Subject To Real Estate Investing

Subject To The Existing Loans

Buying a property "subject to" the existing loans can give you a measure of added flexibility while accomplishing the goal of creatively financing your abandoned property or foreclosure investment. If you're looking to buy a distressed property from a motivated owner, it will be good for you to explore the possibilities of one of the most exciting creative financing techniques to come along in a long, long time; the "subject to" deal.

When you purchase an abandoned or otherwise distressed property with a subject-to deal, you're not replacing the existing financing on the property. Instead, you're simply acknowledging the existence of the financing. Subject-to financing deals are a great means of acquiring investment properties when the owner has very little equity. If a property doesn't have much equity, it's not necessarily a bad purchase, but it can severely hamstring your options regarding how you can finance it. Creatively financing your purchase with a subject-to deal can solve that problem.

Essentially, you take on the seller's monthly payment obligation in exchange for their house. Depending on the agreement you work out with seller, you would compensate them for their equity when the property is refinanced or sold. They would be able to move on to bigger and better things without worrying about whether the monthly

payment is being made, because you would bring in a neutral third party to ensure that you’re living up to your end of the bargain.

A “Subject To” Example

Let’s look at an example of a creative subject-to offer. You live in Atlanta, Georgia, and just down the street from your home is an abandoned property. It turns out that the owner is in financial trouble and wants to talk. You learn that he was unable to keep up with his payments after an acrimonious divorce, so he's really hurting. Between monthly child support payments, rising gas prices, and other obligations he just doesn't have enough money to make his payments.

He confides in you that he's very deeply in debt and has two mortgages on the property. The first mortgage is for $160,000 for 30 years at 7%. He was trying to buy some time after his divorce, so he took out a second mortgage on the property to pay off some bills. That mortgage is for $70,000 at 8.5 percent for 15 years.

When you work the numbers you realize this is an ideal property for you to purchase. You and the seller agree that you will buy this property *subject to* the two mortgages on it. This way you don’t have to qualify for a bank loan. You arrange for the seller to sign a quit claim deed and you agree to make the monthly mortgage payments. The only problem is that the seller has no guarantee you'll make the monthly payments.

You want to reassure him that you will make the payments each month, so you simply hire an attorney, an escrow company, or a property management firm to accept your monthly payments and forward them on to the mortgage companies. For added security, you agree to deposit an amount equal to two months’ worth of payments to ensure that there is always money available for the monthly payment.

If You Fail To Make Your Payment

If for any reason you fail to make your payment, your third party firm (i.e. the attorney, the escrow company, etc.) will inform the seller that the current payment is late. They will then make that payment from the two payments that you agreed to advance as a late payment cushion.

Because the seller doesn't want to have to deal with any potential problems, an independent third party gives him the security of knowing the exact status of the monthly payments that are being made on his behalf.

The seller ultimately doesn't want to be bound in any way to this property, so you agree that this arrangement will only last five years. This gives you five years either to refinance the house or to sell it.

During the five years of your agreement, you're able to rent the house out for $200 more each month than the payment is costing you. So not only are you building equity in the property, but you have a decent income each month.

Sell the Property To Your Tenant

Five years later you decide to sell the property when your tenant inquires about the possibility of purchasing it from you. You purchased the property for $230,000 (the sum of both mortgages on the property), but during the ensuing five years real estate values have increased dramatically. Your rental tenant is willing to purchase the house for $340,000, which gives you a profit of $110,000.

The subject-to deal lends itself well to abandoned property investment success because it allows you a great deal of flexibility to negotiate special terms with the seller. If the seller happens to have a little equity in the property and agrees to this arrangement, you can defer paying him for the equity until the house is sold.

You can be just about as creative as you like with this technique. If the seller has no equity in his property when you make the deal, you can even agree to pay him a percentage of the difference between what you pay for the house and what you sell it for, as a way to sweeten the pot. This is a good strategy to use if the seller is trying to get a down payment out of you. It doesn't hurt you at all, because you only have to pay based on appreciation of the property during the time that you hold it. If for some reason the property does not increase in value or it falls in value, making that agreement won't cost you a penny.

Don’t Be Overwhelmed

Buying an investment property using creative financing can seem a little overwhelming, but I want you to realize it's not difficult. Anyone, regardless of their educational background—or financial situation—can succeed in real estate investing using creative financing. It doesn't matter whether you're brand-new to real estate or if you've been around the investing block before. What matters is that you have the desire to learn and the heart to succeed. By combining these two qualities you're going to be unstoppable in your quest to become financially secure.

Gary Hoskins Made Money With "Subject To" Deals

One of my students, Gary Hoskins, is a prime example of subject to success. Gary has been investing in abandoned properties for many years, and he's made a fortune doing it. I'm going to take you back to the very beginning of Gary's abandoned property investing career, in hopes that you will realize that a novice investor who decides to specialize in abandoned properties can do extremely well for himself.

When Gary came to me, he had no prior real estate investing experience and he had no money. All he had was a dream to improve his life and $20 for one of my real estate information seminars. He walked into that seminar with a quarter-sized hole in the bottom of one of his tennis shoes. He walked out with a plan for turning his life around by investing in abandoned properties.

Since Gary had no money, his plan included putting together a team of partners that would help with the financing and the repairs. The partners kicked their business into high gear and immediately found an abandoned house that looked like the type of profitable investment that Gary had learned about in my seminar.

The group instantly became excited! When he made contact with the owner, Gary negotiated a subject-to sale for $145,500.

Here's an interesting side note. Gary was learning to do no-money-down abandoned property deals, and subject-to was a strategy that this deal cried out for. Gary's attorney was drawing up the contract for them, but when Gary introduced the idea of subject-to, it caught her off guard. The attorney did not understand the concept of subject-to. She was careful to inform Gary that this did not mean the technique could not be used; she simply needed to learn more.

Gary called me from his attorney's office, put her on the phone with me, and I explained the technique to her. I explained that Gary is not assuming any liability or responsibility for the loan. He is simply acknowledging the existence of the loan against the property and pledging to make the monthly payments to the lender. Once she understood the strategy, the deal was on. After remodeling and paying the expenses, they were able to sell it for $342,000! In just a few months they turned a profit of $96,000.

Gary knew at this point that he had found a new career. It had become more lucrative for him to invest in abandoned property using creative financing than it was to work at his regular job. It was time to make the leap.

Gary Takes the Leap

This first deal was so easy and profitable that Gary immediately set out to find another abandoned property deal that he could use more creative financing on, and his diligence was rewarded several times with good investments.

One of these investments was a little abandoned house that looked very promising. After locating the owners and some haggling over price and terms, he discovered they would sell it to him for $80,000. The catch was that he had to come up with $6,000 in cash which he didn't have. At the time, Gary's cash was completely invested in two other properties. Gary left that meeting with the sellers feeling a little demoralized. He didn't own anything worth selling, and he knew he couldn't work enough overtime at his job to earn the money he needed. Gary decided to sleep on it. Maybe the answer would come to him while he slept.

The next day Gary was telling a few friends about his dilemma. Three of them had some cash, and the fourth had a car he wasn't driving; he had been planning to sell the car so he could repair the roof on his house. After a little thought, Gary had a moment of epiphany: If the friend could sell the car for the cash needed to help invest in the house, there would be enough money left over for the materials needed to repair the roof!

Since Gary knew how to do the roofing repairs, the friends could all work together to fix the roof and then to renovate the abandoned property. He cobbled together another partnership and his friends ponied up the cash—$1,500 apiece.

They had a house and the potential for a good payoff when the property sold. Now they needed to get to work on repairs and renovations. It was Gary's first investment, so he played it safe by being very liberal in his estimates. He estimated repairs would cost $13,000, but with some creativity on his part, he was able to come in almost $4,000 under budget. He got many of the supplies he needed at a large discount by purchasing closeouts and discontinued items. There was nothing wrong with these items, and since he was already getting contractor pricing, he saved even more.

Because they had to make repairs mainly on weekends and during the evening after they got off work from their regular jobs, it took about five months to renovate. They were able to make steady progress every day and they grew more and more excited as they checked each item off their to do list. Finally, it was done.

Here Are the Numbers

Here’s how the financials broke down on this deal: They bought the house for $80,000 by giving the owner a $6,000 down payment and taking the property over *subject to* the existing mortgage of $76,000. Repairs were just under $10,000. The house sold very quickly for $140,000. After expenses, that deal netted the fledgling business partners a profit of $50,000!

To celebrate, Gary surprised his girlfriend by flying her to Maui for a fantastic vacation. Gary told me the beaches were beautiful and it was easy to enjoy the surroundings as someone who could now afford some of the finer things in life.

These were simple creative financing transactions using the *subject-to* technique that Gary and his partners used to make over $145,000. The main idea that I want you to get from Gary’s success is that he made this money using very simple methods. Always try the simpler methods first. If they don’t work, then move into the more complicated methods.

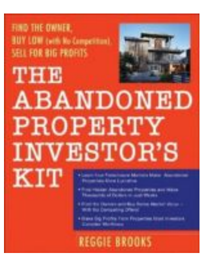
I’ve mentioned abandoned properties a number of times now, and I should take a moment and shed a little light on the subject of abandoned properties.

The Abandoned Property Opportunity

Abandoned properties represent a lucrative opportunity for you to make money no matter where you live—in the middle of a bustling metropolis or in the heartland of America. There are abandoned properties right now in your neck of the woods just waiting to be bought for less than market value.

You can make some repairs and sell them for a quick profit, or hold them while you methodically build a real estate portfolio. You can also grow rich in a relatively short period of time. I know because I've done it, and many of my students all around the United States have done it, too.

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.

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