No Money Down Investing Using Note For Deed

Note for Deed

Financial independence can be yours if you're willing to do two things. Learn and apply. You can become independently wealthy, and you don't have to re-invent the wheel, and I'll illustrate exactly that by using some of my students' achievements to illustrate the success potential of real estate investing.

There are many innovative facets to creative financing that can help to get your deal closed, like giving the seller a note in exchange for the deed to his property. This is one of the most simple ways to buy real estate, and shouldn't cost you anything.

Follow along, and I'll show you how it works. When you find a potential investment, whether it be an abandoned property or some other type of distressed property, locate the seller and have a conversation with him. Find out about the existing financing on the property. In Los Angeles for instance, approximately 25% of homeowners actually own their homes free and clear of any loans. Hummm... Do I detect the sweet but faint fragrance of opportunity? Maybe...

Since we're just having a conversation here, let's also say that the seller has just been transferred across the country by his employer. What is he going to do with his free and clear house that he's moving from? He doesn't like the idea of managing a tenant and he doesn't want to leave the property vacant any longer, so he's highly motivated to get rid of it quickly. After further inquiry, you find out that the seller does not need all cash from the sale of his property, but would certainly be happy with a monthly income instead. Here's a perfect opportunity for a seller carry back transaction.

AND, guess what? We're going to do this deal with *No Down Payment!* I can just about sense that you're thinking, "But Reggie, I've never done a *no money down* deal before..." Don't worry. It's really simple. Just remember that nothing happens without a motivated seller. One other thing. ***You can do this.***

You Can Do "No Money Down" Deals

This is probably the most simple, straight forward deal that you'll ever do. What if you offer the seller the full value of the property, say $200,000, on the condition that he carry the financing. That way he becomes the bank. You might be wondering why a seller would want to go along with a proposal like that.

The seller will receive a monthly income, a constant stream of revenue, based on an agreed upon interest rate. In addition, the seller is free of management problems. Also, the seller has the security of holding a first mortgage against the property.

If you had refinanced the property you might have asked the seller to carry at least part of the equity and allow you to place a new loan above his loan. His loan would end up in second position, not the coveted "first position". The idea could turn the seller off and kill the deal. He might have felt the remaining equity in the property would not be secure. A first mortgage would not only put the seller in a better position if you were to default on your payments, but the first mortgage would make it clear what the seller's rights are in case of foreclosure. By holding the first mortgage, the seller would not have to worry about receiving a Notice of Default. Usually after thoroughly explaining the advantages of this method, many sellers cooperate.

Owner Financing Is The Best Financing

An investor usually wants to refinance the property and get a new loan against it if possible. If you refinanced, you'd be able to pull out cash immediately, but at the same time you would have to pay current interest rates and loan fees. However, it's no big thing to get the seller to carry the mortgage at an interest rate which is lower than what is common in a bank. As an investor, had you decided to seek bank financing it would have been a financial mistake because of the costs involved. Look for owner financing before you accept the more expensive bank financing.

Owner Financing vs. Bank Financing

Here's why. Let's say that you opted for bank financing. Aside from the various costs and fees that you'll have to pay for, your bank will usually charge you a higher interest rate than a motivated seller might offer.

New Loan: $200,000 at 10%	Monthly Payment	$1755.14
Seller Carry: $200,000 at 5% (interest only)	Monthly Payment	$833.33
	Savings	$921.81

If the property can produce enough income to handle the monthly payments of $833.33, you have a decent deal. If the property is amply under-priced and you can pull out significant cash and have the property pay for itself, it makes good monetary sense to refinance.

What if the property is only worth 200,000? That means you would not be able to pull out any cash even if you refinanced, the cash would go to the seller for the purchase. If the property is only worth $200,000, you're much better off letting the seller carry the loan. Because of the costs involved in refinancing, you'd be throwing money away.

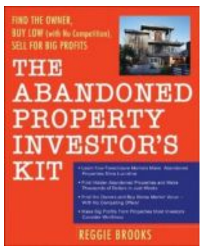
If the property can only rent for $1200 a month, and you're paying $1755 on the loan, you're going incur a horrific negative cash flow each month. The seller carry back example shows a 5% interest rate with monthly payments of $833.33. This is a thirty year *interest only* loan, which means that you're not paying anything toward the $200,000 principal. You're paying *interest only*. This type of loan allows you to bring your monthly payment down. At the end of the term, you will have to come up with the $200,000. Thirty years down the line you'd be able to easily refinance and pay the seller off. This is attractive, especially if you can create a way to pull some cash out of the deal.

You Can Work *With* Motivated Owners

This method works especially well with sellers who want to continue living in the property. You pay the expenses and takeover the responsibility for the property. You might even give the seller a monthly income. In addition, you receive tax benefits as well as all future appreciation.

Sellers owning positive cash flow income properties represent opportunity. Many of them want to continue receiving monthly income, they do not need the tax write-offs and tired of being landlords. You're able to offer an attractive alternative and many eagerly agree.

You'll find our stories and what we've learned (and what we've learned that was wrong!) throughout my new book called The Abandoned Property Investor's Kit. If you haven't checked it out yet, Click Here.



A final note: You can grow wealthy by investing in real estate. It takes knowledge and discipline. When you take productive action every day, no matter how small, you *will* succeed. Take it from a man who did it.

Peace and Prosperity.

Reggie Brooks

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