

Nothing Down Real Estate Techniques

The Robert G. Allen's Nothing Down System

By Robert G. Allen and Richard Allen

“Don’t wait to buy real estate. Buy real estate and wait.”

The world of real estate has been governed for years by one dominant train of thought, i.e., in order to buy and hold property successfully, the average person must have excellent credit, a strong financial statement, good income, lots of money for a substantial down payment, and strong collaborative support from the hard-money lenders.

Those who agreed that income property was the finest investment found they could not hope to participate in owning a larger piece of America under the dominant rules that had obtained hitherto. New patterns were needed if the cash-poor but creative individual was to break into the world of property ownership.

This report outlines my 50 favorites nothing down techniques, organized into 10 separate areas:

1. The Seller
2. The Buyer
3. The Realtor
4. The Renters
5. The Property
6. Hard-Money Lenders
7. Underlying Mortgages
8. Investors
9. Partners
10. Options

1. THE SELLER

Among the nine major sources of down payment funds for property acquisition, the seller is no doubt the most important. If the buyer has done his selection job well he will be dealing with a person who is anxious to sell and therefore flexible with financing arrangements. The seller will need to take on a role that might be new for him – that of lender. But if the buyer is sensitive to the needs of the seller, he will foster trust and see to it that both parties win. (Lending can, after all be a lucrative business with its own slate of benefits even for property sellers.)

This section reviews eight nothing down techniques involving seller financing.

Technique No. 1 The Ultimate Paper Cut

An investor in Milwaukee was able to acquire a \$48,000 triplex from a banker who not only arranged for a new low-interest first mortgage, but also carried back virtually all the remaining equity in the form of second at below-market rates. Another investor in West Palm Beach, Florida, picked up a single family home for \$66,500 by putting on a new first and having the anxious seller carry back all the rest of his equity (\$36,500) for five years, no payments, no interest. Both of these investors were using the technique known as – “The Ultimate Paper Out”. Here is how it works.

When we are talking about buying or selling a piece real estate, we are really talking about the problem of defining and dealing with the seller’s equity. Equity as a concept is straightforward enough. Everyone knows that it represents that portion of the value of a property that is not encumbered, that belongs lock, stock, and barrel to the owner. But equity is a fluid concept. It can be specified only in relation to that mysterious shifting quantity called the “fair market value”.

The owner has dreams about equity of such and such – usually an optimistically high number. But the truth of the matter is that market forces determine his equity by determining how much his property is really worth at any moment in time. The members of the market club - you and I – gang up on the poor old seller and say collectively, “You have a nice little place, but we’ve taken a vote around town, and the best we could come up with is a price of such and such.” At that moment in time, the seller’s equity is defined, and the problem becomes how to transfer to him value equal to the equity involved.

The majority of sellers, of course, will want to hold out for a selling price at the high end of the scale. They want their equity to be overweight. No one can blame them for that but among the army of sellers in the marketplace at any given time, there are always a few – perhaps five percent or less – who say to themselves, “We like our equity and want to preserve it and derive benefit from it, but we are very anxious to sell. So anxious in fact, that we might give up some of the equity in order to get rid of the property quickly.” Alternately, these don’t-want sellers might be thinking – I don’t really feel like

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discounting my equity for a quick sale, but I would be willing to wait until later for a part or all of my equity to be converted to cash.”

And that is the issue when it comes to “papering out” a deal. After the seller and the buyer have determined what equity is involved, the next step is to decide how soon the equity is to be converted. It all boils down to a matter of patience. The seller with infinite patience (and infinite desperation) will say, “Here’s my equity, take it all and just get me out of this place.” In a case like that the selling price is equal to the liens. But such cases are rare.

The next best situation is the case in which the seller says, “Here’s my equity, pay me for it when you can. Let’s work out the schedule.” That is the technique referred to as - The Ultimate Paper Out.” All of the seller’s equity is converted to paper before it is converted to cash. When the buyer takes over the property, he gives the seller paper for his equity and obligates himself to redeem the paper according to mutually agreeable terms.

Not all sellers will agree to an “Ultimate Paper Out” but creative buyers should always ask. You never know exactly what the seller is thinking or how anxious he really is to sell. Perhaps only one seller in twenty will be willing to enter into a nothing down deal and of these, perhaps only one in ten will agree to an “Ultimate Paper Out” that means that Technique No. 1 will show up in only one out of every 200 creative deals. But it does happen from time to time – much to the surprise and delight of the creative buyer.

Technique No. 2 The Blanket Mortgage

The key to using the seller as lender in a real estate transaction is trust. The seller has to trust us to pay him his equity according to the terms of the agreement we work out with him. The conventional way to “buy” trust is to give the seller a large cash down payment that way he knows that we will not likely walk away from the property. We are going to stay around and take care of our obligations. Otherwise the seller will be able to take back the property, and we will lose not only that big cash down payment but also any appreciated value above the seller’s equity.

But how do we develop trust when there is little or no cash put down on the property? How does the buyer make the seller feel secure in such cases? Often the buyer can develop personal trust with the seller simply on the basis of personal qualities and win/win attitudes.

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In such cases, the equity of the subject property itself is sufficient to close the deal.

In some instances, however, a little extra is needed to remove lingering suspicions on the part of the seller. That is where the blanket mortgage comes into play. In any mortgage or trust deed arrangement, there are two basic documents that are prepared. One is a note given by the buyer to the seller setting forth the terms for converting the equity to cash, the other is a security agreement in which the buyer says to the seller, in effect, “If I don’t perform according to the terms of the note, then you can take back the property.” In a cashless or near cashless transaction, the security of the subject property may not be enough to satisfy the seller. Therefore, the buyer may choose to secure the note with additional collateral – not only the subject property but also additional property (equity) he may have in his portfolio.

The note itself stays the same, but the security agreement is changed to increase the collateral and build trust with the seller. Naturally, the buyer will want to arrange to have

the seller release the additional collateral as soon as the subject property appreciates to a predetermined value or as soon as the buyer has proven himself to be dependable and prompt in making his payments. The blanket mortgage technique is not among the most frequently used in creative finance. The buyer hopes to build trust without having to tie up his other equities. Still when a seller needs that extra bit of persuasion, the blanket mortgage technique can come in handy.

For example, one creative investor we know of recently acquired a nice four-bedroom, three-bath home for \$75,000. The investor put a new first on the property (which was nearly free and clear) and had the sellers move their remaining equity (\$35,000) to another property owned by the investor. To build trust with the sellers, the buyer granted them a blanket mortgage that also included his equity in another rental property he owned. Although the buyer did not put any of his own money into the deal (the bank provided all that was needed), he was able to persuade the sellers to agree on the basis of his neck being on the line with the blanket mortgage.

Technique No. 3 Life Insurance Policy

There is another strategy the buyer can use to persuade the seller to play lender in a transaction. As in the case of the blanket mortgage, the key is building trust. What if you say to the still somewhat incredulous seller, "Since you are permitting me to pay off your equity

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in cash over a period of time, how would it be if I took out an insurance policy in the amount of the note and made you the beneficiary? That way you will feel secure that the note will be paid off no matter what."

This technique is not usually necessary. Still it is an inexpensive way to build trust if the seller cannot quite see it your way and needs just a bit more persuasion.

Technique No. 4 Contract or Wraparound Mortgage

An Albuquerque investor recently bought a triplex for \$69,300 by putting down \$1,000 and having the seller accept a contract for the remaining \$68,300, 10.75% interest for 35 years, and payout after 12 years. The contract wrapped around a small underlying first mortgage. Similarly an investor in Springfield, Massachusetts acquired an \$80,000 free and clear single-family house by putting a small sum down and having the seller carry back the rest in the form of a contract. These are variations of the technique referred under various names such as "contract, wrap-around, or owner carry back".

This technique is one of the most frequently used creative finance tools. It is the foundation of seller financing rather than refinancing the property or formally assuming the existing mortgage. The buyer uses a contract as the purchase instrument. Technically he does not get title to the property until he has performed according to the provisions of

the agreement. In effect, he says to the seller, "I'll pay your equity off in installments over time. And as soon as I have paid everything off, you will give me the deed for the property, and it will be mine. In the meantime, I will act as the owner by taking over the management and getting all the tax benefits and the appreciated equity above what the property is worth at the time of purchase. Of course, all the expenses in the meantime are mine as well."

If the property is free and clear at the time of purchase, the seller pockets all the installment payments on the contract if there are existing encumbrances on the property. Then the contract is referred to as a wrap-around contract or wrap-around mortgage. It "wraps around" the existing first and subsequent mortgages or trust deed. When the seller receives the installment payments, he has to first make payments on the existing notes before he can pocket the rest. The advantage to him is that the interest rate on the total wraparound contract will be higher than on the underlying loans. Therefore, he will be making an interest spread on the underlying part of the note – not a bad deal for a seller-turned-lender. In addition, he

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will be able to spread his capital gains profit out over time rather than receiving all of it during one year. The tax advantages are considerable. With the recent liberalization of installment sale provisions by the IRS, sellers have great leeway in how contracts are set up for maximum tax benefits. A competent tax accountant can spell out the detail.

The advantage to the buyer is that he does not need to come up with a large cash down payment. Frequently a moderate amount down will close the deal. In addition, the interest rates acceptable to sellers are usually far below conventional market rates for new financing.

In practice, a contract sale is bandied by an escrow company, which holds the pre-executed deed from the seller in favor of the buyer until the latter satisfies the terms of the contract. Generally the escrow or title company will also hold a quitclaim deed made out by the buyer in favor of the seller, which is to be released to the seller in case of default. It is in the best interests of the buyer if the escrow company is making the payments on the underlying loans before disbursing the balance to the seller. That way the buyer can be assured that his money winds up in the right places.

An alternative form of the "contract wrap" technique is the situation where a buyer takes title subject to the existing financing (agrees to take over the seller's obligations) or goes through the formal procedure of assuming the existing financing (qualification, credit checks, transfer of title). The buyer then signs a contract with the seller for the equity above the existing loans and makes payments according to a mutually agreeable schedule. A note secured by the property itself covers the seller's equity. The usual term for this arrangement is "owner carry back". The term refers to the fact that the seller carries back paper to cover the unpaid equity on his property. Terms on the paper are negotiable and vary from case to case.

Technique No. 5 Raise the Price, Lower the Terms

Seller financing has already become a convention for real estate transactions in the decade of the 1980's. Currently nearly two-thirds of all home sales involved contract sales or assumptions with owner carry-back second mortgages. Tight money conditions always foster seller financing of this type. Yet even though the concept of "seller as lender" is no longer foreign to the American way of real property transfer, there are variations to the game that give creative buyers the advantage over the competition.

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One such variation is the important technique called "Raise the Price, Lower the Terms." Simply put, this technique calls for the buyer to offer the seller more than he is asking for the property in exchange for flexibility with the terms. For example, one investor we know of recently took an interest in Jacksonville, Florida estate house with adjoining triplex. He offered to raise the sales price by \$5,000 if the seller would lower the down payment requirement and accept payments over 15 years. By using this technique, he out acted the competition and won over the seller despite the hue and cry of all the relatives in the background.

Technique No. 6 The Balloon Down Payment

An investor in Milwaukee recently bought a small rental home for \$35,000 by putting on a new first of \$15,000 and having the seller "carry back" the rest (no payments, no interest) after a small down. The seller would do so only after the buyer agreed to pay out the indebtedness after five years. The buyer of a \$245,000 7-plex in Lake Worth, Florida, assumed the existing first and induced the seller to carry back the remainder of his equity after the \$50,000 down payment (obtained from a partner) in the form of a second at 12%. The seller agreed, but only on the basis of a ten-year payout of the balance of the second.

Both of these investors were using the technique referred to as a "balloon mortgage".

It is not uncommon for seller-financing arrangements to include provisions for a balloon payment in the future. In fact, balloons are an important inducement to get the seller to play the part of the lender in the first place. Knowing that the major part of his equity is coming in the near future, the seller is willing to carry the financing at rates below the conventional market. Occasionally a seller is willing to amortize the entire amount of the carry back over long period of time – fifteen or twenty years or longer. Most of the time, however, the seller wants to be paid off sooner, in fact, as soon as possible. And that is the danger the buyer must be aware of – short-fuse balloon notes can rob the buyer of health, sleep, and sometimes the property itself. In theory, the time of the balloon payment should be far enough away to take advantage of interim appreciation. Property values and rents must grow enough to permit a refinance solution to the balloon payment.

But what if local property values – particularly during a period of sustained high interest rates and sluggish real estate sales – do not grow as anticipated? The buyer may be forced to sell the property, or another piece of real estate in his control to pay off the balloon. Alternately, he may have to bring in an equity-participation cash-partner to bail him out, thus giving away important benefits. In the worst case, he might have to give the property back to the seller and lose all his investment.

Despite its liabilities, the balloon payment technique can be a valuable way to get into a property for little or nothing down up front. Buyers should resist pressures to accept anything less than five years for payout seven years or more would be preferable.

Technique No. 7 High Monthly Down Payments

This technique is a variation of Technique No. 4, “Contract or Wrap-Around Mortgage”. Usually a contract sale requires at least a token down payment to substantiate the good faith of the buyer and put a little cash into the pocket of the seller. Sometimes a hefty down payment is required, in which cases funds have to be “cranked” out of the property (Techniques 32 and 33) or a cash partner must be brought in (Techniques 43, 44, and 45).

But what if the buyer has nothing at all to put down except an income that gives him the ability to make monthly payments of several hundred dollars toward the purchase of a piece of property? Perhaps the seller would permit him to purchase the property now and make high monthly payments over a couple of years until a mutually acceptable down payment had been constitute. It never hurts to ask.

Technique No. 8 Defer the Down Payment with No Mortgage Payment

There are endless variations of how seller financing might be set up. Here is one more, which could prove useful under certain circumstances. A seller of a free and clear property who needed cash down only to build trust in his buyer might be induced to forego rental income for a few months while the buyer accumulated enough to put together the required down. It is not a common opportunity. But it has happened in the past and will happen again in the future – perhaps to you.

This technique, together with the other seven described and illustrated in this section, should stimulate creative buyers to take

advantage of seller flexibilities in financing. Seller financing after all, is one of the major sources for a down payment capital.

2. THE BUYER

The second area of flexibility in solving the problem of down payments has to do with the buyer’s own resources. “But,” you say, “If we are trying to spare the downtrodden,

cash-poor buyer from coming up with down payments in the first place. Why bother to look to his personal resources?" The reason is that buyers often overlook valuable resources right under their own noses. They frequently have personal property, talents, expertise, or equity resources that could be used to acquire desirable income – producing property without the need for cash. And sometimes they even have cash or inheritances that could be applied – there's no shame to that, if you have the money at hand! This section reviews ten techniques in the area of buyer flexibility.

Practitioners of the Nothing Down System sometimes get the notion that putting their own money into a deal is somehow tantamount to failure. Nonsense! If you have it, use it, buy use it with skill and creativity. The conventional buyer with \$25,000 to spare will go out into the marketplace and plunk the full amount down on a single property. He might find a nice rental home worth \$60,000 with a \$35,000 mortgage. His first instinct is to take his \$25,000 and cash out the seller. There will be no contract payments or balloon mortgages to worry about. Very likely there will be a modest positive cash flow after expenses and debt service are taken care of. He is happy watching his rental unit appreciate in value.

By way of contrast, the creative buyer takes his \$25,000 and distributes it over. Let's say five rental homes worth a total of \$300,000. By using a combination of creative acquisition techniques and strategies for avoiding negative cash flows. This buyer puts down only \$5,000 on each of the homes. He must be careful to structure his deal advantageously, but the outcome is that he controls the growth of five times the real estate for the same amount of investment. His yield will therefore be much greater.

In either case, the best approach might be to use the cash resources as collateral to borrow down payment funds. That way the cash assets can remain in the hands of the buyer and earn a substantial amount of interest. The same might be true of coming inheritances that would be acceptable as collateral on loans.

Technique No. 10 Supply the Seller What He Needs

The question of "seller needs" is a complex one. Often buyers resort to sophisticated psychological observation and strategic interrogation in order to penetrate the seller's wall of secrecy. That is fine as far as it goes. But the best approach is nearly always the direct one in the form of one simple question: "What do you need the money for?" There are more subtle variations, such as, "What do you plan to do with the proceeds of the transaction?" But it all boils down to the same thing – letting the seller know that you can solve his problem best if you know what he plans to do with the cash coming to him as a result of the sale.

Often the seller has consumer needs that the buyer could satisfy by carrying the necessary amounts on charge accounts or credit cards. In this way, the immediate upfront cash needs are spread out over time. Frequently the seller will be anticipating financial

obligations that will require a set amount of cash each month beginning at some time in the future. If the buyer is on his toes, he can help the seller translate the down payment into installment payments that can be taken over by the buyer in lieu of a heavy cash down payment.

One buyer we know of in Stanford, California, gained insight into the seller's need for future day-care funds and persuaded her to reduce the down payment by \$13,500 in exchange for his providing monthly payments toward her day care for the next thirty years at very low interest. He was able to supply the seller what was needed and spare himself a heavy down payment obligation.

Technique No. 11 Assume Seller's Obligations

Often a seller is planning to apply down payment funds to debts he may have or payments that may be overdue. If the buyer can arrange to assume these debts and then pay for them over time, he can avoid having to come up with the down payment funds all at once. One Cleveland buyer of a small rental home was able to take care of the seller's arrears mortgage payments and utility bills and then cover some consumer debt obligations through installment payments. The result was the relaxation of the up front cash requirements for the transaction.

Technique No. 12 Using Talents, Not Money

A buyer will often have professional expertise that can be "traded" in lieu of down payment funds. Contractors, painters, landscapers, health-care professionals, lawyers, realtors, insurance agents, car dealers, and merchants – all of these can provide valuable services or discounts that could be used in place of down payments. The potential list is not restricted to professional consideration either, sometimes a supply of plain elbow grease can help swing a deal in the absence of funds.

One beginning investor we know of was able to assume a seller's obligations and work off part of the debt by providing maintenance and management services for the creditor. As a result he picked up his first investment.

For example, a Eugene, Oregon, investor recently put together a deal on a duplex by taking the property "subject to" the existing first, having the seller carry back a sizeable second for five years, and generating the \$8,000 down payment by borrowing it from the cash value of his insurance policy at 5% interest. Another investor in San Jose, California, set up a transaction involving a \$57,500 single family house by assuming the existing first of \$25,400, planning to put on a hard-money second in the amount of \$20,000, and having the sellers carry back the rest in the form of a third. However, when he went to put on the second, the lenders required him to come up with 10% down in the form of cash. He solved this problem by going to the cash value of his life insurance policy and borrowing \$5,800 at 5% interest. The amount needed from the hard-money second was now only \$14,200, and everyone was happy. The beauty of insurance loans

of this type is that the principal need not ever be paid back (except out of the death or annuity benefits of the policy).

Technique No. 14 Anything Goes

Down payments need not be in the form of cash. We have already seen how professional services can be used in lieu of cash. The same is true of personal property that the buyer might offer the seller to satisfy down payment needs. Cars, boats, furniture, art, clothing, musical instruments – anything acceptable to the seller might be used.

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We have even heard of pets such as rare monkeys or valuable cats being used as down payments. One buyer in San Diego acquired a luxurious new home by using gems – diamonds, rubies, and emeralds – as the down payment. For another investor we know of, five truckloads of topsoil did the trick. Anything goes if it satisfies the seller's needs.

Technique No. 15 Creation of Paper

An investor in Sacramento, California, picked up a clean SFH for \$56,000 as follows: assume existing \$28,000 first mortgage, assume existing \$7,700 second due in 7 months, have realtor carry back a third for \$2,500, have seller carry back a note on another property owned by the investor in the amount of \$11,600, put down \$6,000 cash (borrowed from credit union). By having the balance of the seller's equity carried back in the form of a note secured on the other property, the buyer was able to put his equity in the other property to use and leave himself in the position to be able to refinance the newly acquired property with a new hard-money second in order to retire the existing balloon second and pay off both the realtor and the credit union. In fact, he had a kitty of \$6,800 left over to handle the negative cash flows for several years. The central strategy in this deal was creating paper against the other rental property already owned by the buyer.

Frequently a cashless buyer can solve down payment hurdles by applying the value of his other equities to the deal at hand. If the seller is amenable, it is a simple matter to prepare a note secured by the buyer's equity in other properties and hand it to the seller as all or part of the down payment on the subject property. In effect, the buyer says, "I don't have the cash to give you as a down payment, but I can give you this note in exchange for your equity. The note will generate payments to you on mutually acceptable terms. I will maintain the collateral property in excellent condition as security for the note." Then the buyer has a trust deed prepared in favor of the seller to back up the trust deed note.

What the buyer has done is magic – he has created paper out of thin air. But his paper has value. It is solid consideration for the seller's equity and is used in good faith in lieu of all or part of the cash down payment required. If the seller is dependent on such an exchange to consummate the deal but hungry for the cash just the same, he can always sell the note at a discount for cash. (Technique No. 40, explained later on).

Not only is the Creation of Paper technique valuable in property acquisition, it permits that complete leveraging of a buyer's other holdings. Usually commercial lenders will lend only up to 80% of the value of a collateral property. If an owner wants to borrow against his assets at levels higher than 80%, he can readily create paper against the top 20% value and use it for exchange purposes. Rarely will a seller ask for credit checks or complicated paperwork to back up such a technique.

Technique No. 16 The Two-Way Exchange

In the Creation of Paper Technique, the buyer retains ownership of the property used to secure the note given to the seller as down payment on the subject property. In an exchange, the seller actually receives the buyer's property in exchange for his own. Title transfers. Buying property by means of an exchange, if correctly done, provides great benefits in the form of tax deferrals. Section 1031 of the Internal Revenue Service Code permits trading of properties without triggering taxation on the gains. This is one of the single most important strategies in building up a real estate portfolio.

One Milwaukee investor we know of recently traded his \$170,000 7-plex for a more desirable \$280,000 12-plex by means of a two-way exchange. In another illustration, the owners of a free and clear \$150,000 home in Palo Alto, California, traded their property for three other homes in the area and enhanced their tax and cash flow situation. There are countless variations of this type of exchange going on all the time.

Technique No. 17 The Three-Way Exchange

The principles are the same in the two-way exchange except that the seller, while anxious to get rid of his own property, is not willing to accept the buyer's property in exchange. However, if someone with a property acceptable to the seller is willing to take over the buyer's property, then everything will fall into place. The end result is the same as a simple exchange except that an extra link is added to the chain. Theoretically any number of links might be added. As a result, the business can get complicate – but the outcomes can be spectacular.

Technique No. 18 Lemonading

In exchanging parlance, lemonading refers to the technique of adding cash to a property that, for one reason or another, has not sold as

readily as the seller had hoped (a "lemon"). The new package of property-plus-cash is then offered in exchange for any acceptable package on the market with the cash sweetener added, the lemon is supposed to become more palatable to the marketplace – "lemonade."

3. THE REALTOR

The third major source of down payment capital is the realtor. By convention, most people assume that the real estate commission for listed properties is a fixed cash element of a transaction and that a seller is responsible for paying it. In fact, the commission is not fixed in any of its dimensions: rate, form, or source.

Like almost anything else, the percentage rate for calculating the commission is negotiable. Indeed, there would be legal problems if the real estate industry were to publish uniform fixed rates. Moreover, there is nothing written dictating that one must pay a commission in cash and cash only. Of course, almost all real estate professionals would prefer cash. It makes a deal clean and tidy and allows one to buy bread for the family table.

However, most informed agents know that some transactions may involve commissions in the form of paper – promissory notes that may provide for monthly payments or a single payment balloon note at the end of an acceptable period. Generally the time involved does not exceed a year or two. Occasionally the commission may be in the form of a share of ownership, with cash emerging upon sale of the property down the pike. Still other possibilities include commissions paid in personal property. In Technique No. 14, the agent received a beautiful 0.81-carat diamond for his services. He was delighted, as are most agents who are shrewd enough to realize that a commission in an alternative form is better than no commission at all.

One of the important techniques available to the buyer who is interested in reducing the cash down payment for a deal is the technique of “Borrowing the Realtor’s Commission” (No. 19).

While it is true that according to current agency practice, the seller pays the commission, the buyer is at liberty to negotiate alternative arrangements with either the listing or selling agents (or both). If the buyer can induce the agents to defer the commission, the down payment can be reduced by the same amount because the seller’s immediate obligation is relieved.

Who pays for the deferred commission in the final analysis? It is negotiable. If the buyer can strike a nothing down deal with the seller paying the commission over time, is all the better. In many cases the buyer himself assumes the seller’s obligation (Technique No. 11) and pays the deferred commission. Occasionally they share.

The whole point is that the flexibility of the realtor may be an important factor in whether the deal comes together. Since the commission is usually the largest cash obligation of the seller in a transaction, the power of this technique cannot be overestimated. There are examples that illustrate how “Borrowing the Realtor’s Commission” works in practice. In one Albuquerque transaction we heard of recently, the seller of an 8-plex

arranged to pay \$3,000 of the commission on a note, the balance being paid in the form of a real estate contract invested in the deal by the buyer's partner. The two notes not only constituted the entire commission, but the entire up front cash needs as well. In another deal, this time in St. Petersburg, Florida, a 35-unit motel and restaurant were acquired using, among other approaches, the technique of borrowing \$30,000 in commissions (\$15,000 in the form of a personal unsecured note signed by the buyer, and \$15,000 in the form of a third mortgage on the buyer's home). Similarly, a note for the commissions was instrumental in closing a deal on two duplexes acquired by an investor in Homestead, Florida. This technique is very frequently used. As a matter of fact, our research among the Robert Allen Nothing Down investors shows that as many as 20% of the transactions involve some degree of realtor carry back of commissions.

4. THE RENTERS

In nearly every real estate transaction involving rental property, the renters are instrumental in helping the buyer with the down payment. Of course, they are not aware of it. And few buyers are conscious ahead of time of how important the role of rents and deposits is to their success in reducing the cash down payment.

Technique No. 20 Rents

Since rents are paid in advance, a buyer who closes on the first of the month when rents are due stands to receive the gross rental income for that month. The first mortgage payment is generally not due until thirty days after closing so the buyer has a thirty-day breather. His

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immediate cash down payment obligation has therefore been offset by an amount equal to the rents.

Technique No. 21 Deposits

The situation with tenant security deposits is similar. It is not uncommon for the landlord to require the tenant to pay an amount equal to the first and last month's rent as a damage deposit. If a property is sold, the deposits are passed along to the new buyer. Unless state law prohibits the commingling of deposit funds with the rental accounts, the buyer can effectively use the deposit funds given to him at closing as an offset to the cash down payment obligation. Of course, when a tenant moves out, all or part of the deposit must be returned. If the new buyer is a wise manager, he will require a buffer period before returning the deposit. This will give him some protection against the possibility that the tenant may have neglected to pay some bills and will allow him meanwhile to find a new tenant who can add to the deposit kitty.

Virtually every real estate transaction involving rental property has the potential of providing access to these two techniques. For example, the buyer of a \$325,000 mobile

home park in Cheyenne, Wyoming was able to raise \$8,000 of the \$25,000 down payment from tenant rents and deposits in a recent transaction. We know of another case from our Los Angeles files where the buyer of a 72-unit apartment complex received \$7,000 in rents and deposits at closing to apply to the transaction.

5. THE PROPERTY

The fifth source of down payment capital is the property itself. The buyer who is on his toes learns to recognize aspects of a given property that might be sold off to raise funds for the purchase. The variations are endless – everything from fixtures to parts of the land itself. There are two techniques that belong to this category.

Technique No. 22 Splitting Off Furniture and Other Items

Two years ago, one of the Nothing Down graduates in Florida was \$5,000 short of funds needed to purchase an option on a valuable tract of land near Orlando. While wandering over the property one day pondering how he might come up with the necessary capital, he noticed a large area overgrown with beautiful ferns of the type one finds offered for sale in florists shops. Since problems often lead to creative solutions, he put two and two together and arranged to split

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off the ferns to raise enough money to bring the deal together. Today, the property is being developed into a multi-million dollar recreational park all because of a patch of ferns – and a creative mind.

Technique No. 23 Splitting Off Part of the Property

In some cases a given property is structures so that parts of it – extra lots or individual buildings – can be split off and sold to raise funds for the acquisition. Here is how it worked recently for an investor we know in West Bend, Wisconsin. He had located an attractive single family home on a large lot with a package price of \$99,000. Since he needed to come up with a hefty down payment – he resurveyed the property and established two lots on either side of the house. By the time of closing one lot had sold for \$15,000 and the other for \$10,000. Contributing the bulk of the down payment to acquire the property in the first place. It was all taken care of in a simultaneous closing.

6. HARD MONEY LENDERS

Hard money refers to funds borrowed from banks under strict conditions of qualifying and repayment, generally at market interest rates. Soft money from sources like sellers comes more cheaply with terms that are generally much more flexible. For that reason creative buyers tend to exhaust soft money sources before turning to the banking industry. Nevertheless, hard-money lenders are an important, if not indispensable source

of down payment capital to which buyers, sooner or later, must turn. This section outlines eleven techniques for using hard-money funds in creative ways.

Technique No. 24 Small Amounts of Money From Different Banks

Investors getting started are well advised to cultivate their credit at several banks in their area. Often credit can be built up quickly by borrowing small amounts from different banks and lending institutions and then repaying the loans promptly, even ahead of time. The strategy is to build up credit in sufficient amounts so that funds will be available when that promising deal suddenly surfaces and cash is needed quickly.

Technique No. 25 Cash-By-Mail Companies

Certain specialized lending institutions and finance companies appeal to executives and other well-qualified borrowers through ads in flight magazines and professional journals. The advantages are privacy and speed.

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Technique No. 26 Credit Cards

In the past little while we have learned of two cases involving small properties (in this case mobile homes) where the buyers contributed the down payments by using credit cards. In one case an investor raised \$500 for the down payment on a 12' X 60' Flamingo which then rented out for a \$137/mo. positive cash flow. In another case a fortunate buyer in Phoenix picked up a spotless two bedroom Schultz mobile home by putting down \$1,700 borrowed on a revolving charge account.

Except in unusual cases where the investor has acquired dozens of credit cards and uses them in strategic and coordinated way, the amounts of cash generated by this technique are not generally large. However, where the buyer comes up with a few hundred (or even a few thousand) dollars short, credit cards can make the difference.

Technique No. 27 Home Improvement Loans

Often hard-money funds borrowed to complete improvements to a property can relieve the pressures on cash-poor buyer and rejuvenate accounts set aside for down payments and fix-up. Allocation of home improvement funds has to comply with the lender's policy, of course. For example, in a recent Kansas City, Missouri, transaction we heard of a \$6,000 long-term Title 1 Home Improvement loan was an important ingredient in the over-all acquisitions process of a single-family house.

Technique No. 28 Home Equity Loans

Even in tight-money times, there are mortgage finance companies willing to make second-mortgage loans secured by the equity in a buyer's home. Often the beginning

investor will get his or her start in this way. We know of a couple in Arizona who used a \$20,000 home equity loan to acquire two single family rental homes and get their investment ball rolling. They even came out with a modest positive cash flow.

Technique No. 29 Refinance Boat, Car, Stereo, or Other Personal Property

Hard-money lenders are often willing to loan money secured against valuable personal property. In a counseling session recently, a client was asking how to come up with the last \$2,000 needed to

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consummate a deal on an excellent condo. He had no family, no partners to turn to, and no more money in savings that he could use, but he did not want to pass up the deal. I asked whether he owned a car or truck. He replied that he owned a new Datsun pickup free and clear. “Why don’t you try to refinance the truck for \$2,000?” I suggested. A light went on, and he headed for the banks to see what could be done. Not all lenders will welcome him with open arms, but he will eventually find one who will.

Technique No. 30 VA Loans

For the buyer who qualifies for a Veterans Administration loan, the down payment on a property is quite manageable – zero! VA loans are also possible even if the qualifying borrower is buying a duplex or 4-plex with the idea of living in one of the units. Anyone can assume a VA loan with a minimum of hassle and cost (around \$50). That leaves energy to spare for dealing creatively with the down payment challenge.

Technique No. 31 FHA Loans

Buyers who want to acquire their own residence for little down will find a loan guaranteed by the Federal Housing Administration to their liking. Down payments can be as low as 5%; although the FHA, like the VA, is particular about the quality of home they will accept FHA loans are always readily assumable with a minimum of hassle and cost (around \$50).

Investors who are sensitive to the modern problems of negative cash flow will keep their eyes open for properties with assumable FHA and VA loans. Due-on-sale clauses are never a worry with such loans, and the interest rates are usually somewhat lower.

Technique No. 32 The Second Mortgage Crank

This technique is one of the foundation stones of creative finance. Named by Robert G. Allen, the second mortgage crank is a strategy that will work equally well with fussy sellers as well as “don’t wanters.” The term “crank” is an old exchanger’s term that refers to the process of generating hard-money funds by originating new loans against a

property. One speaks of “cranking” money out of the property in this way. Here’s how the technique works.

The buyer looks for properties that are free and clear or have relatively low loan to value ratios. A new hard-money first (or second)

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is obtained in order to generate enough money to satisfy the seller’s needs. The remainder of the seller’s equity is carried back on terms that are mutually agreeable. None of the cash comes out of the buyer’s pocket. Naturally, the hard-money lender’s policies and requirements will have to be satisfied. It may be that the carry back will have to be secured by another property in the buyer’s portfolio in order that the subject property will have no secondary financing (anathema to most hard-money lenders who are asked for refinance funds for this type).

Because of the importance of this technique, let us give you several examples from our files of how it has been used successfully by investors in the past year or two. A buyer in Chico, California, acquired four SFH’s for \$159,000 by taking the property subject to an existing first mortgage of \$64,000, then putting on a new hard-money second for \$55,000 (out of which the down payment was generated), the balance of the obligation to the seller being carried back in the form of paper against another investment property. In another situation, an investor in Oklahoma bought two SFH’s by putting on a new first mortgage (proceeds to the seller) and having the seller carry back the rest in the form of paper secured by the property. In both cases, the down payment was “cranked” out of new had-money encumbrances against the property, rather than out of the buyer’s pocket. There are countless other illustrations for this technique, which becomes all the more important in periods of lowering interest rates and easier access to bank funds.

Technique No. 33 Variation of the Crank: Seller Refinance

In some instances it might be difficult to persuade conservative lending institutions to refinance a property or provide secondary financing as part of a “crank” purchase. They may regard the substitution of collateral on the owner carry back as too complicated. To them, it might seem as though the owner carry back still looks suspiciously like an encumbrance against the subject property (even though the mortgage has been moved to another property).

One variation of the second mortgage crank technique calls for the seller to refinance his own property and then pass the new loan on to the buyer. No one at the bank is going to object to his refinancing his own property or putting on a new second mortgage. In this way the seller’s need for cash can be taken care of, the balance of the equity being carried back in the form of a second or third mortgage.

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A case we heard of in Tucson recently is a good example of this alternative approach to the second mortgage crank. The seller agreed to obtain a \$12,000 hard-money second to generate needed capital before the property was passed on to the buyer, who in turn gave the seller a third mortgage for the remaining equity.

Technique No. 34 Buy Low, Refinancing High

This is the old “buy low, sell high” strategy transferred from the stock market to creative real estate. The basic strategy is to locate a property discounted substantially below market levels and then refinance it with a new hard-money first in order to achieve higher leverage or generate funds to satisfy the needs of the seller (and buyer as well). This technique is particularly suited to tight-money times where negative cash flows can be a deterrent to investing.

A woman investor from California recently put herself in a position to make \$1.5 million on 180 discounted town homes in Arizona by using the “buy low, refinance high technique.” A buyer in Pennsylvania was able to pick up \$10,000 in instant equity by refinancing a discounted duplex acquired for nothing down. When he goes to sell the duplex, he can “sell high” and convert the equity to cash. Still another investor in Tulsa picked up three duplexes for \$165,000. Since they were appraised at nearly \$240,000 for all three, he was able to put on a new first mortgage at a high enough level to generate over \$30,000 cash to buyer at closing. When he goes to sell he can convert the rest of his profit to cash. And so it goes with “buy low, refinance high” technique.

7. UNDERLYING MORTGAGES

The seventh area of flexibility in acquiring property for nothing down is the area of underlying mortgages. Three vital questions for the analysis phases are: What mortgages (trust deeds, lien) are there against the property? Who holds them? Would these holders of underlying mortgages be flexible with their assets? In most cases the mortgages are banks. For that reason conventional wisdom assumes that there will be no flexibility whatsoever. Hard-money lenders, after all are “tightwads” who never yield on the terms of their loans. Conventional wisdom is usually correct in this, and yet even hard-money lenders can soften up if it is in their best interests to do so. The unprecedented rise in interest rates in the last few years has caused some agencies and institutions to develop flexibilities with their mortgage holdings that can benefit real estate investors.

With private mortgage holders, the opportunities for creative finance techniques are even greater. The mortgages may be sellers who have accepted paper back for part of their equity when they sold the property. Now they are receiving payments over time, sometimes at interest rates far below the current market. Often such private mortgage holders realize that their assets are not well invested in relation to current investment opportunities and yields, so they become open to suggestions from creative buyers who present more beneficial solutions to the problem.

This section outlines five techniques from this area of flexibility.

Technique No. 35 Use Discounts from Holders of Mortgages

The basic approach to the private holders of underlying financing is this: Mr. Mortgage, you are receiving monthly payments on this note at a moderate rate of interest, and you must wait patiently until the note is paid off. Would you not rather have this mortgage redeemed for cash right away? If the holder of the mortgage is willing to discount his note for cash, the buyer can look for new financing to put on the property in order to pay off the existing private mortgage. The strategy is to have enough refinance funds to pay off the private mortgage and still have sufficient funds to take care of part or all of the down payment needed to acquire the property in the first place. It might turn out that the private mortgage holder will be willing to discount only a part in cash (at a discount) and the rest in new secondary financing above the refinance mortgage, possibly with an improvement in his interest rate or other terms.

There are many variations to this technique, but the basic idea is to redeem the underlying mortgage at a discount for cash (using borrowed funds), with the balance being applied to the down payment. For example, a buyer of a rental home in Los Angeles has induced a seller to take back a single payment second of \$11,000 for three years. After the closing, the buyer approached the seller and offered to buy back the second for \$7,000 cash. When the seller agreed, the buyer borrowed \$10,000, paid off the note, and had \$3,000 to offset the small cash down payment he had made to get into the property.

Technique No. 36 Moving the Mortgage

A mortgage consists of two basic documents: one is a note setting forth the terms for paying back the funds that are borrowed, the other

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is a security agreement that provides collateral for the loan in case of default. The security agreement promises, in essence, to back up the performance of the borrower in repaying the note. If the buyer fails to live up to his commitments, then the lender is entitled to the collateral (property) pledged as security for the loan.

What conventional wisdom fails to grasp is the idea that while the terms of the note are fixed, there may be dozens of ways to satisfy the security needs of the seller other than using the subject property itself as collateral. As the procedures of Technique No. 36, "Moving the Mortgage" will make clear it is always wise in negotiating a real estate purchase to include a "substitution of collateral" clause in the purchase agreement. Such a clause allows the buyer to substitute other collateral as security for the note in the future, subject to the approval to the seller. It is sometimes possible, even after the fact, to induce a seller or the holder of an underlying mortgage to "move the mortgage" to another property (substitute other collateral). Frequently sweeteners are needed to get the job done – an increase in the interest rate or the principal amount, an improvement in the

position of the note (e.g. from, third to second or from second to first), an increase in the amount or quality of the collateral, etc.).

Why is it beneficial to move a mortgage? The key is this: if property owned by a buyer can be “de-financed” (freed of encumbrances, in this case by having the existing mortgages moved to other properties), then the buyer will be free to put new financing on the property and “crank” out funds that can be used, for example, as down payments. Alternately, the de-financed property can be sold to raise capital for the same purposes. Now here is the twist that boggles conventional wisdom: What if the down payment funds generated in this way are used to acquire the very property to which the mortgages we have been talked about are to be moved? Is it possible to arrange for a simultaneous escrow involving both properties? Certainly!

Here’s an example from the community of Olaho, Oregon – An investor acquired a 10-plex in the following way: using funds he had cranked out of an earlier investment property. He bought a SFH whose owners were willing to accept security for their carry back against the 10-plex out investor wanted to acquire. He then traded the de-financed SFH to the owners of the 10-plex – who in turn put new financing against the SFH to get capital they needed – Brilliant!

In another transaction in Evergreen, Colorado, the problem was not one of generating cash for the down payment but rather in assuming

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a first mortgage without violating the policy of the lender prohibiting secondary financing on the property. The buyer simply induced the seller to carry back the difference on a note secured against other properties. By moving the mortgage off the subject property, the buyer prepared the way for a future refinance or dare to raise capital for the next big deal.

Technique No. 37 Creative Refinance of Underlying Mortgage

In general the only flexible holders of underlying mortgages are private parties. Hard-money mortgages are for the most part not cooperative when it comes to techniques discussed in this section. However, there is one aspect of underlying financing where even the hard-money people are beginning to show flexibility: refinancing. The unprecedented flight of interest rates in recent years has left financial institutions holding large portfolios of undesirable low-interest mortgages. With the advent of high yield money market funds, deposits in savings and loan associations have been withdrawn in record amounts, making the situation even worse. The result is that the lenders are desperate to rid their holdings of the older, low interest loans made yesteryear. A symptom of the malaise is the aggressiveness of many banks in upholding the due-on-sale provisions of conventional loans made during the last decade, they want those loans paid off or assumed at higher interest rates.

The current situation will bring about a softening of hard-money hearts in the interests of institutional solvency. One major example of this has already become policy. The Federal National Mortgage Association, which holds a vast portfolio of home mortgages acquired from lenders around the country is offering to refinance their own mortgages at rates below the market for both owner-occupied as well as investment situations. Since they will go as high as 90% for owner-occupants and 80% for investors, the program offers interesting possibilities for the creative buyer. FNMA calculates the new interest rate on the refinanced loan by averaging the yield on the old amount with the yield on the added amount according to an internal formula. The combination is always lower than the market rate. Although FNMA guidelines must be met, buyers should consider taking advantage of the opportunities the refinance program offers to raise funds.

The Fannie Mae program is not the only “creative refinance” opportunity available. Many primary lending institutions around the country are devising innovative ways to divest themselves of unprofitable low-interest loans in ways that might be beneficial to

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investors. Investors should explore opportunities for working creative deals with lenders in their own areas. The next period of time will be marked with increased hard-money flexibilities that could lead to win/win deals for everyone involved.

Of special interest also are the R.E.O.’s – “Real Estate Owned” properties that the lending institutions have had to take back through foreclosure and now want to get rid of. Foreclosure activity increases during tight-money times, and investors should cultivate relationships with lenders who might be very anxious to sell R.E.O.’s to them on soft terms.

Recently in Fremont, California, one buyer used the program to generate \$15,000 toward the down payment on a condo. The existing FNMA first at \$41,000 was refinanced at \$56,000, with the excess proceeds going to the seller. The new interest rate was 12.25%, far below market levels at the time.

Technique No. 38 Pulling Cash Out of Buildings You Own But Don’t Want To Sell

Many variations in the basic approach of dealing creatively with holders of underlying mortgages are possible. Here is one other example of how a creative investor might pull investment funds out of a property without actually selling it. Let’s suppose that a private party holds a mortgage against a property our investor wants to keep. He needs to raise investment capital but a refinance of the property would not net a large amount of cash because most of the proceeds, let’s suppose, would go to pay off the existing private mortgage. What can he do? Perhaps the private mortgage would agree to share the proceeds of the new loan with the investor and take back the balance in the form of a new second mortgage against the property. The investor may have to sweeten the deal (perhaps in the form of a higher interest rate, higher monthly payments, or a shorter pay

out period), but at least he gets to keep his property and achieve his goal of raising capital.

Technique No. 39 Making A Partner of the Holder of an Underlying Mortgage

What other ways are there to induce a private mortgage-holder to cooperate in creative arrangements such as moving the mortgage? One could offer to give the party one half interest in the property if he would release his mortgage so that a refinance could take place. Out

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of the refinance would come the funds to buy the property from its' owner.

Short of an equity position, one might offer the holder of an underlying mortgage a higher interest rate in exchange for certain concessions that would facilitate the purchase. In a recent Santa Fe, New Mexico, transaction, on buyer came up against a non-assumable private mortgage on the property he wanted to buy. By giving the holder a three-point interest increase, he eliminated the hurdle and bought the property. In effect – the holder became an investment partner who said, “Help me make more money and I will see to it that you get the property.” The variations are endless.

8. INVESTORS

In the eighth area of creative financing flexibility. We turn to investors for help with down payments. Our interest is in a particular kind of investor – the kind specializing in buying and selling second trust notes. When a note is created, it tends to have a life of its own. It can move from master to master as it continues to generate monthly payments in accordance with the terms its originators gave to it. The person to who it is first given – as for example in a real estate transaction where the seller carries back paper in his equity – can turn around and sell it in the marketplace for cash. In order to convert it to cash, he will have to sell it in the marketplace for cash. In order to convert it to cash, he will have to sell it in the marketplace for cash. In order to convert it to cash, he will have to sell it at a discount, anywhere from, say, twenty to fifty percent, depending on the nature of the note, how seasoned it might be, its collateral, etc. But the seller is willing to do this for the privilege of having at least a major part of the face value of the note in the form of immediate cash.

It is marketability of the note, as well as the difference between its face value and its cash value, that makes it interesting to real estate buyers. There are two major possibilities to keep in mind. If a buyer can acquire second trust notes in the marketplace at a discount, and then use them at face value as down payments on real estate, he has effectively picked up the difference between the discounted value (cash value) and the face value. That difference has now been converted to equity in the property he has purchased and since the note traded into the subject property is secured by another piece of property altogether, he can “crank” funds out of his newly acquired real estate to take care of

buying the note in the first place. It is a remarkable chain of events that can yield handsome rewards. The other major role for the second trust notes in creative real estate is generating cash for the seller who needs more money down than the buyer can provide. The following technique illustrates the approach:

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Technique No. 40 Selling of Second Trust Notes

If a buyer cannot supply the seller with a large enough cash down payment, he can give the seller a note – fully secured by the property – with a face value just large enough to yield the required cash proceeds when sold to an investor in the marketplace. Of course, the buyer has to make payments on the note according to the terms agreed upon, no matter who holds the note. Alternately, the buyer can give the seller a note secured by another property in the buyer’s portfolio. The same process of selling the note at a discount can be used to generate the cash needed by the seller. By moving the mortgage, however, the buyer has the advantage of fully leveraging other assets that may have already been encumbered beyond the threshold tolerated by commercial lenders. He also can now “crank” funds out of the newly acquired property more readily since it is left with less secondary financing or none at all.

Here’s how it worked recently in a Phoenix transaction: The buyer of a \$65,000 SFH gave the seller two notes for his equity, one of which was sold by the seller at a discount to raise the needed down payment cash. The other note remained as a third with a single-payment balloon after three years.

9. PARTNERS

The ninth area of flexibility in creative finances is the use of partners for those who rationalize their investment inactivity on the basis of having no money, no credit, no financial statement, no equity, etc., Robert Allen has the following response: “If you don’t have it, someone else does.” The strategy is to make that someone your partner if you cannot bring the deal off any other legitimate way. Assuming that the buyer has exhausted all other areas of flexibility, there are many quid pro quo arrangements he might use involve a partner. Five of them are covered in this section.

Technique No. 41 Borrow Partner’s Financial Statement

Many investors without strong financial statements feel they must approach sellers with fear and trembling. Not necessarily. If the deal requires partnership support in this area, a successful investor will add to his team the strength he needs and go into the marketplace with confidence.

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For example, a creative buyer in Albuquerque induced a seller to discount an 11-plex by over 20% and the carry most of his equity on a wrap, largely on the strength of his partners' financial statements. Both of the buyer's partners happened to be millionaires, not bad company to keep when facing an experienced seller.

Technique No. 42 Borrow Partner's Money for Down Payment

Frequently an investment partner can be persuaded to loan the buyer all or part of a down payment. The loan may or may not be secured by a trust deed on the property. In any case, the buyer who is just short on funds for the down payment is probably better off to avoid giving the partner an equity position in the property unless absolutely necessary. Equity sharing partnerships are costly when calculating over the entire life of the investment.

Two case studies in this section show how investment partnerships can contribute to the success of real estate purchases. In one St. Charles, Missouri, transaction, an equity-sharing partner on a 4-plex deal was able to raise \$5,000 of his contribution by borrowing it from his mother. The buyer of a 6-plex in Seattle did a similar thing. His mother came up with \$10,000 as an investment to help him buy the property. (It was not just a case of maternal support – the women were shrewd investors who received a good return on their money.)

Technique No. 43 Borrow Partners Money for Down Payment Until Your Money Comes

In this variation, the partner does not have to leave his cash investment tied up in the property in exchange for an equity position: he gets it all back plus interest as soon as the buyer can put together the case. The partner puts his money to good use and still comes out with part interest in the property.

Technique No. 44 You're Cash Flow/My Equity Or Some Combination

Often the partner provides something other than cash to make the deal fall together. There are many illustrations of this technique. For example, a partner in a SFH transaction in Southern Florida recently provided property to which a created second mortgage was moved. In another Florida case involving a large motel a partner was brought into the deal because he had some stock that was used as collateral in order to borrow \$20,000 essential to the deal. Like Bob says: "If you don't have it, someone else does."

Technique No. 45 You Put Up the Cash; I Put Up the Time and Expertise

This is the most common partnership arrangement: In exchange for cash needed at the front end, and sometimes cash to offset negative cash flows and balloons, the partner receives an equity position in the property.

In a case from our Atlanta file, for example, a beginning investor with only \$100 rent money in his pocket was able to close his first deal using \$2,000 from a partner. In a recent San Diego case, a father and son team located a partner with the \$7,000 needed to get into a condo. Somewhat bigger stakes were played for in a Los Angeles transaction completed by one of our colleagues in the recent past: the buyer lined up several partners to provide the cash needed (\$148,000) to close on a 72-unit property. Regardless of the amount invested by partners, the principles are always the same.

10. OPTIONS

This final section treats a group of special creative finance techniques that permit a buyer to gain control of significant amounts of real estate with little down, even though ownership may be many months or years away – if ever. The principle is simple: the person buying the option gives the seller a sum of money in exchange for the right to buy the property at a given price within a defined period of time. The buyer then benefits by locking in the price and gaining control of the property without a large investment. The seller also benefits by retaining the tax advantages of ownership while locking in the sale at an acceptable price or picking up the option money in the event the buyer decides to back out. The Nothing Down System includes five variations of the option.

Technique No. 46 The Rolling Option

In this approach, a large tract of land is optioned piecemeal by the buyer. Rather than taking control of the whole package at once, which would be very expensive, the buyer purchases a segment for development or resale while at the same time buying an option on the next segment. The option can then be rolled from segment to segment until the whole package is developed or the option dropped.

Technique No. 47 Equity for Options

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Other assets besides cash can be used as an option payment. Personal property (cars, trucks, equipment, collectibles), equity resources, and even services can work just as well.

Technique No. 48 Sale Option Back

What if a property owner needs to sell a piece of property now in order to raise capital but wishes he could eventually have it back to take advantage of predicted appreciation and future growth? What can be done for him? The Sale Option Back technique is cut to order: the seller disposes of his property at a moderate discount but with the option to

buy it back within a specific time frame at a price fixed now. Whether or not the option is exercised, the buyer wins: and the seller has the choice of getting his property back if future conditions develop as planned.

Technique No. 49 The Earnest Money Option

Every Earnest Money Agreement is an option. For a short period of time, the potential buyer has control of the disposition of the property. If he fails to follow through as agreed, he loses the earnest money (option payment) as liquidated damages. Meanwhile, if he has executed the offer to purchase in his own name with the additional phrase And/Or Assigns, he can choose to sell his interest in the property to whomever he will. If he has struck a good bargain, it is possible the assignment of the earnest money rights to some other investor could be very profitable.

Technique No. 50 Lease With An Option To Purchase

This is the most common form of the option. Buyers who don't have enough cash for a down payment or who wish to build up a portfolio of properties using this technique can use their available funds as option money and then maneuver for purchase later on. Meanwhile, if monthly payments have been carefully structured, the buyer (option holder) might be able to pick up a little extra cash on sublease payments.

There are numerous examples of this technique, which is used frequently by investors. For example, the buyer of a 14-plex in Bremerton, Washington, initiated his program recently with a six-month lease option. The reason? He did not yet have the down payment funds, and besides, the seller needed to hold the property a little longer to qualify for long-term capital gains. In a Nashville, Tennessee, purchase, a homebuyer we know picked up an estate

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property for \$1,000 on a six-month lease option. The breathing room permitted him to get together the down payment needed for closing. And so it goes.

The important thing to remember in applying these techniques to advance your own real estate portfolio is that not all of them are essential to your success. Find the approach that suits your needs and matches your resources and goals. Most purchases we have researched across the country involve combinations of one, two, three, or four of these techniques. Many times an investor will hit on just the right approach for his/her situation and use it over and over again. It becomes a cookie cutter "that punches out the dough" time after time.

Best of luck in putting these powerful and effective tools to use!

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