Transactioneering Mastery Academy
Week 6 Homework

1. Download all of the documents for this week’s class from the website and save them on your computer so that you don’t have to call our office in 6 months and ask for them
2. Use the worksheet that you just downloaded to work out an offer on these 2 deals:

Deal 1:

A 2 bedroom condo in a good school system

Exit strategy is to rent or lease/option

Seller has moved out of the state, bought another property

ARV: $78,000

Repairs needed: $7,000

Potential rent: $850/mo.

Taxes: $72/mo.

Insurance: $28/mo .

HOA fee: $117/mo.

Mortgage balance: $72,340

Rate: 4.5%

Remaining term: 27 years

PITI Payment: $495.21

What’s potentially good about this deal?

The fixed rate loan
What do you not like about it?

It has $72/mo. in possible net cash flow, which isn’t much

It has no equity

It has a long time left to run

Deal 2:

A 4 bedroom in a move-up area

Exit strategy is to rent or lease/option

Seller bought another house and is making 2 house payments

He got a HELOC on this house to make the down payment on the new house

ARV: $225,000

Repairs needed: $12,000

Potential rent: $1,750/mo.

Taxes: $186/mo.

Insurance: $57/mo .

FIRST Mortgage balance: $145,737

Rate: 3.875%

Remaining term: 120 months

PITI Payment: $1,719.88

HELOC balance: $32,754

Rate: 6%

Remaining term: 114 months

Payment: $363.64

What’s good about this deal?

 The very short remaining term on the loans

 Even adding the loans and the repair costs together, there’s decent equity in the property

What’s really bad about it?

 It has negative cash flow, thanks to the presence of the HELOC

 The HELOC itself is a problem, because it’s basically a checkbook for the seller to write checks against your equity

What are some ways you could solve the latter?

 Have the seller pay off the HELOC, and take over JUST the first mortgage

 What I actually did was have the seller open a HELOC on his NEW house (remember, he used the HELOC money to put the down payment on that house, so he had that much in equity) and use that new loan to pay off this one

 This still left negative monthly cash flow after maintenance/vacancy/reserves—about $319 a month in a normal rental situation, but the mortgage paydown and tax benefits more than offset this. Plus, I lease/optioned it, and the tenant/buyer took care of the maintenance.

For bonus points, what was his probable original first mortgage balance?

 The very high payment is a hint that it wasn’t a 30 year loan to start with; if you back those payments into a 15 year loan, you get an original mortgage balance of $200,000, which makes sense given the current value of the property. If you try to back them into a 20 year loan, you get $244,000, and that DOESN’T make sense, because it would mean that he’s owned the property for 10 years, and the value in a move-up area has gone DOWN.

For bonus points, if you do this deal, how much equity will you gain the first year you own it?

 $12,169.

For bonus points, if you put $12,000 in cash into repairing this property, what would your ROI be, counting mortgage paydown?

 +$12,169 in new equity
 -$3,828 in negative cash flow

 $8,341 in net profit

 $8,341/$12,000=69% return on investment

 And the second year, you have MORE mortgage paydown, but NOT the same $12,000 cash investment.

1. Call back any sellers you talked to last week that were open to a takeover payments deal, and see if you can follow through with an actual offer, or at least follow up to the point where it’s clear that there’s no deal.

Didn’t talk to any sellers last week? Shame on you. Didn’t get any yeses? Call some more.

1. Material comprehension questions:

Why do sellers agree to subject to deals? (check all that apply)

[ ] Because it’s the only way you can afford the property

[x] Because they can’t make the payments anymore

[x] Because they won’t get any money by selling conventionally

[x] Because they trust that you’ll make the payments

Which sellers should NOT do subject to deals? (check all that apply)

[ ] Those who care about their credit

[x] Those who have FHA loans and need to buy another house with an FHA loan

[ ] Those with VA loans who are moving into assisted care

[ ] Those who have FNMA loans of more than 85% of the value of their property

[ ] Those who have always used the property as an investment

Match the objection with the appropriate answer

\_c\_\_ How do I know you’ll make my payments?

\_a\_ How long will it be until the mortgage is paid off?

\_d\_ How can we do this when my loan isn’t assumable?

\_b\_ I don’t want to do this because I just want the property gone

1. I can’t make any guarantees on that, but as long as your payments are being made, does it matter?
2. You won’t own it, and you won’t have any responsibilities at all for it
3. We’ll title the property in such a way that if I don’t, you get it back with all the repairs
4. We won’t tell the bank, and my experience is that they don’t really notice and don’t really care

How are subject to deals different than other kinds of seller financed deals? (check all that apply)

 [x] The terms aren’t negotiable

 [x] The seller has limited legal recourse if you don’t pay

 [ ] They are, strictly speaking, illegal

 [x] They’re not direct, voluntary investments of money by anyone

Which of these might cause you to NOT want to buy a property subject to the existing loan (check all that apply)

 [x] It’s a HELOC [ ] It’s a fixed-rate loan

 [ ] The seller is an investor [x] It’s a reverse mortgage

 [x] The seller is in foreclosure [x] The loan has been modified

True or false:

You don’t have to believe that subject tos are good deals for sellers to do them [ ]T [x]F

 If you don’t believe sellers should do them, they won’t

Most subject to deals require you to bring SOME money to closing [x]T [ ]F

 To pay your closing costs, and possibly the sellers’, as well

You should always let sellers know that there’s a due on sale clause in their

 mortgage that the bank might call [x]T [ ]F

 IN WRITING

Your biggest problems with subject to deals will come from the lenders [ ]T [x]F

 They come from the sellers—notifying their bank that the property has been transferred, forgetting that you told them that you didn’t know when you’d pay the loan off, etc.

You should add your name to the seller’s property insurance policy when you buy a

 property subject to [ ]T [x]F

 You should get your own insurance policy, and name the seller as “additional insured as their interests appear”

Giving the property back to the seller is an option if the bank calls the loan due [x]T [ ]F

 IF the seller agrees to take it back

Land trust get around the due on sale clause [ ]T [x]F

 Only trusts where the borrower remains the beneficiary are exempt from the due on sale clause

If the seller brings money to the closing to create more equity, this is just like

 profit to you [ ]T [x]F

 Spending that money is the equivalent of borrowing against the equity of the property. It should be used for mortgage paydown, or for cash reserves for the property.

If a seller declares bankruptcy and includes the mortgage that you’ve taken over,

 it’s OK to quit making the payments [x]T [ ]F

 IF you’ve disclosed to the seller, in writing, that you may do that.