

Infinite Returns for Real Estate Investors Using OPMs

I think the biggest misconception about real estate investing is that it requires money and the more money the better. Actually, if you don't have any money, real estate investing more accurately requires the investor to understand the use of creative financing tactics and how to present these to sellers.

Frankly, I admit that for 20 odd years I wouldn't buy a property without paying cash and I got some deals because I had cash and other investors made "no money offers". These no money deals probably all had more money to the seller, but the investor didn't answer the seller's questions/objections, didn't answer these objections or didn't present himself as credible. What other reason would a seller turn down more money for the sale of his biggest asset?

My personal psychology of only buying for cash stopped many years ago when I was rehabbing a property and had a moment when I just decided that I wanted to challenge myself and try, just for a while, to do deals with no money. After all, how much of a challenge is it to ask a homeowner "will you take cash?"

If you don't have the money to pay cash (yours or other people's) you have no choice, but I did and I went at it with a vengeance. I started by focusing on seller financing on free and clear properties but because many had mortgages, I went to "subject to" financing. "Subject to" financing means that the investor transfers the title of the property to himself, or his personal entity, and continues to make the same mortgage payment on behalf of the selling homeowner.

I next decided to do a combo of "subject to" and seller financing so not only did I have no money in the deals, in a few cases I got money back at closing. And, I was still using just these two creative techniques to get the seller to take little or no cash on the closing and let my new buyer pay off my obligation to the original seller at the next closing.

If you are thinking it can't be legal, it is, so forget making excuses for not being in real estate investing just because you are broke or don't want to risk the money you have. Do what I did and become obsessed about looking for and finding these no-cash deals to accelerate your investing career.

Recently, in a mentoring class I mentioned the details of a pre-foreclosure deal where I had to reinstate the accrued deficiency (used other people's money – "OPM"), take over the first "subject to" and even advance the sellers money to move (used OPM again). By the time the smoke cleared I had zero (\$0) dollars in the deal. I borrowed the reinstatement amount and enough extra to cover the interest payments to the first mortgage holder, the interest on the private second (I was giving him his own money back), the closing costs and funds to move the sellers out while I sold the property.

My net on that transaction after repayment of the first, private second and some personal expenses was over \$48,000 to me and the seller got the same amount. The other thing I did differently on this transaction was I made the seller my partner in the deal. So when I sold and closed to an end-buyer, I split the net profit with the homeowner, again we each got \$48,000. Had I not saved the seller's home from the foreclosure he and his wife would literally have been homeless. The other best offer he had from an investor was \$5,000 net. This cheap offer would have made the investor close to \$100,000 but what it got him was no deal at all!

This method of partnering with the seller if there is decent equity in the property has been a killer method that has gotten me literally tons of deals. The average investor doesn't want to miss getting the last dime out of the deal and is too greedy to offer the homeowner some of his own equity back. This opens the door for my offers and sometimes I will split 60%/40% if the deal has really good equity of greater than \$100,000. The 60% could go to the homeowner/seller or it could go to me depending on the motivation of the seller, other offers he has had, and how much work there will be to sell the property to an end-buyer.

A variation on this method if there is substantial rehabbing needed is to have the homeowner finance the material and you do the labor (or hire someone and have the homeowner pay this labor also). You would still have no money in the deal but you could substantially increase the equity and your final profit in the deal. If you don't believe this could happen because "Why would the seller need me if he is paying for the labor?" The answer is simple "Because the seller would have already paid someone else to do the work if he could have and if he trusted them!" Your hook to the seller is that you won't get paid until the property is sold, not so with outsiders just getting paid as they go.

If you find yourself having to put money in for the rehab, you will always subtract your funding out of the gross proceeds of the sale before you split any profits. Expenses come back first to those who put the money in and only after that are the remaining proceeds split. Make sure you get this in writing using a Partnership Agreement or you could have a very serious problem later.

How do you know when to offer the partnership and what do you say to the seller? The first thing you must do is determine the seller's motivation. If he is truly motivated, he will be taking someone's offer soon and it could be for less cash than a creative financing offer you would make. I always ask what other offers he had and I imagine I get lied to 90% of the time. That's OK because whatever the offer is that he said he got, it is only a starting place for one of two actions:

1. Congratulate the seller and tell him he did great. Then go into his getting a 10%+ deposit because some investors don't really intend to close and you don't want to see him get hurt. Finally, ask that he call

you back if the other offer doesn't go through – be kind and gentle and be happy for him even if you aren't.

I guess that 65% of the time sellers call back and explain that the other bad investor couldn't close and he wants to talk to you again. This should start the price negotiations all over again since you are the last resort and obviously the other buyer (if he existed) realized the market wasn't there!

2. Next tell him that your offer is such-and-such as a cash offer but if he would give you "terms" you could offer the cash amount plus 20% i.e. – Cash offer \$100,000 or terms of \$120,000 with his taking a second for "only as long as it takes to get your buyer qualified" and you doing a "subject to" on his first. If he accepts your cash offer you saved \$20,000 and it's only because he didn't understand that you will close. Make sure the cash offer is ridiculously low or you will pay too much.

WARNING – do not say you will be assuming his loan. Be truthful and tell him about "subject to" investing and be prepared to answer his most pressing question "What happens if you don't make the payments?"

I went from doing every deal with cash to doing 1 in 20 deals for cash. It didn't take me long to get rejected the first couple of offers but I learned very quickly that the more creative financing offers you make the luckier you get. Even when rejected I could always offer that old cash that no one could refuse. The issue I have is that no matter how wealthy you are you will eventually run out of money just buying houses. Remember, cash is king so keep it in your personal realm.

To your limitless success,
Dave Dinkel