

## The Two Most Common Questions New Real Estate Investors Ask (Part 3)

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For the past three weeks we've been answering the two most common questions new Real Estate Investors ask. If you would like a free copy of Parts 1 and 2, please send us an email and we'll get it to you.

What are the two most common questions new Real Estate Investors ask? "How do I find investment properties to buy?" and "Where do I get the money to do a deal?". Part 1 answered the first question. Now let's complete what we started last week.

**5. Private money loans:** What is a private money loan? Last week we talked about a business line of credit from a bank. A private money loan works the same way, but instead of borrowing from a bank, we are borrowing from an individual.

When we need money to do a deal, there are several private money lenders to whom we turn. Why are they willing to lend us the money to do the deal? If you have your money in a bank savings account, you already know the answer. Currently savings accounts are only paying 2 to 3% interest. This doesn't even keep up with inflation. We, on the other hand, are willing to pay 6 to 9% interest. In addition, the loan is secured by the investment property. If we don't repay the loan, the private lender gets the investment property.

Better still, the private money lender can set up a Self-Directed Roth IRA and lend from their IRA. What's the advantage? The interest collected from the borrower is tax-free money!

**6. Hard money lenders:** A hard money lender can be a person, group of people, or a company. Hard money lenders don't care about your credit score, where you are from, or anything else for that matter. The loan is based on the deal, not your background, and is backed by the investment property.

Normally, the loan is for no more than 65% of the appraised value of the investment property. In addition, the cost to borrow the money is expensive. It's common for hard money lenders to charge 5 points (5% of the loan amount) and 15% interest. Often you have 90 to 120 days to repay the loan.

**7. Owner Financing:** This is our favorite way to finance Real Estate Investing deals.

Here are just five of the reasons owner financing is so great. First, you don't have to come out of pocket with as much money at closing. Second, there are many ways you can structure the repayment of the loan. Third, loan costs are very low. Fourth, the loan is not reported on your credit report. Fifth, it doesn't matter if your credit score is weak.

Let's look at an example of how owner financing can help you structure a better deal:

A seller's property is worth \$100,000. He owes the mortgage company \$40,000. The seller has been transferred to Texas and must sell quickly. He agrees to a sale price of \$70,000. You need \$70,000 to buy this property - \$40,000 to pay off the seller's mortgage plus \$30,000 to pay off the seller.

It can be expensive to borrow \$70,000, so let's do some owner financing and cut the loan costs a bit. Instead of getting the full \$30,000 at closing, the seller agrees to accept only \$1,000. A Note in the amount of \$29,000 will be given to the seller. The Note is for two years, has an interest rate of 2%, has no monthly payments, and has no pre-payment penalty. Do you see where owner financing will save you money?

There is no end to the ways you can structure owner financing deals. Just think about it, you can do 0% interest loans, principle-only payments, deferred payments, or a combination of all three. And this is just the tip of the owner financing iceberg. We haven't even touched on Subject To deals.

In the past three weeks we have answered the question, "Where do I get the money to do a deal?". I hope your eyes are open to just a few of the creative ways you can find and buy investment properties.