

# Contents at a Glance

<b>Introduction</b> .....	<b>1</b>
<b>Part I: Gearing Up for Financing Your Real Estate Investments</b> .....	<b>7</b>
Chapter 1: Taking a Crash Course in Real Estate Investment Financing .....	9
Chapter 2: Shielding Your Personal Assets from Investment Risks ...	25
Chapter 3: Gathering Essential Documents, Facts, and Figures.....	43
Chapter 4: Scoping Out Prospective Lenders .....	61
<b>Part II: Financing the Purchase of Residential Properties</b> .....	<b>77</b>
Chapter 5: Finding the Residential Loan Program That's Right for You .....	79
Chapter 6: Bargain Hunting for Low-Cost Loans .....	93
Chapter 7: Navigating the Loan Application and Processing .....	105
<b>Part III: Financing the Purchase of Commercial Properties</b> .....	<b>127</b>
Chapter 8: Picking the Right Commercial Property Type for You....	129
Chapter 9: Exploring Sources of Financing for Commercial Properties .....	149
Chapter 10: Securing a Loan to Finance Your Commercial Venture .....	163
<b>Part IV: Sampling More Creative Financing Strategies</b> .....	<b>173</b>
Chapter 11: Financing in a Pinch with Hard Money and Other Tough Options .....	175
Chapter 12: Capitalizing on Seller Financing .....	193
Chapter 13: Partnering to Share the Risk and the Equity .....	207
Chapter 14: Profiting from No-Money-Down and Other Creative Deals .....	219
<b>Part V: The Part of Tens</b> .....	<b>231</b>
Chapter 15: Ten Ways to Avoid Common Beginner Blunders.....	233
Chapter 16: Ten Steps to Take before Closing .....	239
Chapter 17: Ten Tips for Surviving a Credit Crunch.....	245
<b>Glossary</b> .....	<b>251</b>
<b>Index</b> .....	<b>261</b>



# Table of Contents

## ***Introduction* ..... 1**

About This Book .....	1
Conventions Used in This Book .....	2
What You're Not to Read.....	3
Foolish Assumptions .....	3
How This Book Is Organized.....	3
Part I: Gearing Up for Financing	
Your Real Estate Investments.....	4
Part II: Financing the Purchase	
of Residential Properties .....	4
Part III: Financing the Purchase	
of Commercial Properties .....	4
Part IV: Sampling More Creative	
Financing Strategies .....	4
Part V: The Part of Tens.....	5
Icons Used in This Book.....	5
Where to Go From Here.....	5

## ***Part I: Gearing Up for Financing*** ***Your Real Estate Investments*..... 7**

### **Chapter 1: Taking a Crash Course in Real Estate** **Investment Financing ..... 9**

Pumping Up Your Purchasing Power with Borrowed Money ...10	
Minimizing your potential by owning	
property free and clear .....	10
Maximizing your potential with	
other people's money.....	10
Paying cash with borrowed money.....	11
Brushing Up on Basic Real Estate Financing Lingo .....	12
Identifying types of lenders.....	12
Grasping different loan types.....	13
Brushing up on important legal lingo .....	14
Pointing out mortgage concepts .....	16
Examining equity .....	16
Looking at loan-to-value (LTV).....	17
Distinguishing Investment and Home Financing.....	17
Paying a premium for riskier investment loans.....	17
Using quick cash to snag bargain prices .....	18
Accounting for taxes on your capital gains	
(or losses).....	18
Protecting your personal assets.....	19



- Exploring Common Sources of Investment Capital .....19
  - Tapping your own cash reserves.....20
  - Borrowing from commercial lenders .....21
  - Obtaining a hard money loan.....22
  - Financing your purchase through the seller .....22
  - Taking on a partner .....22
- Prepping to Meet with a Lender.....23
  - Gathering paperwork and other info .....23
  - Crafting a business plan.....24

**Chapter 2: Shielding Your Personal Assets from Investment Risks . . . . . 25**

- Understanding Why You Need to Protect Your Personal Assets .....26
- Limiting Your Personal Liability by Forming an LLC.....26
  - Understanding the pros and cons .....27
  - Setting up an LLC.....28
  - Taking and securing title to real estate.....28
  - Eyeing Sub-S corporations and partnerships .....29
- Transferring Personal Assets via Trusts.....30
  - Weighing the pros and cons of owning property in another's name .....31
  - Gaining asset and tax protection with an irrevocable trust .....32
  - Considering real estate investment trusts (REITs) ....33
- Staying Away from Promissory Notes with Recourse Clauses .....33
  - Opting for a nonrecourse loan .....34
  - Negotiating the recourse clause .....34
  - Avoiding cross-collateralization .....35
- Steering Clear of Real Estate and Mortgage Fraud .....36
  - Telling the truth on your application.....37
  - Dodging predatory lenders .....38
  - Saying “no” to inflated appraisals .....39
  - Turning your back on cash-back-at-closing schemes .....40
  - Avoiding illegal flipping.....40
  - Defending yourself against chunking schemes.....41
  - Refusing a builder bailout.....41
  - Acting with integrity: The golden rule .....42

**Chapter 3: Gathering Essential Documents, Facts, and Figures . . . . . 43**

- Examining Your Credit Reports.....43
  - Obtaining free copies of your reports.....44
  - Checking your credit score .....45
  - Inspecting your report for problems .....46

Repairing your credit and boosting your score.....47  
 Avoiding mistakes that can sabotage  
     your loan approval .....48  
 Chasing Down Vital Paperwork.....49  
 Delving into your personal financial information.....49  
 Accounting for business income .....53  
 Documenting the property you plan to purchase .....54  
 Show Me the Money: Identifying Sources of Ready Cash ....59  
 Sources of cash for down payments,  
     closing costs, and prepaid items .....59  
 Rainy day funds: Cash reserves .....60  
 Getting Prequalified or Preapproved.....60

**Chapter 4: Scoping Out Prospective Lenders . . . . . 61**

Borrowing Directly from Banks .....61  
     Weighing the pros and cons .....62  
     Conventional loans .....64  
     Subprime (nonconforming) loans .....65  
 Dealing with a Middleman (or Woman): Mortgage Brokers ...66  
     Weighing the pros and cons .....67  
     Shaking the branches for a broker .....68  
     Checking a broker’s credentials.....68  
 Taking the Hard-Money Route through Private Lenders ....70  
 Borrowing from Uncle Sam: Government Loan Programs .....72  
 Financing through the Seller .....73  
     Lease options .....73  
     Land contracts .....74  
 Teaming Up with a Cash-Heavy Partner.....74  
     Opting for a limited partnership.....75  
     Going the corporation route .....76

***Part II: Financing the Purchase  
of Residential Properties ..... 77***

**Chapter 5: Finding the Residential Loan  
Program That’s Right for You . . . . . 79**

Understanding Why Finding the Right  
 Residential Loan Is Key .....79  
 Choosing a Loan Type to Maximize Your Cash Flow.....80  
     The power of OPM (other people’s money).....81  
     Interest-only mortgages .....82  
     Grabbing a hold of ARMs .....83  
     Hybrids.....85  
     Hard-money loans: Private investors .....85  
 Taking Advantage of Government-Secured Loans .....86  
     Tapping the FHA for a loan .....86  
     Viewing Veterans Affairs (VA) loans .....89

Considering REO loans .....	89
Tapping into state and local grants and loans .....	90
Digging up USDA Rural Development loans .....	92
Avoiding the Prepayment Penalty Trap .....	92

## **Chapter 6: Bargain Hunting for Low-Cost Loans . . . . . 93**

Understanding How This Interest Thing Works .....	93
Keeping simple with simple interest .....	94
Grasping the concept of amortization .....	94
Telling the difference between the interest rate and APR .....	96
Exploring how adjustable rate mortgages work .....	97
Paying interest upfront with points .....	98
Considering the Mortgage Term .....	99
Accounting for Closing Costs .....	100
Getting socked with origination fees .....	100
Forking over other fees .....	100
Examining the Good Faith Estimate .....	102
Calculating a Loan's Total Cost .....	103

## **Chapter 7: Navigating the Loan Application and Processing . . . . . 105**

Completing Your Loan Application .....	105
Walking through the parts of the loan application .....	106
Reviewing the lender's disclosures .....	108
Supplying the requested documentation .....	111
Signing a release of information .....	112
Following the Loan Processing Trail .....	112
Getting up to speed on the underwriting process .....	113
Obtaining an appraisal or AVM .....	113
Having the property inspected .....	114
Obtaining a survey .....	119
Navigating the Closing .....	120
Keeping your attorney in the loop .....	120
Dealing with the preliminaries .....	120
Signing the documents .....	122
Knowing your right of rescission . . . or lack thereof .....	122
Dealing with surprises .....	123
Financing Other Types of Residential Properties .....	124
Digging up money for vacation properties .....	124
Financing investment properties .....	125
Purchasing vacant land .....	126

***Part III: Financing the Purchase  
of Commercial Properties..... 127***

**Chapter 8: Picking the Right Commercial  
Property Type for You..... 129**

Estimating the Income Potential of a Commercial Property.....	130
Calculating effective gross income (EGI).....	130
Calculating Net Operating Income (NOI).....	131
Estimating the property's true value.....	132
Projecting future profits with a pro forma.....	133
Dwelling On the Thought of Multifamily Homes.....	134
Two- to four-family homes.....	135
Garden apartments.....	136
Large multifamily properties.....	136
Crunching the numbers.....	138
Buying and Renting Out Office Space:	
The A-to-D Grading Scale.....	139
Investing in Retail Real Estate.....	140
Collecting your cut of gross sales.....	141
Comparing strip malls and convenience stores.....	142
Running Your Own Hotel or Motel.....	142
Distinguishing between flagged and unflagged properties.....	143
Encountering income challenges.....	144
Checking Out Industrial or Warehouse Properties.....	145
Calculating income and costs.....	145
Considering storage facilities.....	146
Exploring Mixed-Use Properties.....	146
Sampling Some Special Use Properties.....	146
Restaurants and bars.....	147
Gas stations.....	148
Adult foster care.....	148

**Chapter 9: Exploring Sources of Financing  
for Commercial Properties..... 149**

Sizing Up Various Commercial Loan Programs.....	150
Exploring the middle market (local and national banks).....	150
Hitting up the private sector:	
Hard-money lenders.....	151
Financing Main Street property with Wall Street money.....	152

- Pursuing Government Loans .....153
  - Financing housing and medical facilities through FHA loans .....153
  - Tapping into economic development funds and grants .....154
  - Securing a loan through the SBA .....154
  - Harvesting investment capital through the USDA.....156
  - Getting a hold of a CDBG .....157
- Deconstructing Construction Loans .....158
- Financing Fixes with Rehabilitation Loans .....158
- Exploring Other Creative Financing Options .....159
  - Borrowing from pension programs and life insurance companies.....159
  - Enlisting the services of venture capitalists .....160
  - Sharing the costs and the equity .....161
  - Participating in participation loans .....161
  - Taking on a partner .....162
  - Considering other potential sources of capital .....162

**Chapter 10: Securing a Loan to Finance Your Commercial Venture . . . . . 163**

- Deciphering the Broker-Borrower Agreement .....163
- Accounting for Upfront Fees .....165
- Obtaining Third-Party Reports.....167
  - Verifying a property’s market value with an appraisal .....167
  - Plotting the perimeter with a survey .....168
  - Inspecting the title.....168
  - Obtaining an engineering report .....169
  - Getting a clean bill of environmental health .....169
- Navigating the Closing.....170
  - Protecting yourself with title insurance .....170
  - Insuring your property .....171
  - Attending to existing tenant rights.....172

***Part IV: Sampling More Creative Financing Strategies . . . . . 173***

**Chapter 11: Financing in a Pinch with Hard Money and Other Tough Options . . . . . 175**

- Weighing the Pros and Cons of Hard Money .....176
  - Perusing the pros.....176
  - Considering the cons .....177
- Managing the Expense of a Hard-Money Loan .....179
  - Calculating points.....179
  - Adding up the interest .....180

Subtracting the tax savings .....180  
 Paying back the loan sooner to save money .....181  
 Locating Local Hard-Money Lenders .....183  
     Asking your broker for leads .....183  
     Networking through local investment groups .....183  
     Perusing ads in local newspapers .....184  
     Searching the Web .....184  
     Getting preapproval .....185  
 Hitting Up Friends and Relatives for a Loan .....185  
     Grasping the pros and cons .....186  
     Identifying the moneybags in your circle .....187  
     Drawing up an agreement .....187  
     Honoring securities laws .....189  
 Financing Fix-Ups with a Home  
     Equity Loan or Line of Credit .....189  
     Understanding home equity loans and LOCs .....190  
     Maxing out your LOC .....190  
     Applying for an LOC .....191  
 Supplementing Your Financing with Credit Cards .....191  
     Eyeing the pros to credit card use .....191  
     Choosing a credit card with low  
         interest and plenty of perks .....192

**Chapter 12: Capitalizing on Seller Financing . . . . . 193**

Buying Property on Contract with a Land Contract .....193  
     The ups and downs of buying  
         a property on contract .....194  
     Inspecting the title .....195  
     Beware of the due on sale clause .....197  
     The how-to: What you need to do .....197  
     Protecting yourself against fraud .....199  
 Renting to Own with a Lease Option Agreement .....199  
     Grasping the fundamentals of a  
         lease option agreement .....201  
     Using the lease to earn some cash .....202  
     Dealing with the option .....203  
 Paying Close Attention to the Forfeiture Clause .....206

**Chapter 13: Partnering to Share the Risk  
 and the Equity . . . . . 207**

Differentiating between a Partnership  
 and a Joint Venture .....207  
 Weighing the Pros and Cons of Partnerships .....208  
 Finding a Partner with the Right Stuff .....210  
     Scoping out prospective partners .....211  
     Checking a prospective partner's qualifications .....212  
     Making sure your partner has what you need  
         and needs what you have .....213

Drawing Up a Partnership Agreement.....214  
    Drafting the agreement .....215  
    Complying with the tax code .....217  
Avoiding Common Pitfalls.....217

**Chapter 14: Profiting from No-Money-Down  
and Other Creative Deals . . . . . 219**

Financing Your Down Payment with a Second Mortgage ...220  
    Taking out an 80-20 loan .....220  
    Disclosing your second mortgage .....221  
Wholesaling for Fun and Profit.....221  
    Buying and selling options .....222  
    Assigning a purchase agreement .....224  
Selling the Tax Benefits .....226  
Trading Spaces: 1031 Exchanges .....226  
    Qualifying for a 1031 exchange .....228  
    Meeting the deadlines .....229  
Selling Other Equitable Interests .....229  
    Leaseholds and other rights .....229  
    Naming rights, air rights, and  
    other unimaginable stuff.....230

***Part V: The Part of Tens.....231***

**Chapter 15: Ten Ways to Avoid Common  
Beginner Blunders . . . . . 233**

Focusing on More than Just a Low Interest Rate .....233  
Getting Preapproved .....234  
Doing Your Homework: Property Research.....234  
Making a Reasonable Down Payment.....235  
Comparing at Least Three Good Faith Estimates .....236  
Viewing at Least Ten Properties before Making an Offer...236  
Checking Your Credit Score before Applying for a Loan ...237  
Buying with Your Brain and Not Your Heart.....237  
Monitoring the Pulse of Current Market Conditions .....238  
Calculating the NOI and DSCR  
    on Commercial Properties .....238

**Chapter 16: Ten Steps to Take before Closing . . . . . 239**

Get and Review a Copy of the Appraisal.....239  
Review the Title Commitment  
    and Obtain Title Insurance .....240  
Review All Closing Documents.....241  
Review a Copy of the HUD-1 Closing Statement .....241  
Get an Insurance Policy .....242  
Do a Walk-Through on the Property.....242

Obtain Utility Final Readings and Schedule  
the Transfer .....243  
Review Updated Tenant Rent Roll .....243  
Have Certified Funds or Wire Transfer Ready to Go .....244  
Confirm Date, Time, and Location of Closing.....244

**Chapter 17: Ten Tips for Surviving  
a Credit Crunch ..... 245**

Expand Your Search.....245  
Choose Properties More Carefully.....246  
Focus on Foreclosures .....246  
Look for Short-Sale Opportunities .....247  
Buy REO Properties .....247  
Search for High-Equity Properties .....248  
Shift from a Buy-Sell to a Buy-Hold Strategy .....248  
Team Up with Your Mortgage Broker .....249  
Offer Your Agent a Bonus.....249  
Partner Up and Get Creative .....250

***Glossary* ..... 251**

***Index* ..... 261**

