants and conditions hereinafter set forth, the following described property: _____. Together with all improvements thereon, all privileges, appurtenances, easements and all fixtures, presently situated in said building except the following: _____

TERM: The term of this Agreement shall be ____ months beginning on the first day of _____ and ending on the last day of _____, 20____.

1. OPTION FEE: Optionee agrees to pay \$_____ as a NON-REFUNDABLE FEE, as consideration for the Optionor to grant the Option to Optionee to purchase the above premises.
2. OPTION PRICE: The option price of the Property shall be \$_____. The terms of the purchase shall be: _____, The Option Fee as provided in Paragraph 2 above shall be refunded to the Optionee to be used only as a down payment upon the purchase of the Property, as said Option Fee is NON-REFUNDABLE in the event that Optionee does not exercise the Option and purchase the Property.
3. Assignment of Option. Optionor agrees that Optionee may assign this agreement to a third-party. Optionor will allow the Optionee to show the property to potential assignees, contractors or appraisers by giving appropriate notice to the Optionor.
4. TERMS OF THE OPTION: Optionee may at any time during this term enter into an agreement of sale with the Optionor to purchase the property at the price specified in Paragraph 2. Optionee will arrange their own financing and pay all closing costs connected with the transfer of the property and obtaining the loan, so that the sale or exchange can be completed in sixty (60) days of the exercise of the option. Optionor agrees to deliver a good and sufficient General Warranty Deed conveying a marketable title to said property to the Optionee.
5. BINDING EFFECT: This Option and the agreements contained herein shall be binding upon inure to the benefit of heirs, executors, administrators, successors and assigns of the respective parties.
6. DISCLOSURES: Optionee acknowledges receipt of the "Residential Property Disclosure" statement, the EPA "Disclosure of Information on Lead-Based Paint and Lead-Based Paint Hazards" statement, and the EPA "Protect Your Family From Lead In Your Home" booklet. and understands their contents.
7. MISCELLANEOUS: Optionee agrees that they have examined the title to the Property and found no errors in the title and hereby accepts all assessments and encumbrances upon the property.
8. APPLICABLE LAW: This agreement shall be interpreted according to the Laws of the State of _____.

IN WITNESS WHEREOF, Optionor and Optionee have executed this agreement on the ____ day of _____, 20____.

OPTIONOR

OPTIONEE

OPTIONEE