How To Finance A Good Deal

Our method for financing deals has evolved over time to match whatever products were available at the time. In the beginning, there was an equity line available that allowed us to borrow 80% of appraised value immediately after closing on the property. In this scenario, I typically bought a property for say $30,000. Since the property appraised in as is condition for $60,000, I was able to get a loan for $48,000. This loan was $18,000 more than what I paid for the property. This loan had no closing costs, an introductory rate of 2.99% and adjusted to prime after 3 months.

Typically the $18,000 extra gave me enough money to fix up the property without using any of my own cash. This loan product had a $350 prepayment penalty, but my mortgage broker had this fee waived every time except for once. This was by far the greatest deal I have ever seen financing properties. I got my money back, enough money to fix up the property, I paid no closing costs, and 2.99% interest for 3 months with no pre-payment penalty. As this was an equity line, I could pay down the mortgage if I had extra cash lying around, but I never did this during the introductory period as I was borrowing money at an extremely low rate. This product only allowed me to have 3 properties at a time under this product.

However, I did nine at once, because I put the properties into 3 different names. This allowed us to be able to finance most of our deals.

Good financing deals like this are rare, and typically don't last very long. I was only able to do this for about 5 months until their rules changed. They eventually changed their rules and only allowed 80% of purchase price for the first 6 months. This eliminated my ability to get the cash required to rehab the property, and there were other products that allowed me to do this. As a result, I abandoned this method after the rules changed.

Since this method dried up, I was in search of a similar product. After talking with dozens of mortgage brokers about finding a similar product, I realized that I was unlikely to find it. I kept asking for non-owner occupied equity lines. Eventually I learned that I was using the wrong terminology. The correct terminology was to ask for a personal line of credit using the property as collateral – or a 6 month note.

Personally, I don't know that there is a difference, but for some reason in the lending world, banks are quick to offer 'personal lines of credit using the property as collateral', but not 'equity lines' on investment properties.

Before talking with the local banks, I asked other investors to personally recommend me to the president of the bank. The first meeting should be with the president whenever possible. They are the ultimate decision makers, and they will help you to get where you want to be faster. I have found it helpful to send your business plan to them 7 days before your meeting. While they rarely read the plan, it is helpful to send them 15 pages of documentation about your plans and it will help ease their anxiety about working with a new client.

When meeting with the president, I explain my experience, I hand them a personal net worth sheet, and I explain that I keep finding exceptional deals that I don't want to pass on. Out of the four local banks, three offered to finance my deals. What was even better what that they would finance them in the L.L.C.'s name as long as I personally signed for them.

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