

## The Two Most Common Questions New Real Estate Investors Ask (Part 2)

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Last week we answered the question, “Where do real estate investors find their deals?” Today let’s tackle the second most common question new Real Estate Investors ask, “Where do I get the money to do a deal?”

Remember this, when you find a great deal, don’t worry about finding the money, the money will find you! By “great deal” I mean a property that will return a net profit of at least thirty-five cents on the dollar or better.

Here are a few of the places Real Estate Investors go to get the money to do a deal:

- 1. Pay cash for the property:** In the beginning, this option isn’t available to most new investors.
- 2. HELOC loan:** Many investors use a HELOC (Home Equity Line Of Credit) loan to buy and/or rehab investment properties. A word of warning: Remember, with a HELOC loan your personal residence is the collateral guaranteeing the loan. If you aren’t able to repay the money your borrowed, the mortgage company will foreclose on your home!
- 3. Get a new mortgage:** This is how most folks buy their personal residence and new investors buy investment properties. First they find an investment property to buy, then apply for a mortgage, and finally wait twenty-five to forty-five days to close. Pretty straight forward.

But there is a big problem with this method. When you are buying investment property, many loan companies only loan 80 to 90% of the purchase price *or* the appraised value – *whichever is lower!*

For example, you find a house with an ARV (After Repaired Value) of \$100,000. It needs \$10,000 in rehab work. The seller agrees to a \$40,000 sales price. Wow, this is a \$50,000 equity deal! ( $\$100,000 - \$10,000 - \$40,000 = \$50,000$  of equity). Problem is, even though the ARV is \$100,000, the purchase price is only \$40,000. With many loan companies this means you will only be able to borrow \$32,000 ( $\$40,000 \times 80\% = \$32,000$ ). In other words, to get this great investment deal, you will need to come out of pocket \$8,000, *plus* about \$3,000 in closing costs, *plus* \$10,000 for the rehab. This equals \$21,000! Ouch!

Having to come out of pocket \$21,000 will keep most new investors from doing this great deal.

- 4. Business line of credit from a bank:** You meet with your banker and set up a business line of credit. When you take money out of the business line of credit, it is secured by the investment property you are buying.

What makes this such a great way to buy investment property? Let's look at the above example, but instead of applying for a mortgage, you use a business line of credit. You borrow \$50,000 from the bank (\$40,000 purchase price + \$10,000 in rehab). You get a 120 day loan that requires no payments for 120 days. The investment property is used as collateral, not your personal residence.

There are two exit strategies when you buy investment property. You can sell the property or keep it as a rental. If you decided to sell the property, just make sure you get the property rehabbed and sold before 120 days has passed. This will allow you to re-pay your bank loan on time and pocket the profit.

In this case, you decided to keep it as a rental. What to do? The day you buy the property, you apply for a mortgage. Here is the kicker; since you already own the property, you are not getting a new mortgage, instead you are refinancing your investment property. When you refi an investment property, you can borrow up to 95% of the appraised value! The purchase price doesn't come into play.

In our example you borrowed \$50,000 from the bank to do this deal. You do a 95% refi and pull out \$95,000. After paying off the \$50,000 bank loan, you still have \$45,000 in your pocket! Want it to get even better? This \$45,000 is tax-free money. The only catch is this \$45,000 must be repaid *if* you sell this property.

Next week we'll cover several other creative ways you can buy investment real estate without using your own money.