

Invest in Oklahoma City



How to use Financing to buy for CASH

By Professional Investor and Broker, Gary Lieber

There are many ways to finance your investment real estate. This guide will focus on some of the ways you can use financing, and still reap all the benefits of buying property for cash.

No matter what your investing goals are, the ability to pay cash gets you there faster. Cash buyers have a big advantage over buyers who finance. Paying cash saves time, money, and resources; not to mention the fact that it gets you deals that you could not have done with upfront financing.

Many properties don't qualify for financing. They may have missing utility meters or be in such poor condition that they are clearly not livable. In some cases they are uninsurable in their present condition. What do you think your banker would say if you tried to borrow money for a property like that? No way!!! Right?

This guide will show you how to do it, and keep your banker smiling the whole time.

Contents

Page	
3	About this guide
4	Credit & Credit Scores
5	Cash Price Vs. Finances
6	Example Closing Statements
8	The Cost of Financing
9	Sources of Cash
10	Equity Line of Credit
11	Equity Transfers
13	In Closing

About this Guide

In this guide you will find some innovative ideas for financing investment real estate. The goal is to get into a position to buy properties for all cash. Being in a cash position will help you reach your investment goals much faster. It definitely works to your advantage to use cash AND credit to buy real estate, and I'm not talking about huge down payments either. I'm talking about using little or NONE of your own money. Why use YOUR money to buy real estate, when you can use someone else's?

When you go to the bank to buy rental property most of them give you the same story, "We will only finance 80%." That means you will have to come up with the other 20%, plus repairs, plus holding costs, and advertising costs. That can add up to over \$15,000 for a \$50,000 property. This is a traditional method that people have used over and over again. But I believe that way of thinking is a bit out dated. I'm going to show you how it can be done today, with little or no money out of your pocket.

This guide is designed to help lead you step by step towards a path of buying property for all cash. This guide will discuss the following:

- Credit and Credit Scores
- Cash Price Vs. Financed
- Buying for all CASH
- Sources of Cash
- Equity lines of Credit
- Equity Transfers

This guide talks only about financing investment real estate, and does not cover topics about the real estate itself. This guide does NOT cover:

- Investment Markets
- Property Values
- Resale Comps
- Rental Values

This information is available in some of my other guides. Use them together with our calculator and help build a solid foundation of knowledge of the Oklahoma City investment market. Let my experience and vast knowledge of the market help guide you towards your investment goals.

Now let's get started!

Credit and Credit Scores

Since the title of this guide has the word "Finance" in it, I think it is relevant that we talk about credit first. You obviously can't get financing if you don't have any credit, and mortgage companies today rely almost completely on your FICO score these days. It is rapidly becoming the standard and will be implemented in even more areas in the future other than finance.

The whole intention of the FICO scoring system in the 1950's was to give lenders a quick and centralized database of your credit and payment history. This changed the way banking was done forever. But today, like many other well intended public programs, it has run amuck with problems.

With today's technology and the online availability of practically any information, there comes a whole new set of problems. 85% of Americans have errors on their credit reports. From inconsistencies on your credit reports, to incorrect information, misspellings, information not being reported across all 3 bureaus, credit card companies that don't report your limits or payoffs, and the list goes on and on. The fact is that NO ONE monitors anything about YOUR credit. It is up to you to monitor your own credit and act to keep derogatory or incorrect information off. Credit Monitoring is a MUST!

Everywhere you go online you will ads for FREE CREDIT SCORES, CREDIT MONITORING, or subscription services that supposedly help clean up your credit. Please beware of these, most of them do not work and the FREE CREDIT SCORE's you get may not be your actual FICO scores.

I have not even mentioned Identity Theft or Credit Fraud yet. That is a subject all in itself. Identity theft is running rampant with the advent of the internet. We lose hundreds of billions of dollars every year in the U.S. due to identity theft. I personally have been victim of identity theft and credit fraud over the past 10 years. I have filed police reports, talked to detectives, written letters, contacted the Federal Trade Commission, contacted creditors and much more. You name it, I have been through it. Not once did anyone I contacted ever offer any kind of help whatsoever. What have I learned from it all? Nobody really cares, and nobody really wants to hear about it. Sounds strange doesn't it? The fact is that credit card companies make so much money, that they just write off the losses from credit fraud. No one is really willing to do anything about it. I

f you don't monitor your credit, someone else might slip in and steal your identity, and you'll never know until it's too late. Identity Theft is a HUGE problem today and If you want to invest in real estate, I suggest you take it this very seriously and monitor your credit on a continual basis. Here is a great place to start for more information.

I recommend you buy Philip Tirone's "7 Steps to a 720 Credit Score"

Cash Price Vs. Financed

Here are the facts about paying cash for real estate. It is quick, easy, and almost painless. Closing a deal with an upfront mortgage can take an hour or more at the closing table, not to mention all the time you spent at the bank, faxing documents, making phone calls, and etc. Cash closings can take as little as 15 minutes!!

Most banks will tell you they are only willing to finance 80% of your purchase price for investment property. Leaving you to come up with all the rest. I think that is an old school way of thinking and needs to be tossed out the window. Upfront financing the purchase of real estate through a conventional or investment mortgage is absolutely the hardest and most costly way to do business. It certainly does have its uses and may be the only option for people with marginal credit or insufficient assets to get a line of credit.

The goal is to get yourself into a position where you don't have to rely on this type of financing. And for most people, that is their biggest obstacle and can severely impede their investing business. Most people don't really understand financing, their credit scores, or how it all works. From reading your credit reports to reading mortgages, this is an area of the business you absolutely must learn. It can mean a world of difference in your investing career. Having a great credit score can more than save you thousands, it can help rocket you to the next level of investing.

But what if you don't have good credit? Help is available. If you are dedicated, you can improve your credit dramatically over the next 6 to 12 months. Having a high credit score should be a number ONE goal as an investor. Once you have it, doing business will get much easier.

Why is it easier to pay cash? You don't have to chase around town signing documents, for one, and that is a huge time saver. You don't have **mortgage contingencies** in your contracts, and that is a BIGGIE. When people see **CASH** as your method of paying for real estate, it really gets their attention, and is likely to get you the deals as well.

The Bottom Line

Here's the best part. When you buy in cash you can save thousands at the closing table. THOUSANDS!!! There is a huge advantage for closing in Cash Vs. Financing for real estate purchases. Conventional mortgages can cost a lot more than using cash.

Here is an example closing statement of Financing Vs. Cash.

Example Closing Statement

OKLAHOMA REAL ESTATE COMMISSION ESTIMATED COST TO BUYER

Estimated P&I (Subject to lock of interest rate by lender)	Property Address <u>123 Anywhere Street, USA</u>
P & I <u>231.90</u> @ % Interest* <u>30</u> No. Years)	Sales Price <u>33,000.00</u>
P & I _____ (___% Interest * _____ No. Years)	Loan Amount <u>30,000.00</u>
PMI, MIP, MMI <u>50.00</u>	MIP/VA fee (if financed) <u>300.00</u>
Insurance <u>45.00</u>	Total Loan <u>30,300.00</u>
Taxes <u>25.00</u>	
Dues <u>0.00</u> (Monthly dues of Condo/HOA; not escrowed)	Closing Date <u>10-26-06</u>
Other _____	
Total <u>351.90</u> Estimated monthly payment	

Note: Number on left corresponds to HUD-1 Form

	CONV	FHA	VA	ASSUMP	CASH
Down Payment, Equity or Cash	3,000.00				33,000.00

700. Broker's Fee

Commission _____ %					
Transaction Fee	235.00				235.00

800. Items Payable in Connection with Loan

801. Loan Origination Fee _____ %	300.00				
802. Loan Discount 1 %					
803. Appraisal Fee	350.00				
804. Credit Report	75.00				
805. Lenders Inspection Fee	50.00				
807. Assumption &/ or Transfer Fee					
Tax Service Fee					
Shipping Fee					
Underwriting Fee	150.00				
Doc Prep/Processing Fee	150.00				
Flood Certificate	75.00				
VA Funding Fee (if not financed)					

900. Items Required by Lender to be Paid in Advance

901. Prepaid Interest <u>26</u> Days @ \$ <u>13.15</u> per day	341.90				
902. Mortgage Insurance Premium (if not financed)					
903. Hazard Insurance Premium (1 year)	600.00				0.00
904. Flood Insurance Premium (1 year)					

1000. Reserves Deposited with Lender

1001. Hazard Insurance (3 months)	135.00				
1004. County Property Taxes (3 months)	75.00				
1006. Flood Insurance (3 months)					

This form was created by the Oklahoma Real Estate Contract Form Committee and approved by the Oklahoma Real Estate Commission.

CONV	FHA	VA	ASSUMP	CASH
------	-----	----	--------	------

1100. Title Charges

1101. Settlement or Closing Fee	150.00				150.00
1102. Final Title Search after Closing	150.00				150.00
1103. Title Examination	50.00				50.00
1104. Title Insurance Binder					
1106. Attorney's Fees					
1108. Title Insurance –Owner & Lender	250.00				250.00
1109. Lenders coverage only	50.00				
1110. Owners coverage only					
1111. Gap Check					

1200. Government Recording and Transfer Charges

1201. Recording Fees	15.00				15.00
1202. Mortgage tax fee/ Certification	50.00				

1300. Additional Settlement Charges

1302. Wood Infestation Inspection	85.00				85.00
Fixtures, Equipment & System Inspections					
Structural Inspection					
Environmental Inspection					
Roof, pool, spa Inspections					
Survey	90.00				
Home Warranty Policy					
Condo/Homeowner's Assoc. Dues-payable					

Assumption Only

Purchase Escrow Account					
Next Month's Payment					

Total Estimated Expenses	6,426.90	0.00	0.00	0.00	33,935.00
---------------------------------	-----------------	-------------	-------------	-------------	------------------

Less Buyer's Costs Paid By Seller					
Less Earnest Money Deposit	(1,000.00)				(1,000.00)
Less Seller's Interest in Arrears					
Less Seller's Tax Prorations					(250.00)
Balance Due (Cashier Check or Wire Transfer)	5,426.90	0.00	0.00	0.00	32,685.00

THE ABOVE FIGURES ARE ESTIMATED closing costs furnished on the date indicated below and may vary from those at transfer of deed. Lender's charges WILL vary from different institutions.

Buyer's Acknowledgement: I understand these figures are approximate and may differ from those at closing.

Buyer	Date	Company Name
Buyer	Date	Prepared by
		Date

The Cost of Financing

As you can clearly see from the settlement statement, closing in cash saves you money over using financing. Mortgage companies make money on all the upfront points and charges you pay when you purchase.

Cost Difference

Let's breakdown the closing statements and look at the actual cost of the investment.

Total Purchase Price with 90/10 Financing	\$36,726.90
Total Purchase Price with Cash	\$33,685.00
Cost Difference	\$ 3,040.90

Total Closing Costs with Financing	\$ 3,426.90
Total Closing Costs with Cash	\$ 685.00

The investor that pays cash has a \$3000 head start on the one that uses financing. That is a HUGE difference on a 33,000 property. That is almost 10%!!!! That is how mortgage companies make money. Most mortgage companies sell their paper to the secondary market and keep the upfront charges and 1st year's interest as their profit. That could be YOUR profit.

There are other ways to finance the same property and pay cash prices and closing costs. Do you think your bank or mortgage company is going to tell you about them? No way!! They make more money the conventional way.

There are some banks and mortgage companies that have programs specifically for real estate investors. Here are some that I recommend.

Financing

Wells Fargo
Brandy Nipper
Brandy.nipper@wellsfargo.com
405-476-6355

Rose Rock Bank
Wade Stewart
405-748-6776

Bank Of America
Stacey Reinholtz
Stacey.r.reinholtz@bankofamerica.com
405-230-5910

Sources Of Cash

Now that you understand the difference closing in cash can make, it's time to talk about how you get there. Most people don't have \$50,000 or \$100,000 laying around in their bank account to buy property with. But many people do have the means to access those amounts of cash, and may not realize it.

Here are some sources for Cash to buy properties:

- 401K or equivalent retirement plan
- IRA or ROTH IRA
- Hard Money Lenders
- Other Investors
- Partners
- Banks

401K Plans. You can use money from your 401K plan if you transfer it to a self directed IRA.

IRA or ROTH IRA. There are several IRA types available depending on your situation and needs. Property can be put into trust and controlled by your IRA. There are only a few companies in the US that offer this type of product. Here is the one I recommend.

Equity Administrative Services, Inc.
225 Burns Road
Elyria, OH 44035
440-323-5491
www.trustetc.com

Hard Money Lenders. Although hard money lenders are sometimes easier to deal with, they certainly want their piece of your profits. You may be able to swallow their terms, but you probably won't like the cost.

Other Investors or Partners can be a great source of cash, especially if you are just starting out. See if there is anyone you know who might be interested in buying real estate with you.

Banks. Banks have to be my favorite source of cash. These are the same banks that want you to buy property using their conventional mortgages so they can make a handsome profit. There is a way to get them to finance you for next to nothing if you have an equity position in property. They have a wonderful product called the "Equity Line of Credit."

Equity Line of Credit

What is an Equity Line of Credit? It is very simply what the name implies. It is a VAR mortgage that is tied to the equity in your property. It is like having a checking account for your equity. If you have equity in real estate that you own, you can get a line of credit on it. How cool is that??? You can have an instant access to your equity. Closing on an equity line of credit is usually done at the bank. The fees are usually minimal as \$500. Some banks will even do this type of loan on an interest only basis to make your payments very easy to manage.

Equity Lines usually take the form of a 2nd mortgage, although if you own property free and clear it would be in the form of a 1st mortgage. Once you set up the account, that does not mean that you have to use it right away. There is usually no limitation to how much or how little of your designated limit that you can draw. Many banks will even give you CHECKS to access your equity line. Now you can use your equity any time you want, for any reason.

You don't have to call the bank and ask if you can buy property, you don't have to get an appraisal, or inspections, you don't have to pay MIP or any upfront mortgage fees whatsoever. All you have to do is go to the bank, get a draw on your line of credit, get a certified check to the title company, and show up at closing. Doesn't that sound like a better way to do things?

No hassles, no fuss, just plain easy. Not to mention the fact that you just saved \$2000 or more on your closing costs. This is absolutely one of the best ways to buy real estate, in my opinion

What to do Next

What you do next depends on your investment plan. If you plan on rehabbing your property and selling it on the open market, then you can use the line of credit to buy and fix the property, and carry it until it sells. You may only be responsible for interest payments, so that keeps your holding costs to a minimum.

If you plan to keep the property for rental, then you will need to finance the property once you are finished with your repairs. Since you used your line of credit that is tied to equity in other property you already own, you were able to pay cash and have no mortgage on the investment you just purchased. Because you own the property free and clear, with no mortgage on it, it is very easy to get financing for 80% of value. This is a big difference from 80% of the purchase price the bank offered when you purchased. If you purchased the property with an equity position and completed repairs, then the appraisal should come back much higher. You are likely to recover ALL of your costs when you finance the property at the end of the project, and replenish your equity line.

10

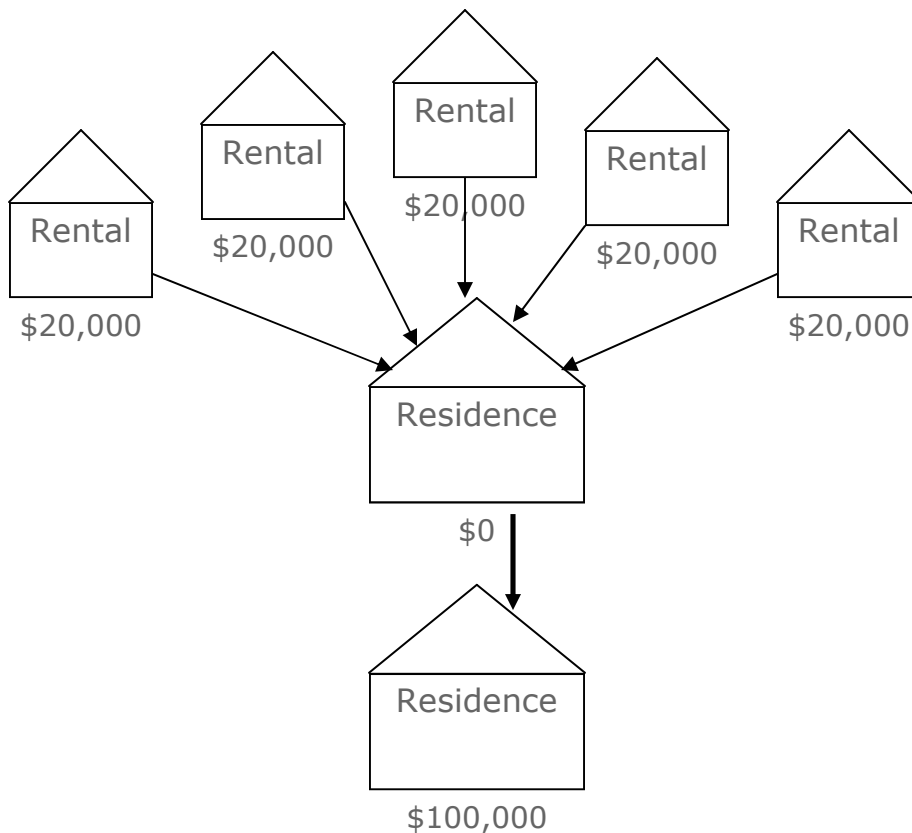
Equity Transfer

What if you have the equity but it is in more than one property? You can do an Equity Transfer. What is an Equity Transfer? Equity Transfer is a way of refinancing properties you currently own, to transfer the equity to your primary residence. Why would you want to do this? To access all of the equity that you can from one source, your primary residence.

Let's say that you own 5 rental properties. They are all in good condition, they all cash flow, and they will all appraise for market values. For this example, let's assume that you have \$20,000 equity in each one. You just purchased a new home last year and don't have any equity in it. The problem is that you have equity you can't access.

A solution would be to transfer the equity to your primary residence and get ONE equity line of credit. Banks are not thrilled about equity lines on rental properties but you will find them bending over backwards to do it on your primary residence. For many people, this may be the best source of cash.

How to Transfer your Equity

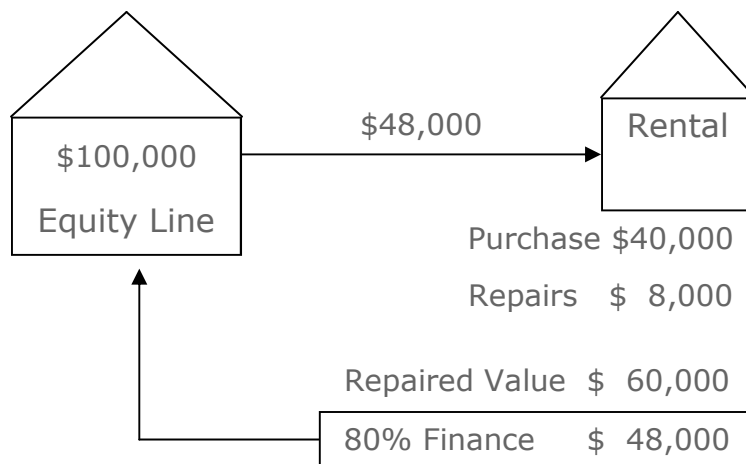


Refinance your rental properties and put that equity into your home. Refinance your home to get an equity credit line. The costs will be worth it in the end.

Once you get it all set up, it will be much easier to buy real estate. Yes it will cost you money to refinance your properties and that is the short coming of doing it this way. But even if it cost you \$10,000 to refinance them all, which it likely won't, you will make up that difference in the closing costs alone of the next 3-4 properties you buy, Vs. using conventional financing.

Yes you do have to take the hit of all the upfront charges of refinancing, but it is definitely worth it considering it may be the last time you ever have to finance that way again!! And it will save you \$20,000 in closing costs over the next 10 deals you do.

Let's look at some diagrams to show you how this works once you have your equity line in place.



You start by using your equity line to purchase the property for cash. Then you complete all of the needed repairs and get the property ready for rental. At this point the property should appraise for a much higher value. You can easily get 80% financing to pull out the money you invested. You have long term financing on the property so that your tenants pay for it and not you.

Take the money from your financing, replace what you originally borrowed from your equity line, and do it again. Once you get your finances to this point, it won't actually cost you anything to buy rental properties except a little bit of interest for the money you used from your equity line.

By using this method you can actually buy and carry your property for 30-60 days for around \$1000, INCLUDING your closing costs. It just doesn't get any better than that.

In Closing

There are lots of ways to finance real estate. As you can see, some are much more costly than others. Manipulating your financing situation to be able to close in cash on real estate will save you thousands of dollars, hours of your time, and completely eliminate the frustrations of have to deal with conventional mortgages.

I have given you some sensible approaches to help you think outside the box. Banks and mortgage companies want you to think in terms of conventional mortgages because those are the products that they make the most money on. Your bank certainly WILL give you an equity line of credit if you have the equity, but I doubt they will tell you about it or suggest it if you ask them borrow money to buy rental property. They want you to use a conventional mortgage.

They have ulterior motives for your money and if they don't want to work the way you go, then go on to the next one until you find one you are comfortable working with, and that is comfortable working with.

I hope that you have found this guide to be helpful. I tried to give you information in a way that is easy to understand and digest. If you are an investor in the Oklahoma City market, then I would like to help you reach your investing goals. Please feel free to contact me anytime for assistance. Thank you for your purchase of this guide. Please check the website regularly for live property deals.

www.okcinvestors.com

Here are some links to hard money lenders and other resources of investors

AZ Home Loans	www.azhomeandloan.com
Real Estate Investors Network	www.reinusa.com
Total Real Estate Solutions	www.totalrealestatesolutions.com
McRae Mortgage & Investment	www.mcraemortgage.com
The Singleton Group	www.allinvestmentproperty.com
BRT Commercial	www.brcrealty.com
Progressive Financial	www.flmortgagebanker.com