



# THE MONEY RESOURCE GUIDE

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# Earnings Disclaimer

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# Introduction

Real estate investing is one of the leading sources of wealth building. Many of the world's millionaires made their money by investing in real estate – as it is one of the most lucrative investment strategies available.

The most common question I hear from investors is, “How do I get money fund my next flip?” Whether you're brand new to real estate investing or a seasoned pro, having financing available is extremely critical to your success.

You remember the old adage, “It takes money to make money” – well, in some cases, it's not necessarily true. It's a common misconception that you NEED you need tens of thousands of dollars to invest in real estate. If you're tight on cash or have challenged credit, getting money to fund your deals isn't a lost cause. What you will need to do is educate yourself on the strategies and sources available that reduce or eliminate the amount of cash you need upfront or personal credit you need to qualify. Sometimes what it takes to make money, is knowing HOW to use other people's money.

When you're first starting out, it's about finding the money to fund you first deal. As your business continues to grow, you'll find you also need more than one source of capital available. Often you'll have money tied up in one property, when you come across the deal of the century. Without alternative sources of funding, you could lose out on some major opportunities if you're not prepared to act quickly with an alternative source of funding.

Have multiple sources of consistent financing at your disposal gives you a competitive advantage over other investors as it allows you to come up with cash quickly and avoid the time-consuming bank approval process in order to purchase properties.

In fact, conventional mortgage lending guidelines are much stricter these days, making it more difficult for investors to obtain traditional financing – often, even with large down payments.

I created this guide to provide you with the key ways you can fund and acquire great deals without the use of traditional financing, often with little to no credit, or cash of your own. We use these methods everyday in our real estate business to take advantage of these goldmine opportunities – regardless of fluctuations in the mortgage, housing or stock markets. Some of these financing strategies can even be combined with each other, depending on the deal. Knowing how to creatively structure a deal will push you leaps and bounds beyond the competition.

Being unable to obtain a traditional mortgage should not hinder you from building your real estate portfolio. Keep in mind - every transaction will be different, so it's important that you understand the many options available to you.

By familiarizing yourself with the techniques outlined in this guide, you'll be able to make well-informed, knowledgeable decisions about which financing strategy will work best for your deals.

Now, let's get started.

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# Assignments

An assignment agreement is a contract in which one party (assignor), assigns their contractual rights to another party (assignee). Ideally, the assignor wants the assignee to take over (and assume) all of their contractual obligations and rights. The biggest advantage with assigning contracts is that even with little to no money, you can still make a deal happen and walk away with a nice profit.

Here's how it works. Let's say you get a property under contract with a purchase contract. You can now buy the property and either renovate it, flip it, or keep it as a rental. But with the assignment strategy, you can also assign the contract to someone else for a profit without doing any work to the property or buying it yourself. All contracts are assignable, unless otherwise stated in the terms of the contract. If the terms state it is not assignable, you simply need to add the verbiage "Buyer: John Doe, and/or assigns" to make the contract assignable.

By implementing this strategy, your role is simply to find really good deals at deep discounts. You become a valuable asset to your end buyer by locking up and controlling the contract and creating a scenario where they can just step in and take over your contract to acquire a great property. You'll often find rehabbers who want to focus solely on the renovation process, seek out Wholesalers (who assign the contract), to do the legwork of finding the property for them, and they are happy to pay for the service in return. Keep in mind, they only get the deal if you assign it to them.

## Assignment Pros:

- This is a great way to make money in real estate with little or no money out-of-pocket.
- You don't have to close on the property with your own money or get a loan. You're simply assigning your interest in the property to someone else for a nice fee.
- When assigning a contract, you eliminate the need to close two transactions and incur two closing costs. You also don't have to pay any of the closing fees associated with a normal real estate transaction. The assignment fee agreed upon is exactly what you take home with no closing cost deductions – this means more money in your pocket.

## Assignment Cons:

- If you're making a large assignment fee (\$5,000 or more), the buyer or seller could get cold feet because they see how much money you're making.
- Some banks don't like assignments. So if you have a buyer who's getting financing from a traditional lender to buy your property, the assignment may create a problem and kill the deal with that buyer.
- It's difficult to assign some deals such as REO's. Bank purchase contracts sometimes will specifically disallow it.
- Hard money can be an extremely viable and valuable resource for you, as some of your best deals are going to need funding quickly –especially if you plan to purchase more than one property at a time.
- Hard money lenders are organized institutional lenders who are licensed to lend money to investors/rehabbers to buy homes needing renovations.

With the term "hard money," some people can easily get confused, thinking that hard money is difficult to get – but this in fact quite the opposite. While the terms and criteria for hard money loans are relatively strict, these types of loans can be easier to secure than most others. Hard money lenders base their approval on the equity in the home – not you personally.

# Assignments Case Study

## Mastery Student: Quincy Smith



**Location:** Midlothian, VA

**Exit Strategy:** Wholesaling (Assignment)

**Purchase Price:** \$60,000

**Holding Costs:** \$3,000

**Sale Price:** \$75,000

### How did you find and structure the deal?

The seller of this property called us off one of our Probate direct mail campaigns. I sent a list of about 45 probate mailings and one of the heirs of this property called me back. The property was fire damaged and needed a full gut rehab, but was located in a really nice neighborhood. The seller was a lawyer and was really easy to work with. He actually did a lot of the legwork with getting his sisters to sell the property. My first offer was 55k, but the seller owed 58k after the insurance claim, so we agreed on 60k as a purchase price. Also, he was not in a great hurry so I asked for 90 days to put the deal together and he agreed.

### How did you finance the deal?

I assigned the contract to the end buyer.

### How did you find a buyer for the property?

Because this was my first deal and I hadn't assembled a team yet, I didn't think it would be best if I rehabbed the property. I marketed the property using Open Roads, Craigslist, Backpage, and bandit signs. In the end, a Broker called me off the Zillow posting and had a rehab buyer under contract within two weeks. I also built a pretty good buyers list with this property by marketing it until the day it closed to my end buyer.

### What are some of the major lessons learned that you would like to share with other students that they can learn from?

Never take for granted the calls that you receive from your marketing. You should have "a way" of keeping everyone's information that calls concerning your listings. I didn't do a great job of this initially, but I did build what was the beginning of a huge buyers list from this property and also network with several Brokers, Realtors, Loan Officers, and other Investors in the area.

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# Hard Money

Hard money can be an extremely viable and valuable resource for you, as some of your best deals are going to need funding quickly – especially if you plan to purchase more than one property at a time. Hard money lenders are organized institutional lenders who are licensed to lend money to investors/rehabbers to buy homes needing renovations.

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You might find a great deal where a property is about to go into foreclosure, and you need to get the deal done quickly. If so, run the numbers carefully for profitability after the higher loan fees and higher interest rate. Hard money lenders make their loan determinations based on the VALUE of the property in comparison with the purchase price, not the purchase price alone.

Let me explain that further...

Although all hard money lenders lend on different terms, most often hard money lenders lend around 60% to 75% of the property's ARV. So let's say you found a property that was worth \$100,000 and had \$20,000 in repairs needed. You were successful at putting it under contract for \$40,000. In this case, a hard money lender would lend you up to \$65,000 (65% of the property value), which would cover the purchase price of the house AND the renovation cost (and sometimes any other miscellaneous costs).

## Hard Money Pros:

- Most often, you can get these loans quickly – having the ability to close transactions fast.
- Credit worthiness isn't necessarily a factor, as the loan is secured at a loan-to-value that covers the lender in case of default.
- You can get a loan large enough to acquire and rehab the property and other miscellaneous costs.

## Hard Money Cons:

- Hard money is more expensive than many other typical sources of funding. Interest rates for hard money loans are significantly higher than other traditional loans in order to cover the higher risk involved. They normally charge 3-5 points upfront and 12% to 15% interest depending on the deal.
- These loans are mostly short term.

With hard money, you may pay higher interest and points; but at the end of the day, if you have a great deal and you're able to make a hefty profit increasing your net worth, a few extra interest points may not be such a bad thing. Additionally, you may have an opportunity to refinance later on down the road.

# Hard Money Case Study

## Mastery Students: Jeff Anderson and Joanna Anderson



**Location:** Richmond, VA  
**Exit Strategy:** Rehab  
**Purchase Price:** \$80,000  
**Repair Cost:** \$61,000  
**After Repair Value:** \$150,000  
**Sale Price:** \$215,000

### How did you find and structure the deal?

We found the deal from a lead on Zbuyer that was listed as an inheritance. One of the strategies that I used was looking at the leads from the site that had comments. After finding the lead, I sent the seller a yellow letter. The seller was divorced and had really let the place go. The property was vacant, free & clear, and needed a lot of work. The seller agreed to sell for \$80,000, but went under contract for \$67,000 and held a \$13,000 note until we completed the rehab. The key to negotiating this deal was due to developing rapport with the seller and being a listening ear in a time of need. His father was also dealing with sickness, so he did not want to drag the process out any longer.

### How did you finance the deal?

We funded the deal using a hard money lender that we met at the local REIA meeting. The lender has been active in the area with many projects, and was able to offer guidance and was impressed with how we handled this project for our first one. The terms were based on 14% and 3 points for the purchase plus rehab.

### Give us a short summary of how you improved the property:

The house is a 3 bed 2 bath 1720 sq. ft ranch and was in really bad shape. The kitchen was outdated, there was wood paneling, and the bathrooms were filled with mold. The layout needed to be altered to make the former "man cave" in to a master suite with a bathroom. This was a major upgrade because it became the main selling feature of the home with an included fireplace. One of the bathrooms was replaced with a laundry room and a patio was added in the back. The front yard was landscaped and reseeded to remove what was a mess of weeds and vines. The curb appeal was outstanding with the landscaping and after resealing the driveway. The huge two-car garage was painted on the inside and the floors to give it an extra clean look.

We ended up staging the property as well which was recommended by one of the coaches and this helped move the property in one day. I had one of my friends take professional pictures that came out excellent for next to nothing in cost.

### How did you find a buyer for the property?

We listed the property on the MLS at \$205,000 and promoted our open house a week before we allowed anyone access. Joanna is a Realtor, so we listed it with her and also marketed on Facebook, Realeflow, and used signs. The buyer came to the open house and was prepared to make an offer that evening. After

knowing that there were multiple offers, they offered the highest at \$10,000 over the asking price. After having to deal with the 90 day seasoning, we were able to close in a decent amount of time to preserve a great profit.



**What are some of the major lessons learned that you would like to share with other students that they can learn from?**

Having a detailed scope of work was key. We were able to reference back to it during any discrepancies. We also learned to go with your gut if you feel something is not to your liking after the final walk through. No matter how the contractor tries to sell you on how something is not a big deal, ensure that it is to your liking. If you notice, the buyer will notice. We had to go back and fix the hardwood floors after our walkthrough and luckily there was a suggestion made from the buyer's Realtor that solved the issue, and the contractor got right in to fix it.

The second lesson we learned is that staging and professional photos were also a major difference maker. We rented the furniture from Rent-A-Center and Joanna did the staging herself, and I got a friend who is a freelance photographer that just wanted to take the pictures for next to nothing. We also learned to put it out on MLS before you allow anyone to walk through to spark more anticipation for an open house.

Another lesson learned was to get to know the neighbors. They were helpful with keeping us up to date with anything they may have seen that could have been odd on the construction site, and also very thankful for the improvement that we did to their neighborhood.

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# Subject To

No-money-down strategies are a great way for new investors to get involved in real estate. While some of these strategies do occasionally require some capital, the amount is usually much lower than other types of real estate investing strategies. Subject to investing is a method for taking ownership of properties "subject to" an existing mortgage loan that's already in place on the property without paying off the underlying loan balance. When we take over loans subject to the existing mortgage, the loan stays in place. The homeowner also stays on title until we're able to refinance and pay off the entire loan, or sell it sometime in the near future.

Another common question new investors always ask is, "How can someone take over an existing loan and leave it in the homeowner's name when most mortgages today have a due on sale clause? Won't the lender call the loan due?" Yes, lenders certainly can call the loan due. But will they actually call the loan due? Well, it's not very likely – as long as the mortgage is being paid. Banks are not in the business of managing houses. They don't want houses; they want payments. As long as they have a performing asset, they are not going to call the loan due in order to have a non-performing asset.

Usually a seller who is willing to sell their home and willing to leave their existing financing in place is distressed for one reason or another, such as job loss or financial strain. They're motivated to sell, have decent credit, and don't want a foreclosure or short sale effecting their credit scores. Because they're in financial strain, they also don't want to come out-of-pocket to pay any closing costs or fees associated with selling the property.

## **Subject To Pros:**

- If done correctly, this strategy will allow upfront capital, monthly cash flow and equity.
- You're able to acquire properties without assuming the credit risks or coming out-of-pocket with typical down payment amounts.
- Since your credit is not being used, you can purchase multiple homes with this strategy. There's typically no limit to the number of houses you can own when the loans are in other people's names.
- The homeowner benefits because they can sell their property without many of the fees inherent to the traditional sales transaction, such as Realtor fees and other closing costs.

## **Subject-To Cons**

- This strategy requires a good amount of legal paperwork.
- There's a possibility that the lender could call the loan due.
- You are relying on the seller to make the mortgage payment. As investors we do our best to minimize the risk involved with any transaction. Building strong relationships and writing solid contracts are especially important with a subject to deal to ensure the seller follows through and pays the mortgage with the funds you're paying them.

# Subject To Case Study

## Mastery Student: Jason Gaston



**Location:** Spring Hill, FL  
**Exit Strategy:** Rehab  
**Purchase Price:** \$56,000  
**Repair Cost:** \$15,500  
**Holding Costs:** \$14,000  
**Sale Price:** \$103,000

### How did you find and structure the deal?

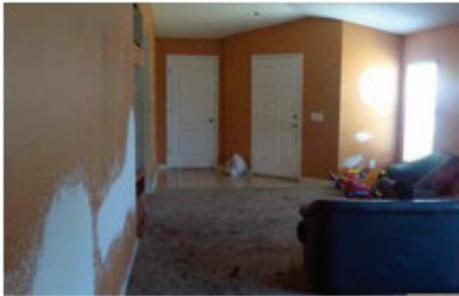
We found this deal from a seller calling one of our bandit signs. This deal was purchased subject to the existing mortgage.

### How did you finance the deal?

This deal was purchased subject to, so we took over the mortgage payments and put some cash in the seller's pocket using funds from one of our private lenders at a 12% annual return.

### Provide a summary of the repairs and improvements you made to the property.

Interior walls textured and painted. New laminate flooring in the living area and new carpet in the bedrooms. Replaced all counter tops with granite, and added new hardware for all of the cabinetry. New lighting fixtures throughout the house. New sinks and fixtures in kitchen and baths. Repainted the exterior of the house. New sod and landscaping. Serviced existing A/C.



### How did you find a buyer for the property if you sold it?

The buyer was actually an agent himself. He saw the open house advertisement that we dropped off at his real estate agency.

### What are some of the major lessons learned that you would like to share with other students that they can learn from?

I learned that you can creatively structure a deal subject to the existing mortgage, and lower your risk while increasing your ROI.

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# Assumption

Assumable mortgages, also called “assumable loans” are when you take over the seller’s existing mortgage. This strategy is often confused with “subject to” investing. These are two very different strategies and knowing the difference is very important.

When you acquire a property subject to an existing mortgage, you are informally agreeing to make the payments to the lender, but you do not legally assume the loan. In this case, the mortgage stays in the homeowner’s name. However, when you assume a mortgage, you formally take over the loan and place the loan in your name.

Using the assumable loan strategy often allows you to purchase a property with a very low interest rate without any money down. These types of properties are a great find (and many of them are becoming available again) because those note holders are primarily interested in receiving an income stream, and they would prefer not to have the mortgage paid off at once.

In some cases, buying a property through a mortgage assumption may require that you go through a regular loan application process with the lender, in which credit, job history, and income will determine whether or not you will be allowed to take over the existing mortgage. If you do qualify, the note holder will allow you to maintain the original contract terms.

Many assumable mortgages don’t have strict “due on sale” clauses in them – and even if they do, contacting that original note holder will normally get you the result you want. Some homeowners know very little about what terms they can offer you on an assumption, so it’s always a good idea to contact the original note holder.

## **Assumption Pros:**

- An assumable loan could provide you with an interest rate much lower than what is typically available in the market. If the original mortgage was written when rates were lower, you’ll be able to assume that interest rate and save some money.
- You won’t have to pay a down payment.
- You can avoid paying for closing costs, which could be significant savings for you.
- Many of these types of mortgages don’t have strict “due on sale” clauses so lenders won’t call the loans due.

## **Assumption Cons:**

- You may have to go through a rigorous application process with the lender – including a credit check and other requirements for approval.
- The loan will report on your credit just like a new loan.

# Assumptions Case Study

## Mastery Student: Guy Varble



**Location:** Des Moines, IA  
**Exit Strategy:** Buy & Hold  
**Purchase Price:** \$71,500  
**Repair Cost:** None  
**Holding Cost:** \$3,000  
**Sale Price:** n/a

### How did you find and structure the deal?

A real estate agent who understands my criteria brought this property to me. The seller didn't want any money out of the deal but also didn't want to pay any money out-of-pocket to get it sold.

### How did you finance the deal?

I was able to assume the existing lending structure, which were bonds issued to finance the property.

### Give us a short summary of how you improved the property:

All three units were occupied and no repairs were immediately required.

### How did you find a buyer for the property if you sold it?

I held onto this property as a buy and hold.

### What are some of the major lessons learned that you would like to share with other students that they can learn from?

Grow your network to grow your seller funnel. Know what you're looking for and let people know what you want and what you can do so they are clear about which opportunities to bring your way.

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# Lines of Credit

For many real estate investing businesses, a line of credit can be a reliable option when cash flow gets tight or when unexpected expenses comes up. A business line of credit is like a huge credit card. With a business line of credit, a bank/lender offers a flexible credit amount. A maximum amount is set, and you can access those funds any time, on demand, when you need them. You only begin to pay interest when you use it. Your line of credit is reduced by what you have as outstanding loans until they're paid off, and it bounces back up to the limit. The amount of credit allotted depends on your positive cash flow. Keep in mind, the lender can increase or decrease your limit at anytime.

As it pertains to real estate investing, you know that time is of the essence when it comes to securing a property. Let's say you find a property that would be a fantastic deal, but there are three other investors who are interested in it as well. Wouldn't it be quick and simple to just pull out your checkbook and write a check for the purchase price without worry? That's the benefit of having a business line of credit.

One of the keys to successfully obtaining funds for your deals by way of credit lines is to access as many different lenders as possible over a period of time. Establish small lines of credit with several banks in your area. By applying to different lenders, you will able to have access to a number of business lines of credit. However, be careful not to submit a lot of applications per lender per month; you may get denied due to the submission of too many applications in a 30-day period. Also, make sure to always pay it back on time. Once you build up enough cash reserve, you may be able to finance your own deal and cut out the middleman altogether. Keep in mind – this strategy usually results in higher rates than regular real estate loan rates.

## **Line of Credit Pros:**

- Obtaining a line of credit gives you flexibility in your real estate business and doesn't require you to use your own cash.
- Your business can build a positive credit history as you use the line and make the payments on time.
- You can write checks against the line of credit at any time and for any type of business expense.
- Although the interest rates are higher than a traditional loan, the rates are typically lower than a business credit card.

## **Line of Credit Cons:**

- Usually requires up-front fees when opening a new line of credit.
- Interest needs to be paid on the money it uses from the line of credit. The interest rates are usually higher than a loan.
- Depending on your real estate business structure, you may be personally liable to repay the debt.
- An institution with tight lending requirements may make approval difficult and place greater restrictions on issuing new lines of credit.

# Line of Credit Case Study

## Mastery Student: Jason Gaston



**Location:** Virginia Beach, VA

**Exit Strategy:** Rehab

**Purchase Price:** \$69,500

**Repair Costs:** \$46,747

**Holding Costs:** \$2,284

**Sale Price:** \$165,000

### How did you find and structure the deal?

Our acquisition team member bid on the deal at the courthouse steps. We acquired the property for \$69,500.

### How did you finance the deal?

I was prepared financially on this deal because I had a line of credit already established.

### Provide a summary of the repairs and improvements you made to the property.

We completely gutted and redesigned the floor plan. We were not originally planning on adding a second bath but we quickly realized this was a crack house and our curbside evaluation was off. We created additional value by converting the garage into a den to add square footage, and also added the second bath. New siding, heat pump, windows, roof, carpet paint, kitchen, landscaping (including 5k worth of just tree removal).



### How did you find a buyer for the property if you sold it?

The buyer came from the MLS.

### What are some of the major lessons learned that you would like to share with other students that they can learn from?

When bidding on property at auction, prepare for the worst. Do not underestimate repairs.

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# Retirement Account

Most people think that a retirement account can only be used to purchase investments, like stocks and mutual funds. But that's not true! You can get private mortgage loans using the funds in your retirement accounts, however the account needs to be structured as a "self-directed" account in order to do so.

As it pertains to lending for real estate investments, there are two common types of retirement accounts used to fund real estate. The first is a self-directed IRA. The second is a solo 401k, which is similar to a self-directed IRA but is set up for your business as opposed to you as an individual. The difference between self-directed accounts such as these and traditional accounts (such as an IRA set up by an old employer or a SEP IRA), is that traditional accounts that are not self-directed limit what investments can be made within the account. These limits are dictated by account guidelines and managed by a custodian. Self-directed IRAs and solo 401ks allow you to purchase a broader range of investments, including real estate.

Self-directed IRAs can be used to not only fund the purchase price of the home, but the costs to rehab the property as well. Many people are surprised at the scope of options available. From tax liens, gold, real estate investments and real estate notes, self-directed IRAs are an extremely powerful investment tool. Leaving your retirement assets to sit in your retirement account is a waste of moneymaking potential. More and more real estate investors are using their retirement account funds to invest in real estate.

If you currently have a traditional retirement account set up that is not self-directed, the first step is to find and contact a retirement account custodian that specializes in setting up self-directed accounts. This new custodian can set up a new self-directed account for you as well as aid you in the steps that would need to be taken to move the funds in your old retirement account(s) to your new self-directed account, which would give you the flexibility to invest in real estate of your choice.

## Retirement Account Pros:

- There are a great deal of tax benefits as the profits make on your real estate investments go back into your retirement account tax-deferred (you pay federal income tax when you take qualified distributions at retirement).
- Enables you to enjoy the benefits of accumulating rental income within your retirement account when purchases buy-and-hold properties.
- The contributions you make and profits you roll back into your account give you the necessary funds needed to purchase properties outright.
- You may be able to fund both the purchase price and the rehab costs from you retirement account.
- Provides a safer and more tangible way of investing retirement funds than having money in mutual funds or stocks where other people are managing where your money goes.
- You have the ability to diversify your retirement portfolio in a wide variety of assets such as condos, raw land, commercial property, and more.

## Retirement Account Cons:

- The IRS prohibits you from buying real estate for yourself if it's going to be owner occupied, meaning you cannot by your personal residence out of your IRA. This is true for your spouse, your children or other relatives as well.
- There are significant IRS restrictions on certain types of real estate transactions.
- Any money earned from renting or selling the property must be placed directly into the IRA used to pay for it.

# Retirement Account Case Study

## Mastery Students: Ryan and Shanan Burk



**Location:** Redford, MI  
**Exit Strategy:** Rehab  
**Purchase Price:** \$30,000  
**Repair Cost:** \$12,000  
**After Repair Value:** \$60,000  
**Transaction/Holding Costs:** \$1,000  
**Sale Price:** \$58,000

### How did you find and structure the deal?

I found this deal by utilizing FortuneBuilder's blogging system. This is a very unique and underutilized strategy that can produce a ton of leads. By utilizing the blogging system they taught me, I am able to capture leads from sellers and buyers every day online. This property came from an absentee landlord who found my blog. This family inherited this property and they lived out of state. The property had been broken into and stripped, so it needed a lot of work and a bank would not finance it.

The owner of this property was desperate to get out of it and wanted to sell the property for 40k. I showed them the itemized scope of work that needed to be done to the house with detailed photos of every room. They realized there was a lot more work to be done than they thought. I let them know I would be willing to close in four days, but I could only offer 30k cash based on the amount of work that needed to be done. The property was located in a good suburb neighborhood that had lots of new families moving in. The house was built in the late 90s and most of the homes in the neighborhood were built in the 60s. We knew that we would sell this property fast to a homeowner looking for a great house in a great neighborhood. So we choose to rehab the property to sell to a retail buyer.

### How did you finance the deal?

My 401k purchased the deal, so the purchase funds and the rehab costs came directly out of my 401k, which meant my 401k owned the house, not my company.

### Provide a summary of the repairs and improvements you made to the property.

The rehab was a very smooth one. We were able to get the work completed in 17 days. The city took longer than usual to inspect the property and issue the CO, which took the project out a week longer than we expected.

### How did you find a buyer for the property if you sold it?

The buyer for this property was found using FortuneBuilder's online lead capture system. For most of the deals I do, I find the seller and the buyer online. If you don't have an online presence in real estate, you are as useless as the Yellow Pages. The buyer was excited to purchase this house. It was a newly married couple with two young kids. We set up a 30-day close with a 7-day inspection period for the buyer. After seven days, the buyer's deposit became non-refundable. We offered a home warranty to the buyer as well.

**What are some of the major lessons learned that you would like to share with other students that they can learn from?**

On this deal we made a quick 15k. Because my 401k owned the deal, I didn't have to pay taxes on the profit. The 15k went directly back into my 401k. The lesson here is to get knowledge and systems in place so you can secure your own retirement. Take control out of people's hands who only care about making commissions and charging fees by putting your retirement funds where you want to. Once you have the knowledge and systems, use your retirement plans to invest in what you know best.

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# Seller Financing

Simply put, seller financing means you're borrowing money from the seller instead of a bank, and making your monthly payments to the owner instead. It's also referred to as "owner-financing" or "purchase-money mortgage".

Without question, using the seller as your financing source is one of the easiest and least costly ways to finance a property – that being true even if you have the credit and capacity to go to an institutional lender. However, this method is not always the least expensive.

There are many possible combinations when using seller financing, but it usually takes the form of either a first or second mortgage on the property. For a seller to carry a first mortgage, they must have own the property free and clear – owing no mortgage, remaining in a 100% equity position. When a seller carries a second mortgage, it means that there is already first mortgage on the property (which takes priority over their second mortgage). Usually, the reason a seller will be open to carrying a new second mortgage for a buyer is to get the property sold quickly. Sometimes it is the only way the seller can sell the property because of an adverse situation such as poor condition, poor location, or the price they are asking. The second mortgage becomes an incentive for someone to buy the property.

Some sellers may have never heard of this type of financing, or have never considered it in their plans. Although it can be executed very simply, you may need to educate them, giving them the benefits. Simply put, the seller and buyer both agree to the interest rate, terms, and conditions they desire, have a closing attorney draw up the contract and close on the property.

## **Seller Financing Pros:**

- You could possibly get a no-money-down deal. With seller financing, you have the flexibility of negotiating terms when it comes to the contract – often times, you can negotiate the interest rate, down payment, monthly payment amount, duration of the loan, etc.
- There are easier loan qualifying terms than a traditional bank. Seller may offer no credit check or reporting, and in some cases they're willing to provide a discount for early payoff where most banks charge a fee if you pay off early.
- You can avoid many of the fees associated with a mortgage from a conventional lender, and many times you can have more input when it comes to contract terms.
- In most cases, once you fix up the property, you can obtain a loan for the appreciated value and offer to buy out the seller.

## **Seller Financing Cons:**

- The seller might be asking a hefty price for the property; sometimes asking more than the property is worth – perhaps because of its location or condition. Some sellers try to avoid inspection or appraisals because of the property condition.
- Some sellers want large down payments and higher monthly payments. Interest rates may also be higher than a traditional mortgage.

Here are a few of the benefits to the seller:

- They receive a steady stream of cash flow over time.
- Because the seller acts like the bank, over a period of time, he gets much more money back compared to a typical sales transaction.
- There's no large tax bill to pay on the sale and seller only pays taxes on the income earned each year.

# Seller Financing Case Study

## Mastery Students: Anne and Mark Lackey



**Location:** Lawrenceville, GA

**Exit Strategy:** Rehab and Long term hold for passive income

**Purchase Price:** \$21,000

**Repair Cost:** \$25,000

**After Repair Value:** \$80,000

**Sale Price:** n/a

### How did you find and structure the deal?

We have farmed this area since we began investing in real estate. We have several rental properties and have rehabbed homes in this area, which has improved the neighborhood tremendously. The mother needed to relocate due to health reasons and the daughter didn't want to sell it traditionally. This lead came from a direct mail post card we had sent to her several years before which she had held onto. The actual seller was the mom, but the daughter was the negotiator. The daughter was offered several options over 45 days before we found something that worked for her. We had proven our abilities and earned our reputation and although others were willing to pay more – we secured the deal because of trust and reputation.



### How did you finance the deal?

Owner Financing. We knew we couldn't get a loan for such a low amount and there was not enough margin for us to flip & use hard money. We worked creatively with the seller to find something that worked for both of us – a loan directly with the seller where we paid her monthly installments for 60 months.

### Provide a summary of the repairs and improvements you made to the property.

The rehab cost us \$25,000. No structural work was needed. Because we knew we'd be holding onto this property as a rental we renovated this home a step above the balance of the community. We redid the kitchen, changed all the flooring, updated lighting, paint, landscape, updated the existing bath, and added HVAC. Additionally, we added the second bathroom in unusable space so we could increase the rental rate.

**How did you find a buyer for the property if you sold it?**

We held onto this property as a rental to earn passive income. The property brings us in a positive monthly cash flow of \$550/month.

**What are some of the major lessons learned that you would like to share with other students that they can learn from?**

Don't give up. Ask questions to find a solution that works for everyone. Think creatively!

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A private money loan is a loan given to a real estate investor, secured by real estate. Private money investors are given a first or second mortgage that secures their legal interest in the property and secures their investment. When we come across a home that is well under market value, private lenders are an excellent resource to fund the purchase and rehab of the home. Through that process, the lender can yield extremely high interest rates – 4 or 5 times the rates you can get on bank CDs and other traditional investment plans.

Private money lenders can bring speed and efficiency to your transactions, and your leverage is far greater when purchasing properties using private cash funds. With most investors, many of the homes purchased are in need of a quick sale within 10-14 days. A traditional bank requires 30-45 days to close a loan. Many traditional home sales fall out of contract because of financing issues. Using quick cash as leverage allows you to negotiate a much lower purchase price and reduce your risk.

The process is simple. You, the investor, find an extremely undervalued property you want to purchase - and once you finalize the numbers and get the green light, you borrow the funds from a private lender to purchase and renovate the property. At closing, the lender receives a mortgage on the home. Next stage is the property renovation. Once the renovations are complete (typically 3-6 months depending on the size of the project), you'll list and sell the property. When it's time for closing, the lender receives their principle plus interest payment. The goal is to continually turn that money, making your lender consistent profits so they keep coming back to you – building a long term, mutually beneficial relationship.

On a new home purchase requiring renovations, private lender funds will be allocated to the purchase price, renovations, carrying costs, cost to resell, and a small buffer for unexpected expenses.

## **Private Money Pros:**

- You won't have to deal with banks or go through the traditional lending process with applications, approvals, etc.
- Private money allows you to purchase properties with cash at much deeper discounts, because "cash is king."
- You can offer a fast closing which would motivate sellers to take your offer, giving you an advantage over the competition – and enticing them to take a much lower price than they would from a conventional buyer.

## **Private Money Cons:**

- Lenders traditionally expect a high return on their investment for these short-term loans, compared to traditional lending.
- You will need to have an exit strategy.

## *What's in it for the lender?*

Essentially, investing private money is the lender's opportunity to become the bank, reaping the profits just like a bank would. It's a great way to generate cash flow and produce a predictable income stream - while at the same time, provide excellent security and safety for their principle investment. The lender can do what the banks have been doing for years...make a profitable return on investments backed by real estate. There is no other investment vehicle like it.

Here are some benefits for the lender:

- The lender has a safe and insured investment secured by real estate with high returns.
- A predictable income stream.
- Allows the investor to invest funds in real estate without the risks and headaches associated with property management or managing contractors.
- Typically short term so the investor has the ability to move the money in and out if desired.

# Private Money Case Study

## CT Homes, LLC



**Location:** San Diego, CA 92109

**Exit Strategy:** Rehab

**Purchase Price:** \$315,000

**Repair Cost:** \$145,500

**Transaction/Holding Costs:** \$34,875

**Sale Price:** \$602,375

### How did you find and structure the deal?

We got this lead through a door-knocking campaign that one of our local students implemented. Door knocking is one of the most effective ways to get deals. Most investors are afraid to do it, so competition is low and it's easier to stand out from the rest. In the case of this property, our Mastery student walked the neighborhood and talked to the seller who was motivated to sell the property. The seller was embarrassed to put the house on the market due to its condition and the fact that it had been recently rented to tenants who didn't take care of it, and turned it into a party house. The property needed an overhaul, so a cash sale was the only option for the seller.

After getting a call from our student about the deal, we ran some initial numbers, which looked promising on paper, and quickly visited the property. We had been in touch with our student on a regular basis throughout the year and actually gave him ideas and tips for door knocking so that he could be more effective. He implemented a consistent system, and it worked out beautifully for all of us. We did our analysis and offered the student a \$20K wholesale fee since the numbers made sense for us, even with such a big rehab budget. He was ecstatic and he agreed to our offer. We closed a week later with cash and the Mastery student was paid \$20,000. Since this was a traditional sale with no agents involved, the student removed himself from the contract, and we stepped in to buy it directly from the seller. We educated the investor on how to present this change. The seller had no problem with it. The student was paid outside of the transaction, between the buyer and ourselves, by using an assignment contract to protect his fee.

### How did you finance the deal?

We ended up funding the whole deal with a couple of private money sources, with interest rates ranging from 10%-12%. Private money is our number one source right now, and it's readily accessible with no crazy paperwork to deal with. It comes down to building relationships with people and getting them excited about what you do in real estate—and explaining that the investment is safe for private moneylenders.

Provide a summary of the repairs and improvements you made to the property.

First and foremost, there were significant foundation issues in the house, so we found a foundation expert early to fix those problems. We then changed the layout of the property within the existing square footage to create a more traditional master bedroom, and eliminated some doors and openings in the hallway. There were too many, which had eliminated a lot of wall space.

Due to the fact that the back yard was small, we enclosed the front yard, which is typical in that neighborhood.

### **How we found our buyer for the property:**

We listed the property on the MLS in a price range of \$575,000 to \$615,000, which is typical in San Diego. We got multiple offers within days of listing the property and picked the best offer based on price and terms. It is a seller's market right now in San Diego, so if you list the right property (staged) at the right price, with professional photos and an amazing description, you can expect multiple offers for your property, bidding the price up. That is exactly what happened in this situation.

### **How did you find a buyer for the property if you sold it?**

The retail offer we took agreed to bring the difference in cash to table if the appraisal didn't come in at our agreed-upon contract price, which is happening more and more in a market that is (slightly) appreciating. Appraisers are currently conservative and sometimes are not able to come in at the price of the contract for what buyers are willing to pay. However, that doesn't mean that the house is not worth that amount. It comes down to communicating to the buyer the right way ahead of time. The buyer should understand that prices are going up, and the seller is simply protecting him or herself in case the appraiser is out of the area and doesn't know the specific market trends. We also had a slightly higher offer than the one we chose. The one we went with, however, was conventional with 30% down. We also negotiated the buyer's agent commission down a bit in order to get our net up. The agent was motivated to work with us. His clients absolutely loved the house, so that worked in our favor. This buyer also agreed to close in 30 days and to a per diem charge of \$100 if that didn't happen. (The clause motivates all parties to push each other to get the house to closing on time or earlier.)

### **What are some of the major lessons learned that you would like to share with other students that they can learn from?**

This lead from door knocking was a prime example of what great deals are out there when you deal with sellers directly and your competition is low or non-existent. It was a major rehab in a great neighborhood which required a little more due diligence on our end with our contractors to make sure we could hit our rehab budget. We paid a nice wholesale fee to the student and still made a considerable profit, which is what we look for on bigger rehabs. Our rule of thumb on bigger projects is \$1 in profits for \$1 we spend on renovations. For example, if we will spend \$30,000 on the rehab project, we want a net profit of at least \$30,000. We ended up making six figures, which was a huge win.

It's a great example of the power of the door-knocking campaign and how effective it can be if done correctly. Know that you have the ability to change existing layouts to appeal to what buyers want in today's market. (Generally, a nice master suite with at least 3 bedrooms, 2 bathrooms, and an amazing kitchen with an open layout to the dining room and living room.) However, you need to also remember the neighborhood that you are in and the style of a house you're working on. Keep the character of the house intact and don't modernize it too much if the market doesn't call for it. You don't renovate houses based on what you like but instead, let the market speak to you and then create a masterpiece that fits with the surrounding area.

This leads to the last lesson. You need to stage your houses, take professional photos, and have a system for marketing. Do not turn cheap in the selling stage. Often making the right investment in the selling stage leads to getting multiple offers that will literally bid up your sales price over your perceived After Repair Value (ARV). Additionally, the professional marketing completed will go into your Credibility Packet of the projects you've completed which helps create a great brand for your company and also gives you tremendous leverage power when you're raising private money and going to secure your next deal.

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# Wrapping it Up

Regardless of whichever real estate niche you decide to pursue, the reality is that real estate deals require funding. Through this guide you've learned some of the creative financing strategies you can utilize. Obtaining the necessary funding will give you the flexibility to pursue doing your next deal. There is essentially no limit to what you can do when you are knowledgeable on a variety of financing strategies available to you using other peoples money.

We successfully utilize these creative funding strategies everyday in our own real estate business. It's important to not only learn the fundamentals, but also apply the techniques and tweak them for your own business to give you the best results. Most of these strategies can be combined and utilized in both purchase and sale transactions.

Just as each property is different, each homeowner's motivation for selling their property is unique as well, and so will be the best financing strategy in that situation. Once you have a complete grasp of the different motivations sellers may have and the different funding options available to you, structuring your deals is completely left up to you. Creative financing opens doors, that would have otherwise been left closed with traditional financing or a lack of capital. The sky is the limit when you learn the strategies and systems for success from mentors who are actively investing in deals in today's market.

At FortuneBuilders, we have built a systematic approach to building wealth in real estate. We pride ourselves not only on teaching the principles of sound real estate investing, but also how to start and grow a successful business that is not dependent on you as the business owner.

We have developed a proven process for helping people reach their investment and lifestyle goals. We have also developed a unique community of highly passionate, like-minded individuals, who are all collectively working together to achieve more in every area of their lives.

The concepts covered in this guide are just the tip of the iceberg. If you are willing to invest in yourself, to continue to deepen your real estate knowledge base, and do what most people aren't doing today for the next two to three years, you will be able to live a life other people only dream about.

I look forward to having many of you at the upcoming Insiders Summit, and diving deeper into applying these financing strategies and more.

To Your Future Success,

*Than Merrill*

Than Merrill – CEO FortuneBuilders

# About FortuneBuilders

FortuneBuilders is a real estate investment education company founded by the stars of A&E's hit TV show *Flip this House* Than Merrill, Konrad Sopielnikow, Paul Esajian, and JD Esajian. Over the past decade they have bought and sold hundreds of properties and built a highly successful real estate investment business model.

FortuneBuilders prides itself on teaching investors not only the principles of sound real estate investing, but also how to build a successful business that is not dependent on you as the business owner. Many real estate investors' sense of success comes from the process of building an efficient business that is profitable. From our point of view, having a business that works is not enough. We believe success is when your real estate investment business is not only profitable, but also gives you the time to enjoy your life and fulfill your passions and dreams. We believe success is defined as having a turnkey, systems-dependent business that serves as a vehicle for all the people it touches: the owners, employees, and the community.

FortuneBuilders has made it their mission to not only teach people how to successfully invest in real estate, but also how to build an actual business that is not dependent on trading time for money.

## About Than Merrill



Than Merrill is the founder and president of CT Homes, a multi-million dollar real estate investing company based in San Diego, CA, in addition to FortuneBuilders

Than applies and grows his real estate investing knowledge daily with his investment business CT Homes, and then shares his visionary strategies and techniques with his students at FortuneBuilders.

The results are evident in the past decade. He has bought and sold close to 1,000 properties including everything from single-family, multi-family, and commercial properties.

Than's success can be attributed in large part to his team-building talents and cutting-edge business systems. He focuses on surrounding himself with some of the most dynamic and dedicated partners, employees, investors and students.

Born in Fresno, CA, Than graduated from Yale University and then played in the NFL with the Chicago Bears and Tampa Bay Buccaneers. After his short career in the NFL, he started investing in real estate in New Haven, CT. Four years later, he was approached by A&E to shoot episodes for the hit TV show *Flip this House*. Than's business was selected for the show because they are one of the nation's most successful investment companies. Together, he and his business partners have filmed over twenty episodes of the show, which documents their business as they buy, fix, and sell properties.

Than continues to pursue his entrepreneurial dream of building a dynamic company, while enthusiastically teaching his investment strategies to other investors around the country.

Than also recently started a non-profit organization with his wife Cindy (the brains of the operation) called the Equal Footing Foundation. The organization provides funding to children who can't afford youth sports programs. For more information, please visit [www.EqualFootingFoundation.org](http://www.EqualFootingFoundation.org).

Than is a highly sought-after national speaker and has shared the platform with some of the top speakers in the country including former first lady Laura Bush, Alan Greenspan, Tony Robbins, Sarah Palin, and Donald Trump.

Than enjoys spending his free time playing beach volleyball and any other sport that he still thinks he is young enough to play. Than is often called the "Al Bundy" of the office. He is known to spend way too many hours drawing up flag football plays for FortuneBuilders team games. Than also likes sushi (and coffee—he's recently been recently trying to cut back. That's not going so well).  
[www.FortuneBuilders.com](http://www.FortuneBuilders.com)

## About Paul Esajian



Paul Esajian, CFO of CT Homes, LLC and Co-Founder of FortuneBuilders, is one of nation's most sought-after real estate investors and speakers. His ideas for building a business have been used to develop CT Homes into the premier real estate solutions company in both San Diego, CA and New Haven, CT.

Throughout his investing career, Paul has continuously developed unique accounting systems customized to our specific home buying business, as well as contractor systems to meticulously manage numerous contractors and projects. This range of duties has given Paul a wide breadth of knowledge about running an efficient, productive company, from the accounting books in the office to the foundation of a house on site.

Paul is originally from California, where he graduated from the University of California at Davis with a focus on accounting. Paul also wrestled for the University while earning his degree. With a work ethic few can match, Paul continues to grow his business while keeping in mind this important thought: As long as there is no work left to be done, then everything has been done right.

## About JD Esajian



JD Esajian, also a star of A&E's popular TV show, *Flip This House*, runs many of the day-to-day operations of CT Homes, LLC, and is also one of the head educators for FortuneBuilders

JD's strong work ethic combined with his systematic, no-nonsense strategies have enabled him to manage 15 to 20 rehab projects (consisting of 50 or more contractors) simultaneously.

His vast renovating experience includes single-family homes and multi-family residences, as well as commercial properties. These range from minor cosmetic rehabs to complete teardowns.

JD believes the key to buying properties successfully and profitably is to implement systems that will help run your business. He always says, "Systems are what you leverage to build wealth, eliminate risk, save time, and keep yourself sane!" The investment systems that JD have developed are second to none in the industry.

JD is originally from California, where he studied business at the University of Southern California and graduated from California State University, Fresno, with a degree in Economics. JD is a firm believer in the importance of keeping balance in one's life through maintaining a healthy mind, body and soul. He believes that it is only when that balance is achieved that true happiness and success can be realized.



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