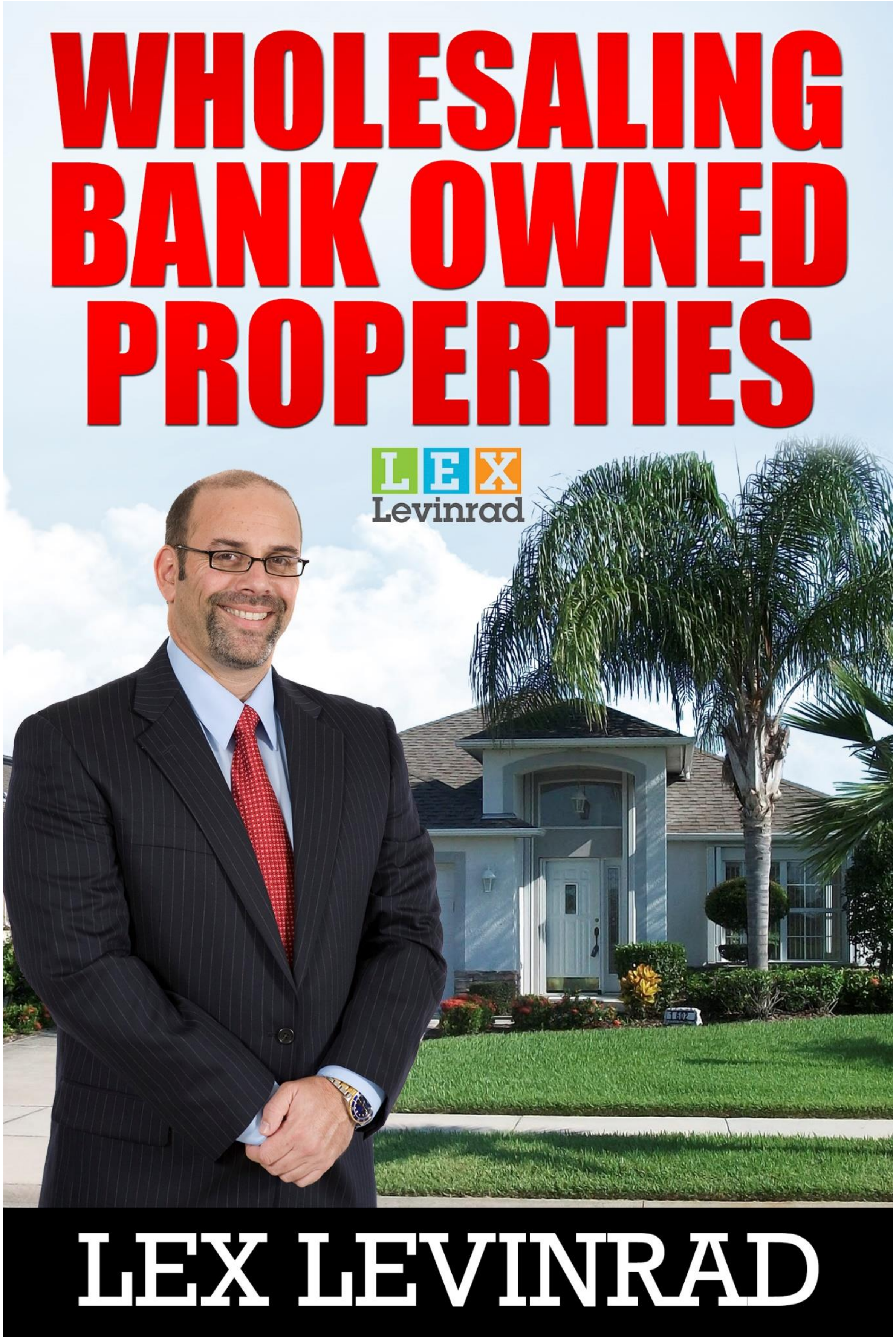
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The Distressed Real Estate Institute™
7050 W Palmetto Park Rd, Suite 15-675
Boca Raton, FL 33433
Tel: 800-617-2884
Tel: 561-948-2127
Fax: 561-948-0410

Web: www.lexlevinrad.com
Email: support@lexlevinrad.com

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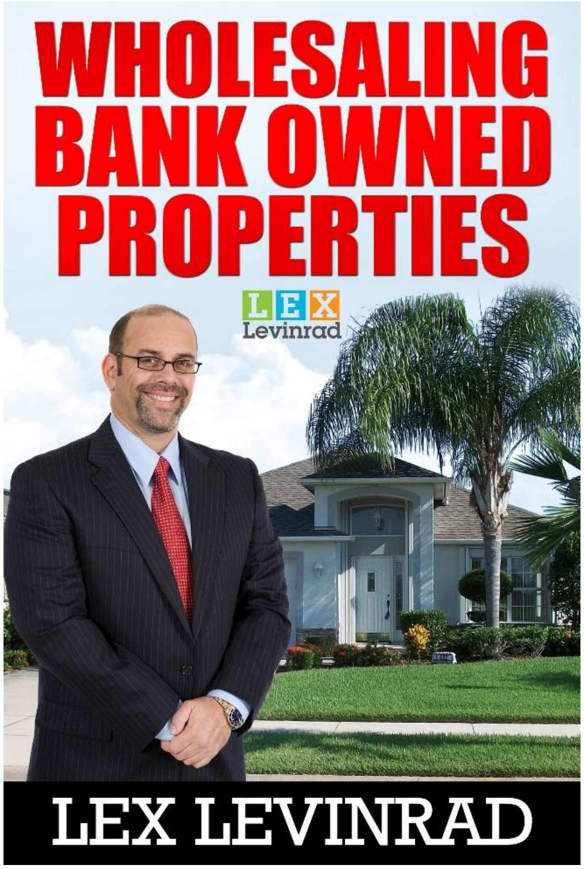

By Lex Levinrad

Introduction

Regardless of whether you are a beginning real estate investor or a seasoned real estate expert, you can probably sense that there is a tremendous opportunity that exists in today's real estate market. The simple act of reading this book indicates that you are aware of the fact that real estate might offer an opportunity for you to make more money, create wealth and live a better life. Everything in life happens for a reason, and I believe that whatever path that led you to this book happened for a reason too. Perhaps you are ready for something new. Maybe you are ready for a change. Or maybe you are just sick and tired of hearing how bad the economy is.

The media has done such a great job of painfully reminding everyone about how bad the economy is. Every day we read about job losses, layoffs, companies going bankrupt, the collapse of the middle class and the unemployment rate. With all this negativity, it is easy to be swayed by the media into believing that we are really heading into another great depression and that the economy will never recover. We saw a lot of this with the Financial Crisis of 2008. As you can see real estate prices have recovered quite well since the bottom of the market.

The problem with believing what you read in the newspaper or online is that the media does not have a particularly good track record of predicting the future. In fact, the media has an excellent history of predicting that things will be the worst at exactly the point where the market begins to turn. Look at the previous housing bubble that occurred before the 2008 financial crisis. The year was 1989 and this crisis was known as the Savings and Loans Crisis which led to the collapse of many savings and loans (just like the last crisis). In 1989, the real estate market reached a peak and then came crashing down. The collapse in real estate prices resulted in over 1,000 U.S banks failing, a huge rise in unemployment and fears that the collapse in housing prices would send our economy into a tailspin.

I was in college back in 1989 when the savings and loans crisis happened. I remember how the crisis led to public outrage and ultimately led to the media frenzy surrounding Lincoln Savings and Loan, Columbia Savings and Loan and other S & L's. The problem in 1989 was the same as the problem in this past financial crisis that we are still experiencing today. As real estate market prices steadily increased, the banks became more and more lenient in their lending standards. Eventually when real estate prices could not increase anymore and began collapsing the lenders suddenly found themselves with a tremendous amount of bad loans. This is what ultimately led to the collapse of over 1,000 banks. The government had to step in to resolve this crisis by establishing the Resolution Trust Corporation (RTC). Does this sound at all familiar? It should because in 2009 just like in 1989 the government had to step in to bail the market out.

You see this is not the first time that the U.S has been in a housing crisis and it will certainly not be the last time either. According to Wikipedia, a housing bubble is "a type of economic bubble that occurs **periodically** in local or global real estate markets. It is characterized by rapid increases in valuations of real property such as housing until they reach unsustainable levels relative to incomes and other economic elements". Housing bubbles are not new. In fact there have been housing bubbles in the U.S periodically. As mentioned above, there was a housing bubble that led to a crash from 1986 to 1989. Prior to that there was a housing bubble from 1976 that also led to a collapse in prices in 1979. And we have recently witnessed a housing bubble that led to a collapse in prices from 2007 until 2010. So housing bubbles are not new. The market can and will rise again and crash again. However relying on the media to predict when this will happen is a very bad idea. Simply put the media has terrible timing – and the reason why is actually very simple. In the words of Warren Buffett, "conventional wisdom is always wrong". If everyone is saying that it is a good time to buy then it is probably not a good time to be doing so. Or as Warrant Buffett so eloquently states “Be fearful when others are greedy and greedy when others are fearful”.

If you want to make a lot of money investing in real estate then know this. Buy when everyone is selling and sell when everyone is buying. And in the interim just sit. In real estate the money is made in the sitting. Remember that. I will illustrate this with a personal example. I have invested over the years in many rental properties and I am still an active landlord with a sizeable portfolio of rentals. One of the many cities that I invest in is called Port St Lucie which is in Florida about an hour north of where I live in Boca Raton. When I first started out in real estate in 2003 I was purchasing 3 bedroom 2 bathroom single family homes for around $60,000. By 2007 - just 4 years later these same houses were selling for more than $200,000. After prices collapsed in 2007 and 2008 these same houses went back down to below $40,000. And the reason was very simple it was basic supply and demand just like I learned in Economics 101. As more homeowners went into foreclosure and more banks had to take back bad loans more REO’s (bank owned homes) appeared on the market. As the multiple listing service (MLS) got flooded with new homes prices started deteriorating. And as the banks foreclosed on more homes they kept listing them on the MLS and prices kept plummeting. It took the banks two years to figure out that this was not a good strategy.

I expected prices to plummet. And they first went down many of my associates said “oh this is a dip” and prices will come back up”. But I knew better. I had heard talk like that before. I used to be a stockbroker and I lost my entire business in March of 2000 when the stock market crash and back then I kept hoping prices would come back. I knew that this was no different. Prices would have to decline significantly and I would just have to wait it out until the time to buy would appear again. I waited for 3 long years. During those 3 years I wrote my first Home Study Course, as well as published my first and second book. I also opened up my company the Distressed Real Estate Institute™ to teach new real estate investors how to invest in real estate. I held my first event in January of 2009. It was called the Distressed Real Estate Workshop. I had 142 attendees. It took me 3 months to get those people to come to that event. And when they did I got up on that stage for the first time. And I told everyone in that room that they need to buy real estate right now. That was when I coined the expression “this is the best time in your lifetime to be buying real estate”.

And I faced a lot of resistance. I had MBA’s, PHD’s, and real estate investors with 40+ years of experience telling me that I was wrong. But I didn’t think so. You see real estate prices are based on demographics. As the population grows and people move to an area housing prices increase. So for me the only real factor was this. Will people continue to move to the United States? Will people continue to move to Florida? And the answer to me was very obvious. The answer was a resounding yes. A few days of demographic research showed me that Florida was the fastest growing state in the country. It also boasted the fastest growing school system so clearly a lot of young people were moving to Florida. And Florida had more visitors and a huge tourist industry which creates large amounts of jobs.

There were many other states that had very similar demographics. California, Nevada, Arizona, Texas and Florida all had something in common. They were warm, sunny places and they were on the border which resulted in huge amounts of immigration (legal and illegal). So demographically speaking these states had no reason not to recover. I cannot say the same for the rust belt or for cold places like Buffalo New York or Detroit Michigan. But I didn’t live there. I lived in Florida. And the demographics to me looked really good.

In early 2009 I asked a builder what it would cost to build a 3 bedroom 2 bathroom home that would be similar in size to the 3 bedroom 2 bathroom houses that I had purchased previously in Port St Lucie. The answer that I got was that it would cost around $125 per square foot. In the low of the market there were even builders that said they could build for $100 a foot. That translated into a value of $120,000 on a 1,200 square foot home.

But the banks were listing homes at $40,000 on the MLS. Clearly something was wrong with this picture. I found a real estate expert who factored depreciation into the calculation and we still calculated that these houses should be selling for $90,000 or $100,000 not $40,000. And the interesting thing is that market rents for a 3/2 were around $900 at the time. So a price of $90,000 reflected a value of 100 times rent or what we call the 1% rule.

So I decided that I was going to buy. And I told people. I even blurted it out to 142 people at my first event and posted the videos on You Tube. And everyone told me that I was wrong. They said to me: How do you know that if you buy these houses at $40,000 they won't drop to $25,000? And I said to them this. "If these houses drop to $25,000 Wall Street will stop buying stocks and start buying houses". And we have witnessed over the past few years how that happened. There is even a video on You Tube of Warrant Buffet calling it on CNBC's Squawk Box. His exact quote on that interview was "I would buy up a couple hundred thousand single family homes if it were practical to do so.

So in March of 2009 I purchased 6 houses for around $36,000 dollars a piece. Some of these houses were in move in condition. But most required some paint, carpet and minor updating. None of them were damaged like the REO's we see on the market today. And the reason was because there were no other buyers. I was buying when everyone was fearful. Well consider that by December 2014 in just 5 years those homes are now worth $110,000 each. And consider that they were all purchased with borrowed funds and you begin to see the incredibly awesome power of investing in real estate. I worked as a stockbroker and money manager for 12 years before I became a real estate investor. And I can tell you for a fact that you cannot make these kinds of returns anywhere and certainly not with borrowed funds. But you need to understand that the conventional wisdom will always be wrong. As of this writing conventional wisdom seems to be that prices have risen too far too fast. I believe that conventional wisdom is wrong and that prices will continue to accrue until the next bubble bursts. And they always do. The question is will you notice the warning signs? The media will give you a clue.

Consider this headline from the Los Angeles Times in 1993 "*A sad Westside story: Home prices have declined up to 50% since late 1980s"* (Los Angeles Times; May 28, 1993). Reading such a headline does not exactly give the reader the desire to want to run out and buy real estate. And that is the problem with the media. Because that was such a fabulous time to buy.

Just one year later, the same newspaper put out this headline "*Home Sales Up 24% From Last Year"* (Los Angeles Times; Jun 26, 1994). The following year this headline appeared "*Home Sales Rise 10.5% in State, Hit 5-Year High" (*Los Angeles Times; Feb 9, 1995).

You had to wait until 1996 to see the newspaper print this headline "*Ready to fly? Region's housing prices on rise, moderately."* (Los Angeles Times; Dec 29, 1996)

And what happened next? From 1996 to 2005 the real estate market took off like a rocket ship! We had arguably the biggest boom in real estate prices ever. Immediately following one of the worst crisis in real estate history (the savings and loans crisis) we had the biggest boom in real estate history.

The moral of the story is that there will always be housing bubbles that are characterized by booms and then dramatic busts. This time is no different. A few years from now in hindsight people will look at how low housing prices were today and they will ask themselves why they did not buy a house back in 2009, 2010, 2011, 2012, 2013 or 2014 when prices were so low. And do you want to know why they didn't? The reason that they did not buy a house at ridiculously cheap prices in the years 2009 to 2014 was because of the headlines in the newspapers. You see only after prices have risen substantially to the point that we are approaching bubble territory will the mainstream media start reporting how great the real estate market is doing. By then we will be close to the ninth inning right at the tail end before the next bubble crashes.

Luckily for you, you are not going to make that mistake. You are smart enough to know that you should not listen to the headlines in the papers. And that is why you are reading this book.

Remember Warren Buffet's quote "Be fearful when others are greedy and greedy when others are fearful".

I hope you enjoy reading this as much as I enjoyed writing it. I have provided some links throughout this book to illustrate and show you some of our products. I have also provided you with some very important tips to understanding Distressed Real Estate and why someone would sell their house for way less than what it is worth (like the bank did). Please don't overthink it. Investing in real estate is simple and logical. Unlike the stock market, the real estate market always makes perfect sense. Since it relies on the old economic principle of supply and demand.

Feel free to share this with your friends if you are reading an electronic version.

To your success as a real estate investor,

Lex

About The Author

Lex Levinrad has been a full time real estate investor since 2001. Lex has been personally involved in buying, rehabbing, wholesaling, fixing, flipping, renting, and selling over 500 houses. Lex is an active real estate investor who actively wholesales and flips houses every single day. Lex and his team run one of the largest wholesale operations in the country. Lex has personally trained and partnered with over 1,000 students from all over the U.S with the Distressed Real Estate Institute Partnership Program™ which matches bird dogs (property locators) with cash buyers.

Lex has students from all over the world that fly in regularly to attend our boot camps including the Fixing and Flipping Houses Boot Camp™ and the Distressed Real Estate Boot Camp™ which are held twice a year in South Florida. The Distressed Real Estate Institute has students that have attended our boot camps from all over the world including from Italy, Holland, Sweden, Israel, Canada, South Africa, England, France, Switzerland, Czech Republic, Australia, Poland, Bermuda, Guatemala, Australia and many other countries.

Lex founded the Distressed Real Estate Institute in 2008 to teach both new and seasoned real estate investors how to buy, wholesale, fix and flip properties as well as manage rental properties. Lex specializes in investing in distressed real estate - especially buying foreclosures, short sales and bank owned properties and teaches new investors how to make money by buying distressed real estate, wholesaling, fixing and flipping. Lex has also been an active landlord since 2003 and maintains a large portfolio of rental properties. Lex also actively fixes and flips houses and sells many houses with seller financing, lease options and direct to first time home buyers.

The Distressed Real Estate Institute offers Private Coaching & Mentoring Programs, Wholesaling & Rehabbing Inner Circle Advanced Trainings™, Distressed Real Estate Bus Trips™, Distressed Real Estate Boot Camps™, Fixing and Flipping Houses Boot Camps™, an online advanced Distressed Real Estate University Training Site™, Home Study Courses, Books, CD's, Webinars and training DVD's for all levels of real estate investors.

Lex is an accomplished national public speaker and has shared the stage with some of the world's best known real estate speakers including Russ Whitney, Ron LeGrand, Bill Bronchick, Than Merrill, Robert Shemin, Frank McKinney, Kent Clothier, Dr Al Lowry, Reggie Brooks, Cameron Dunlap, Larry Goins, Jeffrey Taylor and many other well-known real estate speakers.

Lex has authored 7 books about investing in real estate and has been featured on Fox News Radio, ABC, CBS, NBC, the Sun Sentinel, Miami Herald, Yahoo Real Estate, The Real Deal, Mortgage Daily News, Real Estate Professional Magazine, Real Estate Wealth Magazine and many other publications websites and blogs.

Lex is the host of the Distressed Real Estate Radio Show and has been featured as a guest speaker on Fox News Radio, Financial Survival Network, and many other radio stations around the country including The Real Estate Radio Guys and many other real estate related radio shows. Lex is also the founder of the Distressed Real Estate Investors Association which holds monthly real estate investment club meetings for real estate investors in South Florida. Lex is a licensed realtor with Charles Rutenberg Realty. For more information about Lex Levinrad and the Distressed Real Estate Institute and our real estate coaching programs please visit http://www.lexlevinrad.com. For more information about the Distressed Real Estate Investment Club please visit http://www.distressedreia.com. For questions about our boot camps, Partnership Program and Coaching Programs please call our office at 800-617-2884 or email your questions to our Support Desk at support@lexlevinrad.com


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Chapter 1 Wholesale & Distressed Real Estate

Most people are familiar with what is known as retail real estate. Retail real estate usually involves a realtor, being approved for a mortgage, and an appraisal. Retail real estate is conducted at retail prices which is a fair market value of the property as indicated by an appraisal. That is the real estate that most of us are familiar with.

Wholesale real estate is completely different to retail real estate. Wholesale real estate usually does not involve a realtor, and a mortgage and an appraisal are not required. The only thing required to buy real estate wholesale is cash. Cash buyers can buy properties without requiring a mortgage or an appraisal and because they are cash buyers they can buy properties at deep discounts. A typical discount for a cash buyer at wholesale prices would be to purchase a property at 65% of its fair market value. A retail buyer would purchase real estate at 100% of the fair market value. That is the main difference between wholesale and retail.

The obvious question that most beginning investors ask is why anyone would sell their property for less than what it is worth. Or in real estate lingo, why would the owner not sell their property at a retail price? The answer is because usually they don't have a choice. People sell at wholesale prices because they have to sell not because they want to sell. The first lesson that I learned in real estate was don't buy from sellers that want to sell. Buy from sellers that have to sell. People that have to sell are desperate. They will take whatever offer they can get as long as it is cash. Desperate sellers have to sell and they have to sell immediately. They don't have the luxury of listing their property with a realtor and waiting for a full price retail offer. What scenarios would cause someone to be so desperate as to want to sell their house for less than what it is worth? Look at the list below for some of the reasons:

Death
Foreclosure
Disability
Divorce
Failed real estate investor
Job relocation
Disgruntled landlord
Probate
Bankruptcy
Loss of a job
Making payment on more than one house
Damage to the house from a fire, or hurricane
Children selling their deceased parents' home
Out of state owner
Owner not aware of current market values
Mold, water damage, toxic Chinese drywall

The above is just a short list of reason why someone would sell a house for less than what it is worth. If a homeowner facing foreclosure is in complete denial and then waits until two weeks before the scheduled court date to sell their property to a cash investor then they are a desperate seller. They do not have the luxury of time. If they don't sell their house to a cash investor they will probably get nothing from the sale at the foreclosure auction and will have to move out of the home immediately. They will also have permanently damaged their credit. If a cash investor were to offer them a moving truck, a little moving expense money and 30 days to find a new place to rent they would be in a much better situation and their credit would not be ruined by a foreclosure. This is an example of a desperate seller that has to sell.

I mentioned in the Introduction that I would give you some tips and rules to follow. Make sure you write these down and memorize them. As simple as they appear, they are the **key to your understanding** how to make money investing in real estate. So please review these rules and make sure you remember them and understand them because they are very important.

Rule # 1 Only Buy From Distressed Sellers

ONLY BUY FROM A DESPERATE SELLER THAT HAS TO SELL

There are two types of sellers. Those that want to sell and those that have to sell. Do not waste your time talking to sellers that want to sell. Everyone would sell their property for the right price. Only talk to sellers that have to sell because they are in some kind of hardship like they are facing foreclosure, behind on their payments, lost their job or some other type of distress. That is why we call it "Distressed Real Estate".

If you are marketing for distressed sellers (which you should be) then you need an efficient way to weed out the desperate sellers and focus on the leads that make sense. do not waste your time with people that want to sell. you must only talk to sellers that have to sell.

One good way to find desperate sellers is by using bandit signs. You may have noticed bandit signs in your neighborhood that say something like the following:

WE BUY HOUSES FOR CASH
ANY PRICE, ANY CONDITION
CASH OFFER IN 24 HOURS!
CALL RIGHT NOW 800-617-2884

These yard signs or bandit signs are a great way of finding desperate sellers. A desperate seller that is facing foreclosure will try to do anything to save their situation including taking desperate measures like calling a bandit sign they see on a telephone pole in their neighborhood..

Rule # 2 Advertise For Desperate Sellers

YOU MUST ADVERTISE TO FIND DESPERATE SELLERS. YOU WILL ONLY FIND WHOLESALE DEALS IF YOU CAN FIND DESPERATE SELLERS.

Don't look where everyone is looking. Remember what I said in the introduction about not following conventional wisdom. If everyone is looking for properties on the MLS then look somewhere else (in addition to the MLS).

There are many ways to find desperate or distressed sellers. Here are some of them:

Bandit signs
Car magnets
Classified ads
Craigslist
Advertise Online
Social Networking
Networking events
Display advertising
Door hangers
Abandoned properties
Postcards
Letters
Yellow Letters
TV Ads
Billboard Ads
Bus Bench Ads
Foreclosure filings
Public notices in the newspaper
Bankruptcy filings
Divorce filings
Probate notices
Evictions
Wholesalers
Bank owned properties on the MLS
Short Sales on the MLS
Fire damaged homes
Water damaged homes
Code enforcement violators

The above list is by no means all inclusive. You could go to your city fire department and ask for a list of fire damaged properties. Many of these homeowners would rather take the insurance money and walk than deal with fixing their property. That is an example of a desperate seller. To them, the property is worth less than land value since they would have to pay to demolish the house. However to you, if you can rebuild the house using the existing structure you might be able to create tremendous value. I did that once with a house that I purchased for $70,000. I was paid $154,000 in Insurance money and I was quoted $10,000 to demolish the structure and haul away the debris which would leave me with an empty lot. I chose instead to rebuild the house for $47,000 and I still own that house today and I have a tenant that pays me $850 every month on that house.

Another good idea is to contact the code enforcement department and find out who is the landlord in town that is always getting fined by code enforcement. That landlord is probably pretty burned out and might entertain selling their rental portfolio as is (the entire portfolio). That is another example of a desperate seller. There are too many examples to list in this book but the general idea is that there are desperate sellers everywhere. In Florida, the most common example is hurricane damaged houses that are uninhabitable. I was lucky enough to start investing in real estate in Florida just prior to the hurricanes of 2004, 2005 and 2006. Those hurricanes put me in business and put me on the map. One person's misery is another person's fortune. In Chinese the character for crisis and the character for opportunity are one and the same. Someone's crisis is always someone else's opportunity. We witnessed the same happening in the Gulf and to a lesser extent in New Orleans since Hurricane Katrina. Desperate sellers are desperate because they are facing financial hardship or their house is damaged like in a fire or flood or hurricane.

In 2004 the homeowner in Port St Lucie with a damaged property was staying at the Best Western at a rate of $69 per night but they were still responsible for making the mortgage payment on their house **even though they could not live in the house**. They could not afford to pay $2,100 a month to stay in a hotel and they could not afford the payment on their mortgage. This is a classic example of a desperate seller that will take their insurance money and put it in their pocket and move on rather than deal with fixing and repairing the house. And that is something that you can capitalize on as an investor. That is exactly what I did and what allowed me to buy so many houses in such a short period of time. I was not laying out any cash. I was just assuming their loans. So understand distressed sellers, understand how important it is to advertise to find these sellers and then when you do – please educate yourself and make sure you know about foreclosure laws for your state, how the short sale and foreclosure process works etc.

Chapter 2 Distressed Real Estate Is For Cash Buyers

In order to purchase property at wholesale prices you need to be a cash buyer. If you have cash then you are ready but if you don't have cash then you are going to have to borrow cash from someone in order to be able to buy at wholesale prices. You can borrow from a private individual like a family member or friend in which case you would have what is known as a private investor. However, if like most people you don't have access to wealthy friends or relatives then you are going to need to borrow money from a hard money lender.

A hard money lender is simply a private investor that offers to loan money against real estate for short periods of time in exchange for a high interest rate. Hard money loans are usually twelve month interest only loans with a balloon mortgage that is due and payable immediately at the end of the twelve months. Hard money rates are currently around 15% and 3 points. What this means is that if you borrow money you will pay 3 points (percent) up front to borrow the money and you will have to pay a very high interest rate of 15%. Naturally, if you have the ability to borrow from a credit line like a Home Equity Line Of Credit (HELOC) or you have a relative that can loan you money at a lower interest rate then that would make more sense for you.

Hard money lenders typically loan up to 65% of the After Repair Value (ARV) value of a property after it has been fixed up less the cost of the repairs. In wholesale real estate lingo, fair market value is known as after repair value or ARV. Typically a hard money lender would require you to have some "skin" in the deal which means they would require you to put up some money, usually around 5% to 10% of the purchase price.

<u>Here is an example</u>:

Assume a house is worth $100,000 fixed up and ready to sell. The after repair value (ARV) of this property would be $100,000 which is the fair market value that the house would appraise for. $100,000 would also be the retail price that a realtor would list this property at.

Assume that in order for the house to be fixed up and ready to sell it required a few repairs. As an example, assume that the house required a new roof ($5,000), an interior painting ($1,000) and new kitchen ($3,000) but other than that was in move in condition. The repairs in this example would be a total of $9,000.

Here is the formula for how a hard money lender would evaluate how much to loan on this deal:

<u>Rule # 3 Understand The ARV Formula</u>

**AFTER REPAIR VALUE X 65% LESS REPAIRS LESS YOUR DOWN PAYMENT
= HOW MUCH A HARD MONEY LENDER WILL LOAN YOU**

If the house has an after repair value of $100,000 then 65% of the ARV is 65,000. If the repairs are $9,000 then deducting this amount from the $65,000 would leave you with $56,000. Assume the hard money lender required approximately 10% skin (money down) in the deal. That would mean he would require you to put up $5,000. If you deduct this $5,000 from the $56,000 the hard money lender would probably loan you the $51,000. Based on this information, if you wanted to purchase this house you would need to have $5,000 for the down payment and an additional $9,000 for the repairs. You would be required to have $14,000 of your own money in order to do this deal. You would also need to find a seller willing to sell their $100,000 house for $56,000. If you were to find such a deal and were able to purchase the house at this price then the formula for calculating the potential profit on the deal would be:

Rule # 4 Understand The The Potential Profit Of A Wholesale Deal

PROFIT = AFTER REPAIR VALUE – PURCHASE PRICE – REPAIRS – HOLDING COSTS

In this case $100,000 - $56,000 - $9,000 = $35,000 Profit

However there are still three more variables that need to be deducted from this profit number:

1. Additional expenses such as insurance, property taxes, closing costs, fees, or unexpected additional repairs that were not anticipated but are required.
2. The cost of the money. If it takes six months to sell this property then you would have to pay six months of interest on this property which would be deducted from the profit.
3. Selling expenses such as closing costs, commission etc.

So let’s analyze these variables and put some numbers on them.

1. Insurance we will assume 1% of the value of the property or $1,000 for the year
2. Interest payment will be $51,000 x 15% divided by 12 which is $637.5 per month. Since we are assuming six months of holding costs until we sell we will multiply this number by six and we will have carrying costs of $3,825.
3. Assume you sell the property yourself without a realtor and pay 3% in closing costs $3,000

Your profit potential in this scenario would be $35,000 - $1,000 - $3,825 - $3,000 = $27,175 Profit

Considering that you invested $14,000 of your own money you would have made a return of 194% on your money in only six months.

As you can see from the above example, investing in wholesale real estate can be extremely lucrative.

The above example assumes that you fixed the house and then flipped it to and end buyer that was a retail investor. This is known in real estate lingo as your “exit strategy”. How you get out of the deal is more important than how you get into it. You should always have a clearly defined exit strategy before you buy the house. Or as Donald Trump says “in real estate you make your money when you buy”.

Another exit strategy other than selling the property would be to keep it as a rental. If you wanted to be a long term owner of real estate and you have decent credit then you could fix the house, rent it out and then refinance your hard money loan. In order to be approved for the refinance you would need to have a job, reasonably good credit and the ability to provide paycheck stubs and tax returns. But if you have all of the above then that is a fantastic way to extract maximum profit from real estate. That is what I have always done. I purchase properties with borrowed funds from private investors and I pay anywhere from 6% to 10% interest only. I repair these properties and I either sell them or rent them and refinance them.

<u>This is how the scenario would work</u>:

Based on the previous example with the hard money loan (go back to that section if you need to). After you have completed your repairs, you would get an appraisal of the house and if your numbers are correct the appraisal should come in at around $100,000.

Using this appraisal, you would contact your mortgage broker and tell them that you owned a property and wanted to do a "cash out" refinance. You would need to have owned the house for at least six months (this is known as seasoning of title) in order to be able to do a refinance. Assume the mortgage broker tells you that they can give you the standard 80/20 loan. This means 20% down payment and 80% mortgage. Since you own the house and it is appraised for $100,000 the bank would give you an 80% LTV (loan to value) loan for $80,000.

If your closing costs were $5,000 to secure this loan your net proceeds from this loan would be $75,000. You would need to pay the hard money lender back the $51,000 that you borrowed and you would be left with $24,000. After paying yourself back the initial $14,000 that you put into the deal you would actually have cash back in your pocket of $10,000.

This is the preferred method of investing in wholesale real estate. The reason is because you now have equity in the property of $20,000 and you would have $10,000 cash left over after paying yourself back the $14,000. After deducting your carrying costs and insurance you would be left with $5,175 cash in your pocket. However you would have a few advantages and some disadvantages over the example of selling the property.

<u>Advantages of holding and refinancing compared to fixing and flipping</u>

- Since you are not selling the property you do not need to pay any capital gains taxes. Purchase and sale within a 12 month period is a short term capital gain which is the same as your income tax rate which can be as high as 39.6% of the profit! You can lose almost half of your profit to taxes by selling.
- You have $5,175 cash back in your pocket (tax free) since refinances are not taxable
- You have purchased a property with no money down (you have all of your money back plus an additional $5,175 plus the equity in the property
- You are able to receive an income from renting out the property
- If your income is greater than your expenses then you have positive monthly cash flow
- You are able to participate in the increase in real estate prices

As time goes by your income from the rental property will increase and so will your cash flow
Holding real estate gives you two tax deductions in the form of interest expense and depreciation expense
Owning real estate long term will create wealth

Disadvantages of holding and refinancing compared to fixing and flipping

If you are not going to sell the property then you are going to have to rent it
Renting the property means you will have to deal with tenants
Dealing with tenants can be frustrating and hard work as many landlords will tell you
You will constantly be dealing with repairs and maintenance, vacancies and evictions
Repairs, maintenance, vacancies and evictions can easily eat up your positive cash flow and create negative cash flow
If the property goes down in value you are going to wish you had flipped the property
If rents decrease substantially your positive cash flow can turn negative

So to summarize, while there are clearly advantages and disadvantages to holding real estate or flipping real estate in the end you have to make your own decision about which technique best fits your budge, personality, available time and available cash. You do not need to do only one or the other. You can have a few rental properties, and can fix and flip other properties at the same time. I find this approach to be the best since you can use some of the profits from the flips to finance costs on the rentals. You can also offset the taxes on the flips with the tax deductions from the rentals.

So far we have discussed buying a property wholesale using a hard money loan and then either flipping the property to an end buyer or refinancing the property and holding it for the long term. Both of these techniques require you to put cash down and require sufficient experience and cash to do the repair work necessary as well as having the experience to deal with tenants. This brings me to my next rule about real estate.

Rule # 5 Always Use Conservative Estimates

ALWAYS ANTICPATE THE WORST CASE SCENARIO AND BE CONSERVATIVE. YOUR REPAIRS MAY BE MORE THAN YOU ANTICIPATED AND THE HOUSE MAY BE WORTH LESS THAN WHAT YOU THINK IT IS WORTH

Most beginning investors do not have cash and do not have any experience doing repairs. For this reason, most beginning investors would be very afraid to commit to a high interest hard money loan or to being a landlord. Additionally, most beginning real estate investors don’t have any cash at all and are looking to real estate as a way of possibly making some more money. These beginning investors are looking to make fast cash and the easiest way to do this is through wholesaling. Now that you have a background in wholesale real estate we will talk specifically about wholesaling in the next chapter.

Chapter 3 Introduction to Wholesaling Real Estate

Most beginning real estate investors want to learn as much as they can about wholesale real estate. However, my experience with my students has shown me that many beginners lack the cash or the knowledge to be able to begin investing in wholesale real estate without some direction from someone. It is easiest to learn when you have a mentor who has done what you are attempting to do. It is easy to read a few books or even spend thousands of dollars on real estate courses but without any direction from a mentor you might find it difficult to “pull the trigger”.

Most individuals are afraid to commit to signing a purchase contract to buy a house. My experience with training new investors is that the primary reason for this is fear. I see this every day with my coaching students and in my inner circle trainings. I can show a student all of the variables and then when I ask them to pick up the phone and call a real estate agent they “freeze up”. At this point we stop them and ask them what it is that is bothering them. And invariably it is them not understanding steps of the procedure to talking to a realtor, what to say, how to make the offer, how much to offer and all of these are related to education which the lack of creates fear and doubt.

We discuss fear and taking action quite extensively at our boot camps and in our inner circle advanced trainings. Fear is what holds you back. Overcoming your fear through education is what will set you free. For example once you understand that when you sign a purchase contract to buy a house, you have not fully committed to buy that house until after the inspection period is over AND you have put up the deposit will make it easier for you to make an offer. You will have less doubt. The same goes for all the other steps like talking to the realtor, what to say, how much to offer etc.

Fear stands for False Evidence Appearing Real. Once you overcome the false evidence it is easier to move forward. The following are the primary fear issues that most of our students have:

Fear of failure
Fear based on doubt
Fear of making a mistake
Fear of losing money
Fear of ruining credit
Fear of their spouse or partner
Fear of looking like an idiot
Fear of picking the wrong house
Fear of not being able to estimate the value
Fear of not being able to find a contractor
Fear of not being able to find a tenant
Fear of the unknown of making changes
Fear of being sued and liability
Fear of doing something different
Fear that is created through skepticism

The above list is just a short list of a few reasons why fear prevents us from achieving what we want out of life. Napoleon Hills' bestselling book "Think and Grow Rich" devotes an entire chapter to fear. I mention this book at the beginning of every Distressed Real Estate Boot Camp™ and I even have an ebook version of it on our forms disc. I do this for a reason. You see I know that you want to learn how to make money in real estate. But what you may not get, is that I can teach you all of the steps to make you successful, but if you cannot overcome your fears the information will be useless. Learning how to face your fears and overcome them is critical to your success.

I believe that being skeptical and having fears is healthy. That is how we are pre-programmed as human beings it is our method of alerting ourselves to danger. But fear can be overcome through education and training. Each obstacle or what we call "blocks" can be analyzed. The obstacle can be overcome via education and the hurdle can be passed over until the next obstacle appears. By overcoming each obstacle or each "block" we can eventually get to the end.

Each "block" can be analyzed until you can make up your own mind about whether or not your fear is well founded. I believe that skepticism for many people is the hardest fear to overcome. If you don't believe deep down that it is really possible to buy properties and flip them for a profit then you will not succeed. However, if you educate yourself and do some of your own research you will find that there are thousands of individuals that have created extreme success in wholesale real estate.

Rule # 6 Educate Yourself and Then Take Action

EDUCATE YOURSELF IN REAL ESTATE AND GET THE TRAINING TO UNDERSTAND HOW WHOLESALE REAL ESTATE WORKS. ONLY BY VERIFYING THAT THIS IS A VIABLE BUSINESS OPPORTUNITY WILL YOU BE ABLE TO OVERCOME YOUR FEARS AND SKEPTICISM AND BE READY TO TAKE ACTION AND START WHOLESALING

Once you have overcome your fear and skepticism you should be ready to take action. However as we mentioned previously it is very difficult to take action by yourself without having a mentor to guide you. This is the reason why our Private Mentoring Program is so successful. Many of our students that joined the Private Mentoring Program had spent a lot of money on real estate programs. We have many students that spent more than $30,000 on other educators programs. One student had spent $84,000 on various real estate "guru" programs. When I see these students at my boot camps my first question to them is very simple. "How many houses have you flipped?" How many deals have you done? The answer is always zero. I then ask them to make me a promise. Stop investing in programs and do your first deal. Make this the last program you invest in. But it all goes back to fear. You see you can take out your credit card and buy another course just like I can take out my credit card and sign up for a fitness program. But if I don't go to the gym absolutely nothing will happen. And if you don't pick up the phone and start making offers absolutely nothing will happen either. That is why it all goes back to fear.

These people that had invested in all of these programs and were not doing deals. In many instances they did their first deal very soon after joining my coaching program. The other courses had given them the information. But it was up to me to unscramble it in their head and make it useful information that they can make money from. I routinely see this with my students. So information is good. Watching webinars, downloading ebooks is good. But you have to "do something" with that information. You have to process it, understand it and then act on it. I like to call this "relentless forward motion". So understand your obstacles, your "blocks". And get through them and move forward relentlessly.

Why were these same students that start doing deals not able to do a deal before with all of the books and courses and tens of thousands of dollars that they had spent? The reason is because it is easier to learn by watching someone and then following them than by reading the information from a book. Emulation is the highest form of flattery. If you want to be good at something find out who is the best at it and then simply copy or replicate what they do. Houses are a physical thing. You can touch a house and you can feel the walls and the floors. You can inspect the structure, the foundation, the interior and the general curb appeal. You cannot learn this in a book. You need to feel it for yourself. By visiting houses. This takes time and it takes training.

Many blue collar professions like electricians, plumbers and carpenters require both book learning with exams and tests etc. But they also require a formal apprenticeship where you go out in the field with a qualified person and you watch them and learn from them. I view learning how to wholesale, flip houses or investing in real estate as no different. Once you have learned what you need to know from reading countless books and courses and attending many boot camps and seminars and maybe even spending a lot of money on programs you need to put away those courses and start acting on the information. At that point you are ready to begin your apprenticeship. Then you need to find someone to teach you. There is an old Zen saying that says "the teacher will appear when the student is ready". Are you ready?

We will talk about beginning your wholesaling apprenticeship in the next chapter but before we do that let us review a few key terms that you will need to know.

<u>ARV (After Repair Value)</u>

The value of a house **<u>after</u>** it has been repaired. Please note that this number may be approximately the same as the fair market value of the house as would be indicated by an appraisal. Please also note that **<u>before</u>** the house has been repaired it **<u>will not</u>** be worth the value of the ARV. Prior to being repaired the house is worth 65% of the ARV less the repair estimate. Please also note that we **<u>do not</u>** use the value of an appraisal to determine ARV.

The biggest mistake I see new students making is not understanding this formula. If two houses are side by side and are identical in size and everything else including interior features. Now assume one of those houses has a fire and is damaged. What would that house be worth now?

If the houses were originally worth $100,000 and the fire damage is $30,000 many new investors think that the house must be then worth $70,000. This is very bad investor math. Look at it this way. If I can choose between buying a house for $100,000 that is in move in condition. Or I can buy one for $70,000 and then spend $30,000 repairing it which would I choose? Why would I go through all the time and expense and headache of repairing a house if I could just buy it in move in condition?

It would not make sense unless there was a profit potential. For example if I could buy it for $35,000 and then spend $30,000 fixing it up. Then when I was done I could flip it for $100,000 and my profit would be $35,000 (before commissions and closing costs etc.).

Read the above example again. It is based on the ARV formula of 65% of ARV less the repairs. $100,000 x 65% is $65,000. $65,000 less $30,000 in repairs is $35,000. $35,000 would be your Maximum Offer Price (MOP) if you wanted to fix and flip that house.

How and why does this work? It is actually very simple. You cannot get insurance on a fire damaged house. The bank will not give you a mortgage on a house that is damaged without insurance. The only buyer that can buy that house is a **cash** buyer. And a cash buyer many times will need to borrow money from a private lender at a high interest rate. So it will only make sense to a cash buyer if there is a profit potential. Hence the formula.

So why can't everyone do this? Well firstly they don't have the knowledge. Secondly they don't have the cash. And that is why if you want to do this you will need to know how to evaluate the ARV of a house, and the repair estimate and know how to get the cash. That is what we spend 3 days teaching at our Distressed Real Estate Boot Camp™.

Repair Estimate (RE)

I use repair estimate and rehab estimate interchangeably. They are the same thing although repairs are typically minor cosmetics such as paint and carpet and rehab usually means more extensive repairs like roofs and walls etc.

Maximum Offer Price (MOP)

This is the maximum amount that you would be willing to offer to purchase a house. In order to determine this number you would need to have the ARV and the repair estimate.

Calculation of Maximum Offer Price

ARV x 65% Less Repair Estimate = MOP

In the above example the ARV was $100,000

The Repair Estimate was $30,000 and the Maximum Offer Price was $35,000

Chapter 4 Wholesaling Apprenticeship

The easiest way to learn is by watching and learning from others. Do not make the mistake of trying to skip this step. Most new investors make this mistake. And most new investors fail. The book store is full of books about wholesaling. Millions of copies of these books are sold every year. And tens of thousands of students attend boot camps and seminars but very few actually achieve success. Why? Because they skip the step of learning from someone else. They skip their apprenticeship. They forget about the basics.

If you want to be a successful real estate investor for the long term then you need to focus on building your foundation. This is the most common beginner's mistake and will often result in the beginning investor failing completely before they have even begun. I see this so often with my coaching students. You need to build a foundation. You need to go through an apprenticeship. I know that you are eager to get started making some money and that is why you are reading this book. But you need to understand that there are many things that you have to learn before you will be ready to run out and wholesale or fix and flip your first house. There definitely is a learning curve. And most new investors forget that. It is easy to become overly zealous as a new real estate investor. With all the real estate "gurus", infomercials on TV and email and online marketing being thrown at you as a new investor it can be overwhelming.

You may get into the habit of purchasing "programs" in order to become successful. But this is not like shopping for a t-shirt at the store. You don't get to "purchase" it (the course) and then have "it" (the information). You actually have to read it. You have to understand it. You need to follow through with it. You have to focus. You need to overcome your obstacles. You have to take determined actions steps that are clearly aligned with your goals both for today, tomorrow and your future. And that is where most beginning investors fail. They see investing in real estate as a panacea. A relief and a solution to their life problems. If you are broke, hate your job or are just miserable with the way you live your life then the lure of the riches of real estate can be overwhelming. Yes, real estate can make you wealthy. And if you learn how to make money investing in real estate you might even be able to quit your job and focus on real estate investing as a new career. Notice how I said might. It is not for everybody. I know one guy that made $24,000 in his first 6 weeks as a bird dog. When he quit and we asked why his answer was "I didn't get an MBA to knock on people's doors. Clearly this business was not for him. It is not for everyone. But you can make a lot of money. That much I can attest to. And some of my students have been a resounding huge success. One recent example is my student Elmer from Biloxi Mississippi. Since attending my boot camp 2 years ago, with zero real estate experience and never having owned real estate before he now has 18 duplexes, 3 single family homes and 39 tenants. His positive cash flow rental properties bring in a whopping $232,000 a year after taxes, insurance, repairs etc. To say real estate changed his life is an understatement. At my last boot camp I sat with Elmer for breakfast. And he told me "Lex you changed my life". In the Jewish Talmud it says if you can change but one life you can change a universe. If you are reading this book and I change yours, perhaps by motivating you to get out of your rut, to embrace change in your life, to live an epic life, to do something different, then writing this book was worth all of the countless hours that it took to write, edit and proof read it.

So yes, real estate can make you rich. I have helped thousands of students learn how to invest in real estate. But don't expect it to make you rich overnight. That will never happen. And you won't get rich because you bought another real estate course, or subscribed to another program, or watched another webinar. It will happen when you read the material, understand it and then apply it. And you will only be able to do this if you focus, know what your goals are and understand your obstacles that are blocking you from achieving your goals. Once you have figured that out then you can create action steps. But you need to lay down a good foundation. And learning from someone who has experience, someone who has been flipping houses for many years is a huge advantage to you. Seek these people out. Find them. Go to your local real estate investment club meetings. Understand that if you worked with or for these people **for free** it would be hugely beneficial to you. Many older more experienced real estate investors love having their "ego stroked" by taking on a newbie under their wings. My real estate mentor that trained me told me "you either pay with time or you pay with money". Understand that. You will either need to work under someone or you will need to pay them. Nothing in life is free. If you are brining someone deals then they are making money and you are making money. If you are paying someone to train you then you are making money and they are making money. But if you expect something for free that will never happen. So seek out mentors and experienced investors that you meet at these meetings. Take advantage of the fact that they would love to have a newbie looking for deals for them. But don't expect them to train you. That is how I learned. I started out as a bird dog scouting for properties for two real estate investors who were partners. I did that for two years. It is a great way to learn and that is what I recommend for you too. Understand the basics and then follow through with action.

The best place to start as a new investor is with wholesaling. The reason for this is very simple. Wholesaling requires no cash and no prior experience. And you are not risking anything other than your time. You do not need to risk any of your own money or your credit in order to wholesale. That is why the book store is full of books about wholesaling and why so many real estate webinars focus on the topic of wholesaling. It is an extremely popular topic. At our monthly real estate meetings we always have the highest attendance when the topic is wholesaling. After all what could be more appealing than making a lot of money without using any of your own cash? That is what keeps my Distressed Real Estate Boot Camp sold out for 6 years running. The lure of learning how to wholesale, how to find properties and flip them in your spare time and make fast cash. That is what makes wholesaling so appealing and also why 90% of all real estate seminars and courses are about wholesaling. Wholesaling has many positive characteristics for new real estate investors. The most notable are the following:

Wholesaling requires no cash
Wholesaling requires no experience
Wholesaling requires no credit
You can't lose money wholesaling
Wholesaling is the easiest way to learn about real estate

So what is wholesaling? Wholesaling, or being a wholesaler is all about finding deals and selling them to cash investors. Cash investors need deals. Especially cash investors that are buying many houses and who have lots of cash. These investors don't have time to look for deals. And they certainly don't have time to waste speaking to real estate agents that don't know a deal from a dud. They need property finders to bring them deals. These investors are too busy fixing up houses and many of them rely on wholesalers to find them deals. Some of my best cash buyers can buy a few properties a week from me. In turn they fix up these properties and rent them out. We even have a few hedge funds that buy from us. These buyers are constant buyers. They buy houses every single week. They need good deals. This is where you as a property can find deals for them and make money flipping them these houses. But you need to know the difference between a deal and a dud. You need to know how to find deals. This is the part that takes skill. If you have one investor like me who is constantly buying houses from you then you can make a good amount of money flipping houses. And if I don't want to buy the house but one of my buyers does then it would benefit you to have me market your houses to my buyers. Over time, as you gain experience you will build your own buyers list. If you stay in the business. Most new investors don't. But if you do then over time you will have many cash buyers to send your deals to. And then you won't need to rely on me or anyone else to market your deals. Even then you will still spit deals with other wholesalers simply because it makes good business sense to do so.

As a wholesaler, your job is to find wholesale deals and then bring them to cash investors that will buy these deals. These cash investors will pay you a fee to find houses for them. If you can locate a $100,000 house for $55,000 then you can easily sell it for a fee of around 10% to 20% of your purchase price which would be a $5,000 or $10,000 profit. An investor that wants that house will not have a problem paying you a fee. And if you double close they won't even know how much you are making. A $500,000 house could have a fee of as much as $50,000. Generally speaking the percentage return goes down as the price of the house goes up. If you chase higher priced houses (another beginner mistake) you will see this. It is way easier to find a $20,000 house and flip it to an investor for $30,000 than it is to find a $200,000 house and flip it to an investor for $300,000. Why? Because many more people have $20,000 sitting in their bank account than have $200,000 sitting in the bank. As the price goes up there are less buyers for a property. Cash buyers typically buy properties either to be a landlord and hold these properties as rentals or they buy them to fix and flip for a profit.

Many of these cash buyers and our typical cash buyer is purchasing at the lower price points of the market where there is more affordability, more buyers and more action. The price point could be $10,000 in Alabama, $150,000 in Los Angeles and $500,000 in San Francisco. No matter what city you live in the lowest priced point will get the most action. One easy way to see this is to simply go to www.realtor.com and type in the name of your city or target market. Then sort the listings from low to high and check off only "single family homes" and you will see where the low price point is in your market. Naturally these lower priced homes will not be in the nicest part of town unless you live in a really nice town like Beverly Hills or Boca Raton. In many cities the lowest priced listings will be in really challenging neighborhoods. So be careful when you do this exercise and make sure you understand the neighborhood before you venture to visit a listing. Some cities are downright dangerous and you need to be aware of this if you are looking for properties especially in lower priced neighborhoods. But often, that is where the deals are. We prefer the lower priced neighborhoods are a step up from the worst neighborhoods. These are the blue collar lower income homes that often are "first time homebuyer" homes. These properties make great rental properties, great fix and flips and you can generally operate with safety in these kinds of neighborhoods. We call this our “bread and butter” neighborhoods where we can consistently find deals for our cash investors. It is very worthwhile to target these areas and to place bandit signs to flush out distressed sellers wo are looking to sell their house.

As a wholesaler you can work in one of two ways. You can find houses and then sell them to cash investors. Or you can find houses have someone else sell them for you to other investors. The best option is to do both. That way if you find a buyer you keep all of the profit. If someone else finds a buyer then you split the profit with them. It is pretty standard in the wholesaling business to split deals with other wholesalers. You only have so much time to market a deal before your inspection period runs out. It is key that you find a buyer and if partnering with another wholesaler helps you close the deal and get paid then you should do so. Make it a priority to network with other wholesalers and attend your monthly real estate investment club meetings in your area.

So basically you can be a bird dog (property locator) and find deals for one or two investors. Or you can be a wholesaler. As you will see below they are **almost** the same thing. Whether you find a property and you flip it, or you find a property and someone else flips it either way you are getting paid for locating properties. The main difference is as a bird dog you simply find houses and then pass them on. As a wholesaler you have to talk to buyers and build a cash buyers list. The easiest way to learn is to start out as a bird dog and partner with other wholesalers. As you build your buyers list and learn the ropes you will feel more comfortable calling and speaking with cash buyers. Then when you sell them a house you will make all of the profit and will then be a wholesaler. That should be your goal. To progress from bird dog to wholesaler.

Bird Dog

Being a bird dog means working for a cash investor and finding deals for them. Bird dogs are also called property scouts or deal locaters. The job of a bird dog is very simple. Bird dogs work for a single cash investor or a few cash investors. They spend all of their time looking for wholesale deals that are below market (usually around 65 cents on the dollar). When they find a house that fits their investors buying criteria they bring it to their investor. If the cash investor buys the house then the bird dog gets paid. Bird dogs can make anywhere from $500 to $5,000 per deal depending on how much information they bring to their cash investor. For example bringing a lead on a vacant property does not require much effort. Noticing an overgrown lawn on a vacant house as you drive by the house does not require much effort. Bringing a lead like this to a cash investor would probably get a bird dog $500 if the house was purchased by that investor.

Now assume that instead of just bringing the address, the bird dog looked up the owner, contacted them and began negotiating to purchase the house. In that scenario they would get paid a lot more. The hardest part is finding the deal. And the key is distressed sellers. The more that you can bring the deal delivered on a silver platter to the cash investor, the more you will make and the more you will get paid. As a bird dog working for only one investor you will have a lot of interaction with the cash investor who may or may not be your mentor. In my case I was a bird dog when I started out and I only looked for deals for one investor. And that investor was also my mentor. As a bird dog, you will be responsible for finding the deals and then your cash investor will complete contracts and negotiate to buy the house. As you learn more, you might begin being a part of the negotiating process. You may also begin learning how to complete purchase and sales contracts, calculate comparable sales and repair estimates. In short, being a bird dog and working for the right mentor or under the right investor can be crucial to your education. I myself worked for two years as a bird dog for a mentor that is a good friend of mine and his business partner. I view this educational part of my career as extremely beneficial to my long lasting success in the business of wholesale real estate. And I advise all my students to learn from my experience. Remember you either pay with time or you pay with money.

If you are going to become a bird dog then seek out a cash investor that can also be your mentor. That way you will get an education as you learn what deals they do and don't want. But being a bird dog has its limitations too. What do you do if your cash investor does not want the deal? What do you do if you are so good at finding deals that your cash investor can't buy all of them because they don't have enough cash? What if your cash investor does not want the deal but other investors would? You should discuss these issues and itemize them in writing prior to picking a mentor to work with as a bird dog. You should also be careful and patient in choosing who to work with. You should make sure that you are working with a mentor that does not have a personality clash with you. You should also ensure that your mentor is a person of good moral character who is ethical, fair and honest. And in addition to these qualities you want to make sure that your mentor is worthy of you spending your time and investing with them just like they are investing their time with you. Look for a mentor that has already achieved success both as an individual real estate investor and also as a teacher who has trained others before.

You will never be paid full price for being a bird dog since you are limiting yourself to only one cash investor that you are working for. For that reason, it is usually more worthwhile for you if your cash investor is also your mentor. If you want to go the bird dog route then choose your mentor wisely. Do not make the mistake of going with someone for more money or a higher payout. The best mentors will give you the lowest payouts, but you will learn the most from them. Rather make less money and get a great education than agree to a high payout from someone that does not know what they are doing. Good training will result in you knowing the business well. A year or two down the road you will be ready to go it alone and become a wholesaler or rehabber yourself. Some students learn quickly and can be ready to go it alone after as little as three or six months. I recommend that you wholesale at least 5 houses before you try and go it alone as a wholesaler. It would be better if you waited until you had wholesaled twenty houses before you went off on your own. I have one student Brauner who is currently on his 19th deal. And he still calls me every day asking questions. Remember, only go out on your own when you are ready. When you have your own buyers list. I have students that are quite happy to just bring me deals and never ever deal with putting up cash, building buyers lists etc. Those are my best students. Since I make the most money with them. And it is extremely beneficial for them too to know that I put up all of the cash for any deal that we sell. It is truly a win-win situation and what made our Partnership Program the best program of its kind in the country. Still today, there are no other real estate programs in the country that will train you, partner with you AND put up all of the money. They might point you to other people's money or some transactional funding company. But they won't put up their OWN CASH like we do with our students.

If your goal is to fix and flip houses and you want to be a rehabber then I recommend that you assist in rehabbing and fixing and flipping at least 3 houses with another professional investor before you go it alone.

Wholesaler

There are a few differences between being a wholesaler and being a bird dog. The key difference is that a wholesaler works for themselves. A wholesaler decides when and where they will work. Another key difference is that a wholesaler will put up the deposit for the house and also complete the contract themselves. The wholesaler will also look for an end buyer whereas a bird dog will not.

Differences between a bird dog and a wholesaler

Bird Dog

Works for an investor or investors
Looks for wholesale deals based on or defined by their investor
Does not put up a deposit on any deals
Does not complete and sign a purchase contract
Does not have their name on the purchase contract as the buyer
Only their cash investor can buy the property (no one else can)
Is not responsible for finding buyers and building cash buyers
Does not communicate with cash buyers spends all their time locating deals
Get paid a bird dog finder’s fee that was previously agreed to

Wholesaler

Works for themselves
Looks for wholesale deals based on their own criteria
Puts up the deposit on each house
Completes a purchase contract themselves
Has their name on the purchase contract
Can market to any cash investor to buy the property
Is responsible for finding buyers and building a buyers list
Communicates with cash buyers to negotiate a sale
Get paid based on how much markup they can make (unlimited)

Clearly, you should aim to become a wholesaler. However, I believe to be a good wholesaler you should first apprentice as a bird dog for someone even if only for a few months in order to learn what you are doing. I believe that the longer you apprentice with a mentor, the more you will learn. And this education is a critical component to your success over the long term. It is very easy to be blindsided by short term success wholesaling one or two deals. What you should ask yourself is "have I learned all that this mentor can teach me?" If your mentor is a rehabber and you are only wholesaling then the answer is no. If your mentor is a landlord and you are only wholesaling then the answer is no. One day you will be working for yourself. And when that day materializes you will want to make sure that you are ready to handle all of the obstacles that will be in your way. Only education and experience will help you overcome these obstacles. Rather learn with someone else's money at risk than your own.

Once you are 100% confident that you know what you are doing then you are ready to begin wholesaling for yourself. There is a lot to know. I just sent an email to my student Brauner who has wholesaled 19 houses with me. He still asks many questions. The biggest mistake you can make as a beginning investor is to think you know it all. Be humble, be smart, and most importantly think long term. Do you want to just flip a house or two? Are you content to flip one house a month and supplement your income? Or do you want to totally change your life by being one of the biggest wholesalers in town? Do you want to take your earnings, income and net worth to a whole new level? If your answer is yes, if you are serious then think long term and learn all you can.

One of my students flipped two houses by himself to a buyer he found on Craigslist and he promptly quit his career of 10 years and went off on his own as a wholesaler. He had a cash buyer from Boston who proceeded to buy 5 or 6 more houses from him. He made quite a bit of money for around 3 months flipping these houses to his cash buyer. He decided that wholesaling was much more lucrative than his previous profession. When his cash buyer in Boston ran out of cash then he realized that he had no more buyers to buy his houses. He didn't have a buyers list which is something that takes time to build. Needless to say he didn't last in this business.

Another important point is that if you operate with less than 100 % honesty you will not last in this business. Too many people will hear about it. And if you are new then you probably don't even know what is and is not ethical in the world of wholesaling. Can you call the listing agent? If you get an offer should you hold out for a higher offer? Should you market a property before you have an executed contract? Should you partner with other wholesalers? Do you know the answer to those questions? Because if you don't then you should and you will get yourself in hot water simply by not understanding the basics. And this is important since if you annoy other investors around you, long term that won't be good for your business. And they will stop doing business with you. More people make this mistake than any other mistake. People operate out of fear and greed. So when you finally get a deal under your belt it is very easy to let the greed kick in. If you buy a house for $50,000 and you have an offer from another wholesaler for $60,000 if you both split the deal you each make $5,000. However if one day later another buyer offers you $57,000 you make more money since you get to keep the $7,000 profit. So it is very tempting to go with the higher offer. But in doing so you will alienate the wholesaler that brought you the offer first.

That is why it is so important to learn and preferably to find a mentor that can take you under their wings. So be smart, think long term, think about long term money making potential. Get the best training that you can afford and don't take short cuts. Get your apprenticeship under your belt. And above all else please always operate according to the "CHIP" Principle. This is a term I formulated for my students which stands for Consistency, Honesty, Integrity and Persistence. Live your life according to this principle.

Chapter 5 Getting Started As a Wholesaler

The most important formula for you to remember is the ARV formula from the introduction to wholesaling chapter. Everything that you do as a real estate investor from borrowing money to calculating profit potential will be related to the ARV formula so please make sure you understand it. This formula really only has two components which are The Repair Estimate (RE) and the After Repair Value (ARV). If you know what a house is worth once it has been fixed up and you know how much it will cost to repair the house then you can accurately calculate your Maximum Offer Price (MOP). It is so critical to understand ARV and Repair Estimates that I spend a substantial period of time at the Distressed Real Estate Boot Camp teaching this concept. If you understand the ARV formula then you know how much to offer and how much profit you can make. Here is the formula again:

Rule # 7 Maximum Offer Price

AFTER REPAIR VALUE (ARV) X 65%
- LESS THE REPAIR ESTIMATE (RE)
= YOUR MAXIMUM OFFER PRICE (MOP)

Example:

A house is worth $100,000 once it has been fixed up (repaired). The after repair value (ARV) is $100,000. Assume that this house minor cosmetic repairs such as paint and new carpets and a few other items which you estimate would cost $5,000 to repair.

Look at the formula above. After Repair Value ($100,000) x 65% of the ARV is $65,000. Less the $5,000 cost to repair (minus $5,000) results in a maximum offer price of $60,000. This is the ARV formula at work. And it is very important. If you came to me for a hard money loan I would loan no more than $60,000. And I would want you to put down a down payment or what we call in the hard money lending business “skin in the game”. If you were to ask a hard money lender like me for a loan I would probably fund you $55,000 if you put up the $5,000. You would need to come up with your own money for repairs, closing costs, fees, carrying costs, insurance etc. This would assume of course that I agree with your ARV estimate and your Repair Estimate. This formula is also key for rehabbers and landlords who buy properties to fix up and either rent out or flip for a profit. So you need to understand this formula since if you are a wholesaler you will be selling your houses to landlords and rehabbers.

If you look at the formula above you will notice that there are really only two components to the formula:

1. ARV (after repair value)
2. RE (repair estimate)

Naturally if there are only two components then those components values are very critical to getting the correct outcome. In this case the outcome is the maximum offer price (MOP) which is the highest amount you would pay or offer to the seller to buy this house. Since these two components are so critical we will go through them each separately.

After Repair Value

The after repair value (ARV) is the estimate of what you think the house is worth. Calculating what a house is worth is an art not a science. One house may have a granite countertop and another may have a pool. One house may have a really nice back yard and another might be on a busy road. Appraisal is an art form since it is subjective to the opinion of the individual doing the appraisal. And appraisers can be influenced or persuaded by what they are told. For example if you told an appraiser that you spent $35,000 to upgrade a kitchen and it looked believable they would probably add a little on to the value of the house because of the remodeled kitchen. Appraisals may work in retail real estate but they are not going to work in wholesale real estate. That is why you need to understand that you need to know how to calculate your own ARV and not rely on an appraiser.

What you need to establish for the purposes of ARV is the following. What is the least amount that the house could possibly be worth? Or expressed differently, if you were to list this house for sale on the Multiple Listing Service (MLS), what is the least amount that you could definitely get for the property that would bring a buyer within a few days. In other words a very conservative estimate. Even though the house might fetch much more, you need to know conservatively what the least amount you are pretty sure you can get in a rapid sale. So you will need to use conservative numbers to come to this conclusion.

For example assume the following scenario when looking at comparable sales:

900 square foot house sold for	$99,000	($110 per sq foot)
1000 square foot house sold for	$105,000	($105 per sq foot)
1200 square foot house sold for	$120,000	($100 per sq foot)
1500 square foot house sold for	$135,000	($ 90 per sq foot)

These four houses above would be considered comparable sales comps or just “comps” in real estate lingo. Assume that all of the houses were constructed of the same material and were identical in every aspect other than square footage. Assume also that they all had the same number of bedrooms and bathrooms and were all situated on the same street and that all sales occurred very recently. This would mean the comps would be very consistent and reliable as well as recent. If we look at the prices we can see that the houses sell for between $99,000 (lowest) and $135,000 (highest). We can also see that the houses sell for as low as $90 per square foot and as high as $110 per square foot.

Now using this information, assume that you get a phone call from a desperate seller that has a 1300 square foot house that they want to sell on this same street. And assume you are looking at the above comparable sales. Assume that the house is in exactly the same condition as the four comparable sales (comps) above. Obviously this is not very likely but I am doing this exercise to illustrate to you how to calculate a conservative “comp”. This 1300 square foot house could have any of the following values which would all be justified and supported by the comps from the four houses. This 1300 square foot house could be worth any of these amounts:

<u>Value of 1,300 square foot house</u>

$117,000 ($90 per square foot)
$130,000 ($100 per square foot)
$136,500 ($105 per square foot)
$143,000 ($110 per square foot)

Now considering that based on the four sold comps from the other four houses nothing sold above $135,000. Therefore if a 1,500 square foot house sold for $135,000 then there is no reason that a 1,300 square foot house should sell for more than this number. You could also argue that if someone paid $135,000 for 1,500 square feet why would someone else pay the same price for 1,300 square feet which is 200 square feet less? Based on this information you can probably figure that the house is worth around $120,000 to $125,000 because a 1,200 square foot house sold for $120,000. It is probably not worth less than that since it is larger. The house is almost definitely not worth less than $100,000 because two small houses that were 900 square feet and 1000 square feet sold for $99,000 and $105,000.

We can do the same exercise a little quicker by just using the lowest comp on a square foot basis. For example the lowest comp per square foot was $90 per square foot. So just using this number, we can assume that 1300 square feet x $90 a square foot (low comp) = $117,000 which is probably a conservative estimate for what this house is worth. I call this method using the low comp method or “Method 2” in our training material at the boot camp and I always instruct my students to “give me the low comp”. When I am looking at comps I simply scan the price per square foot, find the lowest and then multiply that by the square footage of the house. That is a great way to get a really quick idea of a cheap price for this house. I have thousands of students in our Partnership Program. Many are submitting deals to us so we need a fast way to see what price makes sense for deals to send to our cash buyers and this is the method that we use.

<u>Rule # 8 Always Use The Lowest Comparable Sale Per Square Foot</u>

ALWAYS USE THE LOW COMPARABLE SALE PER SQUARE FOOT TO SEE WHAT THE LOW CASH COMP IS. IN OTHER WORDS YOU NEED TO KNOW WHAT THE CHEAPEST PRICE THAT ANY OTHER CASH INVESTOR PAID FOR A PROPERTY IS, BASED ON SQUARE FOOTAGE AND THEN USE THAT NUMBER TO CALCULATE YOUR LOW COMP

Now that we have covered the first variable (ARV) of our formula let’s move onto the next variable which is the repair estimate (RE).

Repair Estimate

In wholesale real estate lingo, repair estimate can also be the rehab estimate or "how much work the house needs." The bottom line with a repair estimate is how much money would an investor need to spend in order to have the house fixed up and ready to sell. Once fixed, the house should reflect 100% of the ARV. Prior to being fixed the house would NOT be worth the ARV less the repair estimate. The house would be worth 65% of the ARV less the repair estimate. Do not make this classic beginners mistake.

Calculating repair estimates is definitely an art form and not an exact science. The reason is because no two people will get the same results. If you call three different general contractors and you ask them for an estimate of repairs you will get three different results that can vary tremendously. An investor that is doing the repairs themselves can repair the house for the cost of the materials since their labor is free. If a general contractor is also an investor then he will be able to do the work for much less than other investors would who had to pay another general contractor to do the work. And finally, some investors are more able to find labor and materials at cheaper prices than others. For example I have rehabbed hundreds of houses. And I have a "crew" of people that do repairs on these houses. These people do work at prices that are way cheaper than most investors could get.

Good rehabbers that rehab many houses for a living can get really good prices that a general contractor would never be able to compete with when quoting you. You can use some of the estimates below as a good rule of thumb when trying to estimate repairs. For the numbers below, we are assuming a small 1,000 square foot house that is made of concrete block and is going to be a rental property. For this reason, we are going with the cheapest components that would be available at a store like Home Depot or Loews along with the cheapest labor possible to get the job done. If you are rehabbing a house to fix and flip you would need to pay more to make the house look nice and appealing to buyers. But if you are a landlord you would want to repair the house for the cheapest possible in order to rent it out.

If you are a new real estate investor it will be hard for you to find people initially that can work for you based on these rock bottom prices below. But they are out there. Also keep in mind that some areas of the country like Southern California, New York, San Francisco, Hawaii are going to have higher prices since the cost of everything else is higher.

The estimates below are what we use to teach at our boot camps. These are the prices that you could reasonably get to get a job done and these prices include labor and materials. Keep in mind that these prices are based on the lowest prices available and are for a rental property. In other words there might be 200 types of tile at Home Depot. But we are using the cheapest 16 x 16 tile that they have available. The same holds true for the paint, counters, cabinets and all of the other components. Naturally you can spend a little more to dress up a rental property. But keep in mind that as you do your price goes up and your cash flow goes down. For purposes of calculating Repair Estimates (RE) you can use these numbers below as a rough estimate. At the Distressed Real Estate Boot Camp we teach this in detail and provide students with a sheet that is filled in with the different pricing and even take students on a bus trip to properties to show them how to calculate the repair estimate. Keep in mind that these numbers are for a 1,000 square foot house. If the house is bigger, the numbers would need to be adjusted.

New Roof	$5,000
New Central Air	$4,000
New Windows	$2,000
New Drywall	$4,000
Paint Interior	$1,000
Paint Exterior	$1,000
New Kitchen	$3,500
Appliances	$1,000
New Bathroom	$1,500
New Electrical	$4,500
New Doors	$1,000
New Tile Floor	$2,500

If you add all of these numbers up you will see that to completely redo a small 3 bedroom 1 bathroom 1,000 square foot house will cost you around $30,000. This is for a house that is completely destroyed like a hurricane damaged house that needs a new roof, new electrical, new a/c new kitchen, bath, flooring, drywall, paint etc. Very few houses are in that bad shape. Many houses have a lot of workable drywall and have electrical and a decent roof and need more “updating” than anything else. On a house that is 30 years old you can assume it will need a new kitchen, a new bathroom, some paint, maybe new tile floors but if the basic structure and roof are okay you will spend a lot less than $30,000 making it ready to rent.

If your repairs are only cosmetic like putting in new tile floors and repainting the interior then you should be able to do that for only $3,000. If you need to redo the bathroom and kitchen add another $5,000 to that. Most cosmetic repairs come in at around $8,000 for houses that have a decent roof and just need an interior updating. Anything more than $10,000 would be considered a rehab which is a bigger job. We prefer houses with good “bones” in other words houses where the basic structure is fine and just the interior needs to be updated. These are the best houses since the work can be done quickly and cheaply. And the house can be rented or listed for sale fairly quickly.

Once you have a good handle on your repair estimate (RE) and you have a good conservative ARV you can use the ARV formula to calculate your maximum offer price (MOP). I always suggest that you start out offering $5,000 less than your maximum offer price in order to have room to negotiate up when you get a counter offer from the seller. Also keep in mind that the ARV formula is the “ideal” scenario for rehabbing. In reality it is hard to find houses that meet the ARV criteria and when you are making offers on bank owned properties and short sales you will often see that the bank wants more than the Maximum Offer Price. The reason is because other investors are willing to pay more. As the market heats up more investors are buying and pushing prices up. Also keep in mind that in a rising market you have the wind at your back. As prices are moving up and you are taking your time repairing the house it is going up in value. For this reason some investors will pay more for the house than the MOP since they don’t want to lose out. Right now as of this writing it is more risky to not buy a house than to buy one. And the reason is because prices are rising. I expect this to be the case for quite some time but eventually prices will rise to a point where they cannot rise anymore and we will start a new cycle just like we spoke about at the beginning of this book. But I believe that we are years away from that happening and now is an excellent time to be buying real estate.

Here are some examples for you to practice the ARV formula:

<u>Example 1</u>

Assume a 1,200 square foot house with a low retail comparable sale estimate of $85 per square foot. Assume that the house requires $12,000 worth of work.

1,200 square feet x $85 per square foot = $102,000 (ARV)

102,000 x 65% = $66,300

$66,300 less $12,000 in repairs = $54,300 Maximum Offer Price (MOP)

Begin your offer $5,000 below this number (round up to $50,000)

<u>Example 2</u>

Assume an 800 square foot house with a low retail comp estimate of $137 per square foot. Assume that the house needs only $3,000 in cosmetic repairs.

80 square feet x $137 = $109,600 (ARV)

$109,600 x 65% = $71,240

$71,240 less $3,000 in repairs = $68,240 Maximum Offer Price (MOP).

Now that you know how to calculate low cash comps, retail comps, repair estimates and after repair values you are ready to begin making offers. However before you do I want to warn you on something related to comparable sales.

Most new investors get “free” comps from places like Zillow, Yahoo, or the property appraiser website. Some investors that have access the MLS use MLS comps. And many new investors subscribe to a service where you get a CRM and a bunch of websites and comps all included. Listen carefully to what I am about to say. We DO NOT use <u>any</u> of these for purposes of calculating comps. We use a service called Sitex which gives us key information that none of the above sites give. You see when you look at a comparable sales report you see really two types of sales. You see sales where the bank was a seller and it is a cash sale. And you see sales where the individual is a seller and it is a retail sale where the buyer obtained a mortgage. Neither Zillow, the MLS, or the property appraiser web site differentiate on these. Our entire system of calculating comps is based on this information which renders all of the above sites useless for purposes of calculating comparable sales. At our boot camp we even illustrate how Zillow comps can be changed and how inefficient MLS comps really are. You need to know what cash investors pay to buy properties in a neighborhood and you need to know what retail buyers that obtain a mortgage pay and what these houses appraise for and how much lenders will loan. Without ALL of this information it is impossible to calculate how much to bid. Luckily for me and my students very few investors out there understand this concept.

Traditionally in the past, prior to the foreclosure crisis and the abundance of REO properties wholesalers found most of their customers by using yard signs and other through other forms of advertising to market to distressed sellers. These distressed sellers would contact the wholesaler who would sign a purchase contract to buy the house. Typically the wholesaler would offer a low deposit of $10 or $100 directly to the homeowner who was often in foreclosure or about to be. The wholesaler would then draw up a contract to purchase the house at a price that would be equivalent to the maximum offer price using the methods with the formulas that you just learned.

In the purchase contract, the wholesaler as the buyer would give themselves a 14 day inspection period to inspect the house prior to committing to buying it. At least this is what the wholesaler would tell the homeowner. Once they had a valid and executed purchase contract to buy the house, the wholesaler would use these 14 days to advertise on sites like www.craigslist.com to try and find a cash investor that would buy the house for a higher price. The wholesaler would advertise the house for maybe $5,000 or $10,000 more than their contract price and if they found a cash investor they would ask for an "assignment fee" of $5,000 or $10,000 for the cash investor since they found the deal.

Notice how the above is not really any different than being a bird dog. The only difference is that the wholesalers name is on the contract and that the wholesaler can sell the deal to whoever they want. However if the wholesaler was a bird dog that worked for a cash investor that agreed to pay a $5,000 assignment fee then really there would not be much difference. The difference is more psychological than anything else. The one clear difference is the buyers name on the purchase contract. The other advantage that a wholesaler has is that they can offer their deal to many cash investors and not just to one.

Successful wholesalers have many cash buyers and can usually sell a house within 24 to 48 hours. We market our wholesale deals via email every Monday and Wednesday and our email blasts go out around 10 a.m. We often have a few houses already sold by lunch time just a few hours later. The longer you are in the business of wholesaling the more cash buyers you will have. We have been actively marketing since 2003 and over a 12 year period we have grown one of the largest databases of cash buyers in the country. If you get into the habit of email blasting your deals out to cash buyers like we do and if your deals are good then you should have no problem finding cash investors to buy your houses. The most effective way to build your buyers list is to advertise your houses for sale. If you advertise your wholesale deals in newspapers, with yard signs and online then you will have cash investors calling you. When they call you should make sure to save their name, their telephone number and their email address. Then you can add them to your buyers list. It will take you around 1 to 2 years to build a decent buyers list. After a few more years you will have a really good buyers list and find it relatively easy to sell a wholeale deal. This is when you will start to make serious money. A good wholesaler in my market can move 25 or 30 deals a month. If they made just $3,000 per deal you do the math. Our office is one of the largest wholesalers in the country and our wholesaling business is a very profitable business that requires a full time staff of employees. But once upon a time I was a student just like you working for my mentor as a bird dog. It took me about 5 years to go from that to being a lucrative wholesaler. Good wholesalers can make more than guys that went to Harvard Law or medical school. In my local market alone (Florida) myself and 6 other wholesalers dominate the market and each of us does between15 to 25 deals every single month. And we all share our deals and network with each other. We even get together for a steak dinner every quarter. All of these guys are making a lot of money. Wholesaling can be very lucrative as a profession, especially if you consider the number of hours worked which can be much less than a typical corporate job in many cases.

Now that we have spoken about finding wholesale deals and putting them “under contract” we will move on to the main topic of this book which is how to wholesale bank owned properties.

Chapter 6 Wholesaling Bank Owned Properties

Prior to the mortgage crisis, the easiest way to find wholesale deals was to deal with homeowners in various stages of foreclosure. Pre-foreclosure investing was one of the easiest ways to find deals by simply locating homeowners that had recently gone into foreclosure and then negotiating to purchase their house. As mentioned in the previous chapter, many times these distressed sellers were found via bandit signs and other forms of marketing.

When purchasing from a distressed seller, in order to purchase a property and then wholesale it to a cash investor there were only three words that were required to be added to the purchase contract. By simply adding the words “And or Assigns” after the buyers name, the buyer is able to “assign” the purchase contract to another investor. A separate one page contract called an “Assignment of Contract” would simply specify the amount of the assignment fee and the investor cash buyer would pay this fee to the wholesaler.

Here is an example of how the assignment of contract worked. Assume that you had a contract to purchase a property for $60,000 that was worth $100,000. You market this property to your cash investors at a price of $65,000 and one of your cash buyers wants to buy the property. You complete an “assignment of contract” form with your cash buyer investor indicating that they will be paying you an assignment fee of $5,000. They will then have all of the rights to the purchase contract and to purchase the house. You have assigned your rights to the purchase contract and given it to them in exchange for an “assignment fee”. That cash buyer investor then shows up at the closing table at the title company and purchases the property for $60,000. Their total cost is the $60,000 purchase price that was on the purchase contract plus the $5,000 assignment fee that they paid you. Their total cost in this example is $65,000. When I started working in real estate this is how we found deals and this is how we sold them. This was how most wholesale real estate was transacted prior to the foreclosure crisis. But that all changed.

The foreclosure prevention act that became law on October 1, 2008 changed everything in the wholesale business. The law made it very restrictive to communicate with homeowners in foreclosure and many investors simply decided it was not worth the effort of getting sued by the State Attorney General. At the same time there were fines for all types of violations which could occur when dealing with homeowners in foreclosure and many wholesalers were confused as to which forms to use and what was permissible to do and say. Keep in mind that this was coming on the heels of two very bad years for wholesaling 2007 and 2008 where prices were plummeting and many wholesalers went out of business. This was just one more detail making it more difficult to wholesale and was the reason why many wholesalers simply quit and found a new profession. Long time wholesalers like myself and the other 5 other wholesalers that I mentioned “toughed it out and learned how to adjust.

At the same time that this was happening, there were a huge amount of foreclosures that were becoming bank owned properties. As the bank foreclosed properties went to auction and were sold to the highest bidder. In most cases the bank was the highest bidder and these foreclosures became REO’s which stands for real estate owned by the bank. These REO or bank owned properties showing up on the MLS (multiple listing service) in ever larger quantities. We noticed the opportunity (hence the name of this book you are reading). Why run around paying to put bandit signs in the yard if the banks were just "giving away" properties at a huge discount to market value.

As banks foreclosed and more properties became REO's more and more listings started to appear on the Multiple Listing Service (MLS). I watched the MLS in St Lucie County Florida go from over 1,000 properties for sale to over 7,000 properties for sale. There were entire streets where almost every house on the street was for sale, in foreclosure or bank owned. The MLS was literally flooded with inventory of homes for sale. The large scale "dumping" of REO properties on to the MLS created a huge amount of inventory which led to a sharp decline in prices. In hindsight I wonder how these billion dollar banks could have been so stupid as to just keep putting inventory on the market. They seemed to be clueless as to what would happen. It seems like no one was really paying attention until more and more loans went bad and banks started going out of business. The result was the foreclosure crisis which resulted in a huge government bail out.

As more and more homeowners went into foreclosure, more and more properties went in to default and entered the foreclosure process. One huge culprit was adjustable rate mortgages and negative amortization loans. People used exotic mortgages to buy houses that they otherwise could not afford since the payments would be too high. Since prices kept moving up it seemed like the logical thing to do. Borrow more, get a tax deduction and make free money when the house rises. Then refinance, pull out some cash and pay off the credit cards. An entire country was living on debt financed through mortgages and it caught up to us.

It seems like no one really wondered what would happen if prices stopped going up or if even worse heaven forbid began declining. Remember this. If you can remember one thing please remember this. People have very short term memories. When the next boom happens no one will remember what happened in 2008. Just like no one remembered what happened in 1989. But it will happen again. It is bound to. History will repeat itself. As more lenders originate loans they will have to sell these loans to Wall Street to lay off their risk. And as prices go up more and more investors will buy these loans. And the cycle will continue. Until one day it implodes again. But that day is a very long way off. In my estimate it is probably a good 8 to 10 years away. Which is why I say "now is the best time in your lifetime to be buying real estate".

So the banks put a lot of inventory on the market and this inventory ended up on the MLS in the form of a bank owned property formally known as an REO. At the same time, another problem for wholesalers purchasing from distressed homeowners was that prices were declining so rapidly that wholesalers were using comps that were almost useless. A wholesaler was looking at sold comps for the past few months to make a decision on their offer price and then a week after signing the contract the banks would put many more houses on the MLS for lower prices. The MLS became a better predictor of prices than the comparable sales! This is what happens in a rapidly declining market. Back in 2004 to 2006 we had the exact opposite problem. Prices were rising so rapidly that the comps were low because when we looked on the MLS we realized prices were moving up rapidly and were much higher than what the comps were showing us. So make sure you always look at the comparable sales AND the MLS. Right now prices are rising and the comps are moving up. Keep that in mind when you are making offers. Remember that investors operate out of fear and greed. Right now everyone is greedy and afraid to miss out on an opportunity so many investors are bidding up properties and prices are moving up.

With so many bank owned properties on the market, cash investors began to realize that there were many amazing bargains to be had by buying these bank owned properties directly from the MLS. As prices continued to decline more and more wholesalers realized that it was futile to deal with homeowners and short sales. It was easier to just go directly to bank owned properties listed on the MLS and deal directly with the realtor who was the listing agent. This way the wholesaler did not need to be concerned about violating any laws about interacting with homeowners in foreclosure. The wholesaler also did not need to deal with the “emotional trauma” of consoling a homeowner that is about to lose their house and is forced to move. Buying REO properties directly from the bank became the easiest and most efficient way to find wholesale deals beginning in 2008. Many cash investors and wholesalers like myself noticed the opportunity and began to act on it. As I mentioned previously I founded the Distressed Real Estate Institute™ in 2008 to capitalize on this opportunity. Now 6 years later we have thousands of students from all over the world investing in distressed real estate, foreclosures and short sales.

By 2008 I noticed an opportunity. Everyone was so negative and the general consensus was that the market can only continue to go down. But from the pricing it seemed to me that this was not likely and it seemed far more likely that prices would soon turn and begin to rise again. I decided to do something about this. By 2009 I was ready to start buying real estate again. Some investors like me and other cash investors notably hedge funds started researching the opportunities in single family residential real estate and I knew that they would eventually enter the marketplace in force and start buying. I hosted my first event called the “Distressed Real Estate Workshop” in January of 2009 and I remember that back then, when I made an offer to purchase a bank owned property there were rarely any other bidders on the property. In one case, I offered $35,000 on a bank owned property that was listed for $55,000 and the bank immediately accepted my offer. It was just me as a buyer negotiating directly with the bank. In May of 2009 I held my first Distressed Real Estate Boot Camp and I told my students that they needed to start buying. My first round of coaching students that heeded that advice have made hundreds of thousands of dollars simply by buying low at the right time. As Warren Buffet says, “buy when everyone is afraid and sell when everyone is greedy”. Well at the time in 2009 the Financial Crisis was in full force and the headlines featured multiple news stories on the collapse of the housing market and the banks that were collapsing as a result of it. That is why I say you should not pay attention to the media.

In 2009 after just a few short months of buying houses at rock bottom prices I noticed that the listing prices started to increase a bit and also that the listing agents were asking for “highest and best”. In other words – there were other buyers! I noticed that in just a few months the market had changed and sophisticated buyers were scouring the market looking for deals. I also started to receive phone calls from investors from Europe, Russia, Israel, China and even the Middle East looking for deals. One prominent Australian investor worth more than $100 million flew in from Australia to meet with me and discuss the situation in the U.S housing market. I met with quite a few hedge funds at the same time who wanted to talk about the outlook for U.S real estate. Most notable was that most of these hedge funds were not U.S based. It seemed like foreign investors senses the opportunity in U.S housing before U.S investors did. It helped that the dollar was week and their currency was strong and also that their housing market had not yet collapsed or if it had not as dramatically as the U.S market. Countries like Australia, China and Israel were booming while the U.S housing market was reeling in pain. Even Wall Street was looking into residential real estate. I was asked to contribute to an analyst report by a major U.S Investment bank about single family homes in the U.S market. It was a good time to start buying real estate again.

I had to start competing with multiple bidders and offering my highest and best on almost every deal. Soon I had to offer to pay over the asking price in order to get my offer accepted. By the following year, there were so many cash investors and wholesalers competing to buy bank owned properties. Especially foreign investors. As an example, I placed a classified ad in the newspaper for a low priced home that I had under contract in Pompano Beach, Florida. I received phone calls from Sweden, Italy, France, Germany and England and had over 50 phone calls a day for this property. This was happening while the same newspaper that was running my classified ad had a front page article talking about how bad the South Florida real estate market was. The market was not bad. It was smoking hot. But the media just didn't know it. In many areas prices had turned and increased. The marked had declined so drastically that by 2010 prices were so low that all of the bargain hunters started to surface.

Anyone that purchased real estate in 2009 or 2010 got an amazing deal at a ridiculously low price. And prices are still low. It is still a great time to buy. Foreign investors are buying properties like crazy in South Florida right now. In fact 31% of all bank owned properties were sold to foreigners last year. And the demographics for Florida are fantastic. Did you know that in 1950 the population of New York was 5 times the population of Florida? Well last week the State of Florida surpassed New York as the third most populated state. 250,000 people move to Florida each year. And that is not slowing down. Other states with good demographics and good population growth are Texas, California, Arizona, and Nevada. All of these states have sunshine. People like sun. They don't like snow. That is why Florida is full of new Yorkers that are "snowbirds" and come down here every November and leave every May. Buying real estate now is a great opportunity. And as a wholesaler you can help these buyers by finding them great deals.

As a wholesaler, you can submit a contract on a bank owned property and after the bank has accepted your offer you can "deliver" this bargain property to the cash investor that is looking for a deal. Naturally, cash investors are also going to look on the MLS themselves. The key is to beat them to it. If you can spot a great deal and get it under contract then if the cash investor really wants that house he is going to have to buy it from you or risk losing it (when you sell it to someone else).

Many of the cash investors that are buying today are landlords looking for good rental properties. Wholesalers that can beat these cash investors by "tying up" a property can then try and resell these properties to these cash investors. New landlords also want to enter the market and buy properties at ridiculously cheap prices. How ridiculous? I just wholesaled a property for $27,000 that previously sold for over $200,000. There are some properties that are selling for 20% to 30% of what they sold for just a few years ago! The low priced properties is where the action is because landlords are looking for rentals and first time home buyers are looking for homes. These are the only buyers in the marketplace right now. Landlords and first time home buyers that can get an FHA loan. That is why the low end of the market is so great. In Florida the properties priced below $100,000 are the ones that get the most action. Seniors looking to retire to Florida are interested in these properties. Landlords are interested in acquiring these properties as rentals. And first time homebuyers with FHA loans typically need a payment of no more than $1,300 per month which is once again low priced homes. Notice I said homes and not condos. I don't buy condos, and I prefer single family homes over multi family, duplexes, triplexes or anything else. I find that there is the most demand for affordably priced single family homes. The most in demand house is a CBS (concrete block stucco) 3 bedroom 2 bathroom single family home with central air conditioning that is at least 1,000 square feet or larger. That is what works in South Florida right now. That is what works in most States. The only difference is price. What is cheap in San Francisco is very expensive in Alabama. But you can learn pricing for your market very easily.

As I write this book, there is fierce competition to find these REO properties. The competition is who can talk to the listing agent, submit an offer and have the seller (bank) approve it. There are many more cash buyers looking for great deals than there are great deals out there. This usually happens at the lowest price points for any given city or target market. For example if you put in the name of your city, town or target market on www.realtor.com and then you sort by price based on low to high then the properties that show up on the first few pages are the smoking hot deals. Usually most of these are bank owned properties and short sales which are being sold way below market and for that reason they show up in the lower priced points of that target market. This is where the deals are. There might be 1,000 homes for sale in a certain town or city. But the ones that all the investors are fighting over are the 50 cheapest ones.

When you look at a list of the cheapest properties, in most markets these properties are already sold, pending, or contingent meaning someone already has them under contract. It is important to understand that a cash buyer looking to buy one of these properties on the MLS cannot call the listing agent and offer to buy the property since the property is already under contract and the seller (bank) has already agreed to sell the property to someone else. So a cash buyer investor who wants one of those pending properties has no choice but to pay a wholesaler their fee. Either that or they have to find another property. That is why wholesaling exists and what makes it so lucrative. Cash investors have cash because they make a good living. Many of them are doctors, lawyers, and engineers etc. who do not have time to spend all day on the phone looking for deals. So the game is basically who can get the house under contract. And that game is played by wholesalers. Once the house is under contract the person that owns that contract can choose to close on the property and fix it or rent it. Or in the case of a wholesaler they can simply flip the house to another investor for a small fee. But it all starts with getting the house under contract. And you cannot do that unless you are MAKING OFFERS. That is the part that takes effort and time on your part. We teach our students to try and make five offers a day or twenty five offers a week. If you can consistently make 100 offers per month then even if only 5% of your offers were accepted you would be getting five houses under contract. And if you flipped only one of those houses for $5,000 or $10,000 you would be making money. Flip two or three of them and you will be having a good month and may start thinking about quitting your job. But one thing I can guarantee you is this. You can't get any offers accepted if you don't make any offers.

When a wholesaler has their offer accepted by the bank, they can then market the property to cash investors and try and resell it for a profit. There are so many cash investors looking for deals that wholesalers are calling each other trying to find a buyer for other wholesaler's deals. When I blast email my deals out to my cash buyers, many of the deals are usually sold to a cash investor in less than 48 hours. The really good deals sell in a few hours. Our email blast goes out on Monday and Wednesday around 10 a.m. By 1 p.m. we sometimes have 5 or more properties already sold (in just 3 hours).

As prices rise, cash investors, landlords and rehabbers are becoming much more interested in buying. Many novice investors are buying for the first time taking advantage of low prices and deciding to become landlords, buy and hold or fix and flip for the first time. There is tremendous demand for good deals. A decent house with a good spread and equity that can generate a nice profit for investors is in high demand and the competition for these deals is fierce. In the past year I have seen multiple properties get bid up substantially over their list prices. I see properties listed on the MLS for $49,000 that go for as much as $80,000. At the same time, the banks are now much smarter and they know that it does not benefit them to dump a lot of inventory on the market. They are releasing their inventory very slowly in order to try and change the supply and demand imbalance. And they have. There is now much more demand than there is supply. And as prices go up this is good for the banks since their inventory of bad loans is now increasing in value for the first time since the crisis began. This is a healthy sign and shows that the market has improved and the general economy has improved. More banks are now lending and being a mortgage broker is becoming hot again. As more and more regular homebuyers can get approved for mortgages I expect prices to move up significantly from current levels.

Prices have moved up quite a bit from the lows of 2009 and 2010 market bottoms. I expect an increase in prices for at least the next 6 or 8 years or maybe even longer than that. Now is a great time to be investing in real estate The flip side to that argument is that there is still another wave of foreclosures that are coming and the bank will eventually have to put them up for sale on the market. However, if prices move up and more cash investors enter the marketplace it is conceivable that it will be easier for the banks to sell their inventory than it has been over the past few years. One thing is for certain though. If you are looking to buy a house for the first time or if you are looking to purchase an investment property then I would not wait. I would buy right now. This is probably the best time in your lifetime to get started as a real estate investor, landlord or wholesaler. You have the wind at your back as prices rise. The hardest part for you as a new investor is to overcome your fears that you have within you, the cynicism, the skepticism and the paralysis of analysis. Sometimes you just have to hold your nose and jump in and start investing. The time to do that is now. Face your fear, overcome it and get started investing today.

Chapter 7 Submitting an Offer On A Bank Owned Property

You will need 3 things to submit an offer on a bank owned property:

Proof of Funds Letter
Deposit
Purchase Contract

We will cover these 3 things now.

Proof of Funds Letter

If you have cash available, you can print out a bank statement or brokerage statement showing that you have the cash available to purchase the house. If you do not have the cash available then you need to find someone that does have the cash available that would be willing to loan it to you. You can ask a private investor such as a relative or family member for the cash or you can ask your hard money lender to provide you with a proof of funds letter.

If you can't get either then your best option is to get a proof of funds letter from a transactional funding company like us. There are many companies like this out there and we have a close relationship with a few of them. We provide our students access to our proof of funds letter site for $500 per year. Access to this site allows you to generate personalized proof of funds letters for each property with the price, property address etc. New students that enroll in our Distressed Real Estate Boot Camp get access to our proof of funds letter site for free for the first 12 months. We can provide you with a proof of funds letter if you want us to fund your real estate deals. To sign up or for more information about our proof of funds letter and boot camp combo send an email to our office to: support@lexlevinrad.com or call 561-948-2127 and speak to one of the Distressed Real Estate Institute staff members.

Deposit

You will need a minimum of $1,000 dollar deposit in order to submit a purchase contract on a bank owned property. Keep in mind that you do not need to give them the deposit until you know for sure that you are buying the house and flipping it to an investor. You might be able to get away with less but the rule of thumb is 3% or $1,000 so if you are dealing with a lower priced house (which you should be) then $1,000 should be sufficient. If you do not have at least $1,000 to put down for a deposit then you should probably not attempt to be a real estate wholesaler until you can get come more cash for your deposit together. If you partner with us on a deal and we find you a cash buyer then if the $1,000 deposit is an issue we will put it up for you.

Purchase Contract Completed Correctly

It is imperative that you complete the purchase contract correctly. The most important thing to know is that banks will not allow assignable contracts. This means that you cannot simply put the words "and or assigns" next to your name and use an assignment of contract form like you would with a regular seller.

You are going to need to purchase the property in either your personal name, the name of a company or in the name of a land trust. Land trusts may or may not work in your state so please consult your attorney to see if they do. One of our associates who is a land trust expert tells us that they work in all states except Louisiana.

We do not recommend that you make offers in your own name. If you purchase property in your name some transactional funding companies will not give you a proof of funds letter or provide transactional funding. I said some because some companies will and some will not. Our company will provide you with transactional funding in your personal name but we prefer that you use a land trust for the buyers name when making offers.

If you purchase in the name of a limited liability company (LLC) or corporation you will have more options. You will be able to assign the membership interest in the LLC or corporation to your cash buyer OR you can double close the transaction. Also note that many sophisticated buyers purchase using an LLC or corporation. Your offer may appear to the bank like you are a more sophisticated buyer.

If you purchase in the name of a Land Trust then you can either assign the beneficial interest in the land trust OR you can double close the transaction. Land Trusts work really well and have multiple advantages to them. They are free to set up and they are not recorded documents so they are private. You can change beneficial interests very easily which makes them the perfect vehicle for wholesaling. However, some banks are starting to realize that many wholesalers are using land trusts so this mitigates some of the benefits. Certain banks (like Bank America) will often refuse to accept an offer if the buyers name is a land trust. We teach our students to make offers on properties with the buyers name being a land trust in all cases. We use land trusts with all of our Partnership Program and Inner Circle Coaching students.

If you are a member of our Partnership Program and you have a deal under contract and you want us to market your deal to our cash buyers list then we prefer that make an offer using a land trust for many reasons.

If you would like us to help you find a buyer and transactional fund your deal then it is imperative that you follow this procedure in completing a contract. You should complete your contract the land trust as the buyer and you as the trustee.

1. Buyers name should be the land trust. For example if the property is located at 123 Main Street then the buyers name would be "123 Main Street Land Trust". You are the trustee of the land trust so you can put your name after the name of the land trust. For example if

your name is John Smith the then name of the buyer on the purchase contract would be "123 Main Street Land Trust, John Smith Trustee".

2. You must offer an initial deposit or escrow of no more than $1,000. Never put down more than that. Keep in mind that some entities like Fannie Mae require a 10% deposit which is much more than $1,000. If you are a newbie I recommend you stay away from Fannie Mae properties and stick with properties where your deposit is no more than $1,000. The less you offer as a deposit the less you can risk (or lose). I also recommend to my students that they never place the deposit until they have an end buyer in place to flip the property too. This is true even if the listing agent is demanding the deposit from you. Remember you can't lose what you don't put up. Once you put up the deposit with the title company you are now making yourself liable to lose your deposit. This is especially true if you are a new investor and you do not understand inspection periods and how to cancel. You are responsible for cancelling your contract and getting your deposit back before the end of the inspection period. If you don't cancel in writing you will lose your deposit!
3. You should use your own title company if the bank will let you and should also put this in the addendum. If you pay for your own title policy the bank should not object to you using your own title company. Insist on using your own title company. I have had many problems with the banks title company not doing the research correctly and missing liens which I only found out about after I closed and owned the property. Some unscrupulous sellers (like Hubzu) don't even do a lien search! Some title companies do a lien search and title commitment but don't do an open permit search or code enforcement search. Or they mark them as exceptions on their title policy. Use your own title company that will be working for you. Insist on a lien search, marked up title commitment, open permit search, code enforcement and a complete city, utility and municipal lien search. You need an investor friendly title company that understands double closings, transactional funding and investors.
4. You should give yourself a 7 day inspection period on your purchase contract. This is pretty standard with bank owned properties. You need this period of time to market and try and find a cash buyer for your deal. In reality, the bank will often counter you at 5 days in the addendum. However Fannie Mae and Freddie Mac and HUD have 10 days as standard on their addendums. Under no circumstances should you submit a contract without an inspection period of at least 7 days. Never submit a contract with zero inspection period because you will have no time to market the property and find a buyer.

It is a good idea to write in the addendum that you will be closing with your own title company and will be paying for your own title policy. Some banks will automatically say no to this in which case you will have to use their title company and they will pay for your title policy. But you can still tell them you would like to "courtesy close" with your title company and have them review the documents.

Once you have submitted a purchase contract and made an offer to purchase a property, you will wait for a response from the listing agent. In many cases, your offer is submitted via an online system and the asset manager at the bank responds to the listing agent. On most bank owned properties there are multiple offers. Usually the asset manager responds to the listing agent with a counter offer. For example if a house is listed at $50,000 and you offer $40,000 they might counter you at $48,000. Then you might counter them back at $45,000 which they might accept. The highest amount you will offer is called the “highest and best offer” which is what the bank will ask for if there are multiple bidders – which in the case of REO’s there usually are. We teach negotiating techniques at our boot camp to show our students where to place their offers. Getting your offer accepted is key. Knowing how much to offer is critical.

Once the bank agrees to your offer you have a house “under contract”. It is usually marked “contingent” on the MLS and you just need to wait for an executed contract from the seller before you can start marketing the property. Do not market the property before you have an executed contract.

When the seller has signed your contract indicating in writing that your offer is accepted you can start marketing the property. Please note that the date that the last party signed (usually the seller) is the “effective date”. This is the date from which your inspection period starts counting. You have to find a buyer for this property within those 7 days or you need to cancel (in writing). The next chapter will talk about finding a cash buyer who is an end buyer that you can flip the property to and how to do this with a double closing.

Chapter 8 Marketing Your Wholesale Deal To Buyers

Now that you have an executed contract you should immediately begin marketing your deal to cash buyers. You should put a classified ad in the newspaper immediately and you should also get pictures of the property and post them online using online web sites like Craigslist, Back Page and Ebay Classifieds which are all free sites. Another site that is worth looking into is www.postlets.com which allows you to syndicate your deal to other social networking sites. However if you are going to do this I recommend you get your real estate license. You should also consider networking with other wholesalers to help you sell your deal in exchange for a 50/50 split (which is very standard in the industry).

After all, if you want to move your deal, it is better to make half the money than no money. If an active wholesaler in your market has 10,000 cash buyers in their database that they email to you will most likely find a buyer with them. The best plan of action is to do both forms of marketing. Market the deal yourself but also network with other wholesalers. This way you will build your buyers list and still move your deal. You will also get the added benefit of other wholesalers giving you their deals to market (once they trust you). This means more deals to show your cash investors which is a good thing because that is what your investors want.

Never forget that your job is to find good deals for cash investors and to get a small fee in exchange for finding them the deal. If you get greedy on how much you want to make (which is a common beginners mistake) then you will make nothing. Start out looking for small profits of $3,000 to $5,000 until you can recognize which deals you can make more money on.

Also make sure you have clearly aligned goals. Don't decide that you will wholesale but if you can't move the deal then you will become a rehabber. Decide ahead of time if you want to fix up houses and flip them or if you want to wholesale them. I recommend you wholesale 3 to 5 houses before you even consider doing a rehab. As a wholesaler your only job is to move the deal to a cash buyer and if you can't then you cancel and move on. If no one wants to buy the house then you should analyze what you did wrong in your calculation of your offer price and you should also learn which houses sell quickly and why. Don't get emotionally attached to the house (common beginner's mistake).

Chapter 9 Selling Your Deal To A Cash Buyer

If you cannot find a cash buyer for your deal then prior to the end of your inspection period you need to submit in writing a cancellation of contract form and have it signed by the seller. You are allowed to back out of your deal prior to the end of the expiration period so make sure you do so if you don't have a buyer or you will lose your $1,000 deposit. For that reason I always recommend you never give the title company the deposit until after you have found a buyer.

If you find an end buyer, make sure you get at least a $3,000 deposit from them in cleared funds like a wire direct to the title company (no personal checks and no cashier's checks). Ideally the title company should be the same title company that you have your first purchase contract with. Make sure that they know that their deposit is non-refundable and that they have zero inspection period. This needs to be stated in their contract. The minute they submit their wire the deposit becomes non-refundable. If they want to inspect the property have them do so before they wire the deposit. Make sure you write in the addendum of your contract that their deposit is non-refundable and that there is no inspection period. You should also put in the addendum that buyer pays all closing costs if you can get away with it.

You will need to draw up a separate purchase and sale contract with the end buyer. Make sure that you put the same name as seller on this contract as the buyer on the first contract with the bank. Also make sure that you have sufficient profit to cover your closing costs for both the purchase and the sale. You are going to have a double closing at your title company and you will be paying for two closing costs. For this reason, you should put in the addendum of the end buyers contract that buyer pays all closing costs. This will help reduce your closing costs for a double closing.

At this point, your deposit will go hard (non-refundable) and so will the end buyers. The only reason for the deal not to go through at this point is because of a title problem or the end buyer not showing up with the cash to close. If the end buyer does not show up at closing, then you can keep their $3,000 deposit and you lose your $1,000 deposit netting you a small $2,000 profit. For this reason it is imperative that the end buyer understand that their $3,000 deposit is non-refundable. This is why a wire is very important. Checks can be stopped. Wires cannot be. If you take a personal check from your buyer and it bounces then the bank will keep your $1,000 deposit and you will now have lost $1,000. Only take cleared wired funds. Even cashier's checks can be fake. Wires are real. Only take wires. As much as I teach this, it is amazing how many beginners get "suckered" into taking a personal check on a property. Then when their deposit goes hard and they lose their deposit they are stunned that the check bounced. Only take wires period!

The only thing left in order to complete your first wholesale flip is the funding for the front end. Legally you have to buy and pay for the property before you can sell it to the end buyer. You cannot under any circumstances use the end buyer's funds. If you have the cash to pay for the purchase then by all means use your own cash. But if you do not then you will have to get transactional funding. You cannot flip the property without paying for it. And if you don't have the cash to pay for it then you have to borrow the cash. That is what transactional funding is. We provide transactional funding to our students on a daily basis.

Transactional funding is simply money that is wired in and then wired back out on the same day to the funding company. The only purpose of the transactional funding is to show the bank that there was payment for the first purchase and that the purchase is kosher. Transactional funding companies charge around 2% and a $495 processing fee for transactional funding. If your deal is in Florida and you would like transactional funding I can fund your deal for 1% ($500 minimum) if you use my preferred title company. If you would like us to provide funding for your deal and find you a cash buyer as well then we will do so and will split the deal with you 50/50 if you use our title company and you are enrolled in our Partnership Program. For more information about our Partnership Program please visit http://www.lexlevinrad.com/partnership.html

If your deal is in Florida and you have your end buyer in place we can still fund your deal with transactional funding as long as you use one of our preferred title companies. If your deal is not located in Florida then we can still help you find a buyer and coordinate the double closing. However for funding we may fund your deal or we may utilize a third party transactional funding company and their rates may apply. Typical funding rates are 2% with a $495 processing fee. We can fund your deal in any state as long as you use one of our preferred title companies.

If you own or work with a title company that is investor friendly and that is familiar with double closings and have been in business for at least 5 years and would like to work with us and our students please contact support@lexlevinrad.com or call our office at 561-948-2127.

Chapter 10 Transactional Funding And Double Closings

If you have a signed contract and are wholesaling your deal to an end buyer if you don't have the cash to pay for the closing you will need to borrow it. This is called transactional funding. Transactional funding is perfect for bank owned properties and short sales which are being flipped to an end buyer. Since banks do not allow assignable contracts, you are going to need to schedule a double closing with your end buyer. Double closings also known as simultaneous closings allow you to schedule two back to back closings for the same property on the same day. You will need to have a source of funds to pay for the first transaction. This is where transactional funding (also known as same day funds) is needed. For a more detailed explanation of double closings please read my book "Title Insurance Tips & Secrets" in the Amazon store at this link: http://lexlevinrad.net/titletips

So if you are short on cash and you need our company to put up the cash for you to fund your purchase then you need to submit a transactional funding request to us. You can do so by submitting your funding request to support@lexlevinrad.com. However before you do that, please understand that we will not provide funding unless your second close (BC close) is with one of our preferred title companies that we have a relationship with. That means that if you want us to fund your deal you need to bring your second close to one of our preferred title companies. We do this to protect ourselves and ensure that your transaction runs smoothly. When it is time for us to fund, we will only fund your deal when the end buyer has funded and signed all closing docs. In order for us to fund your transaction we need to review it and make sure that it meets the following criteria:

You must use one of our preferred title companies if you want us to fund your deal. We will not fund your deal if you do not use one of our preferred title companies.

How does transactional funding work?

If you are looking to flip a bank owned property then you will have two contracts and two closings. That is why it is called a double closing since there are two closings. The first contract is between the bank (seller) and you (buyer). The second contract is between you (seller) and your end cash buyer (buyer). The end buyer is the person that will ultimately be the long term owner of the property. He/she is the person you are flipping the property to.

Example of transactional funding for a double closing:

A – Bank or Seller (seller)
B – You (wholesaler)
C – End Buyer (cash buyer)

You have a contract with the bank to purchase a bank owned property at $80,000 (first contract). This is known as the A-B transaction or the first side or the purchase.

You market this property to your cash buyers and you find a buyer at $90,000. You sign a contract with this buyer with you being the seller and them being the buyer (second contract). This is known as the B-C transaction, the second side or the resale.

The difference between the two contracts (after deducting closing costs) is your profit that you will make on this deal by flipping it to your end buyer.

Double Closings

Since there are two contracts there are two closings. This means you will pay double closing costs. There are ways to avoid paying double closing costs like using an entity such as a Land Trust or an LLC or a corporation. There are advantages and disadvantages to using these methods and some of them may or may not be legal depending on deed restrictions. You can assign membership interests in an LLC or shares in a corporation or beneficial interest in a land trust in exchange for a fee. This fee is called an assignment fee. However, your cash buyer will see how much profit you are making since they will have to agree to pay the fee. This means that this strategy will only work if your profit is reasonable. If you buy a property for $20,000 and flip it to a buyer for $40,000 and then ask for a $20,000 fee your buyer will probably say no. However if your fee was a few thousand dollars your buyer probably would not have a problem paying your fee.

Some wholesalers try and use entities like LLC's or land trusts to get around the deed restrictions on a property. This is illegal and you should not do this under any circumstances. If there is a deed restriction then you cannot flip the property period for however long the deed restriction is (usually 30, 60 or 90 days). You will have to close on the property, wait and then sell it.

Another obstacle with assignments is that your buyer might be uncomfortable with this method. Think about it. You advertised a property, they said they wanted it and now you start telling them you have it under contract and are flipping it and want an assignment fee. That is an unnecessary conversation to have with your buyer. It may well make them uncomfortable and they might back away. You are better off not having that conversation and paying for the double closing costs.

Double closings cost a little more but if your end cash buyer is paying all closing costs on the second contract then you should only be paying maybe $1,000 more to complete a double closing. I prefer for everything to go smoothly with our buyers and my preference is the double close. It is also much cleaner for record keeping and title searches.

If you are going to have a double closing, then you will need to have a way to pay for the first closing. In the past you may have been able to get the end buyer to sign an affidavit that you will be using their funds to fund your first transaction. But there are two problems with this method. The first is that you might scare off your cash buyer and the second is that it is now illegal to do so or at least could be potentially considered as fraudulent. Banks claim that you cannot sell something you do not own. So by buying the property, closing on it (with a double close) and paying for it with wired funds you then own the property. Now that you own it you are free to resell it or do anything else you want with it (as long as there is no deed restriction).

Double closings are much cleaner, more kosher and a good way of doing business. For this reason, if you don't have the cash available you will need transactional funding in order to fund your purchase (AB).

What are the fees for transactional funding?

The transactional funding fee for Florida deals is a flat fee of 1% with a minimum funding fee of $700. For example if you were to request $90,000 your fee would be $900. These funding fees are applicable only for the state of Florida and only with one of our preferred title companies. If you would like transactional funding outside of Florida then our rates increase to 2% with a $495 processing fee. Also most of the deals that we fund are in the lower price point ranges. We have no interest in funding huge deals and would rather outsource the risk to a third party company. Our experience has been that high priced deals have much more potential for fraud too which is why we don't like funding them. However there are many transactional funding companies that will fund your deal and we utilize third party transactional funding companies to fund these deals and their rates apply (their rates are higher than mine). Please keep in mind that our funding rates in Florida are so low because we are partnering with most of our students on their deals. Third party transactional funding companies charge quite a bit more to fund deals.

What if the bank insists on using their title company?

We will only provide transactional funding if you use our preferred title company for the second closing. Ideally we would like you to have both closings at our preferred title company since your closing will go a lot smoother, closing costs will be less and the funding and the double close will flow effortlessly.

What should you do if you find a cash buyer for your deal?

You should always take a deposit from your end buyer that is at least twice the amount of your initial deposit and you should always only accept cleared funds like a wire directly to your title company. It is your responsibility to provide both contracts to your title company and to clearly label all wires with the property address. It is also your responsibility to communicate with the title company about your deal. You cannot simply wire money without letting the title company know what property the money is for, where the purchase contracts are etc. If you are doing a transactional funding deal with us then please send us a detailed email with the property address, both of the contracts, the end buyer information etc. You can email that info to support@lexlevinrad.com

Can you help me find an end buyer?

Yes, if you are enrolled in our Partnership Program and we find a buyer for your transaction then we will split the profit with you 50/50 net of closing costs. We can do this in any State in the U.S. We even partner with international students. If you have a deal and it is a good deal then we can probably find you a cash buyer. Many of our buyers are looking for rental properties and first time home buyer properties that are valued at less than $150,000. The highest demand for housing exists at the lower price points of the market since there are first time home buyers and cash investors looking to buy these properties. We have tens of thousands of cash buyers for these types of properties in Florida. We have over 111,000 cash buyers in our database from all over the country looking for deals. If your deal is decent we will probably find you a cash buyer. We have a large active network of cash buyers and wholesalers in other states as well. If you are a wholesaler and you sell more than 5 houses a month and you want to work with us please email support@lexlevinrad.com or call our office at 561-948-2127. We have a large network of wholesalers and students from all over the country that partner with us on deals. Many of our students are now full time wholesalers and partner with us on deals on a daily basis.

What areas do we purchase properties in?

If you want to partner with us on deals and you are enrolled in our Partnership Program then you might be interested in knowing what areas of Florida we purchase most of our properties in. We have many students from other States that are locating deals in Florida for our buyers too. We even have International Students looking for deals in Florida. It is very important for you to understand that regardless of what city and state you live in you don’t have to physically be located in Florida to look for deals in Florida since you look for deals on your computer and by talking to real estate agents over the phone or bidding on online auctions on your computer. We have one student that recently wholesaled 17 houses without looking at any of them! If you live in a city where it is cold, and there is no job growth (like the rust belt) then locating wholesale deals in your city might be easy to do but you could have a real problem selling these houses since there are not as many buyers interested in these areas. You might find it easier to locate buyers on a deal in Florida even if you are not physically located in Florida. 65% of all foreign purchases last year were in the state of Florida. We sell 50% or more of our inventory to foreign buyers and I can tell you that the demand for deals in Florida from these buyers is insatiable. Many of our students have found this to be true. Once you have wholesaled with us and completed a few deals you will be able to apply this model to your own city or town that you live in. And you will find it relatively easy to become a wholesaler who is a “player” in your home town once you apply what we teach you.

Real estate is real estate. A wholesale deal is a deal regardless of which city it is located in or which city you live in. If you find a deal buyers will want it regardless of whether you live in Milan, Tokyo, Dubai or Sweden. The deal is the only thing that matters. If it is a deal with equity, then buyers will want it.

Many of our students call us and ask us where we personally buy our rental properties. We buy properties all over the State of Florida and we buy properties in many other states too. However our rental portfolio is primarily in Miami-Dade County, Broward County, Palm Beach County, Indian River County, Martin County, Okeechobee County and St Lucie County. However we do buy properties all over the country and we are expanding our purchases in other states where rental property returns are attractive. Our offices are located in Boca Raton and we do probably 70& or more of our wholesaling business in South Florida cities like Miami, Boca Raton, Pompano Beach, Boynton Beach, Delray Beach, Lake Worth, West Palm Beach, Fort Lauderdale, North Lauderdale Margate, Miramar, Coconut Creek, Coral Springs, Plantation, Tamarac, North Miami Beach, Davie, Hollywood etc. However, we will fund your deal or buy anywhere in the State of Florida or anywhere in the U.S if the numbers are right. If the deal is right and both contracts are with one of our preferred title companies we can fund the deal. We charge a $250 inspection fee to physically inspect the property prior to funding. We reserve the right to reject any transactional funding deal based on our own discretion. We also reserve the right to reject any wholesale deals that we do not think would be a good fit to be marketed to our cash buyers.

What types of houses work best?

The best houses are CBS (concrete block with stucco) Wood frame is fine especially if it is on a sold concrete slab but we will always prefer CBS. In some areas of the country wood frame construction is more prevalent and might not be much of an issue. If the house is a wood frame house then it is preferable that the foundation be a solid concrete slab. The house must not have any structural defects, foundation issues, illegal additions etc. Most of our buyers prefer 3 bedroom 2 bathroom houses and 4 bedroom 2 bathroom houses. Three bedroom 1 bathroom houses work as well but are a little more difficult to sell. I would avoid 2 bedroom 1 bathroom houses as they are very difficult to sell unless you get them really cheap.

We prefer houses in low crime neighborhoods (not war zones) and we do not like houses that are on busy main streets or are adjacent to commercial businesses or industrial properties, rail roads, freeways, storage facilities, warehouses etc. We also do not like houses that are in areas surrounded by many duplexes or any type of multi-family housing where there are a lot of renters. In short we are looking for quite residential single family neighborhoods.

We prefer houses with fenced back yards, central air conditioning and good roofs. We also prefer houses that need cosmetic repairs as opposed to major rehabs. We do accept major rehabs but the repair estimate needs to be accurate for the numbers to make sense. We prefer houses that are not more than 50 years old and we prefer gable roofs to flat roofs. We also prefer city water to well water and we prefer city sewer to septic. Keep in mind that there are many areas of the country where every house is on a septic system or well water so naturally in those areas this would not be an issue.

<u>The following are deal killers for us which can be hard to sell</u>

Illegal additions or converted rooms, garages, Florida rooms etc.

Houses with open permits, code enforcement violations, liens

Wood Frame Houses with no concrete slab foundation (prefer slab)

Houses that are older than the average house in that neighborhood

2 bedroom 1 bathroom houses smaller than 800 square feet

War zones, high crime areas, areas with houses that are boarded up and vacant

Houses adjacent to multi family, businesses and commercial or industrial property

In short, we are looking for residential neighborhoods that are clean, quite affordable neighborhoods where a family that does not make a lot of money could live safely. We prefer Concrete Block 3 bedroom 2 bathroom houses on quite residential streets where families would want to live with their children. These are the types of houses that are easy to rent and easy to sell to first time homebuyers with FHA financing. These are the houses that cash investors are looking for. These types of houses are ideal for landlords looking for rentals and for rehabbers looking for houses to fix and flip.

How much money can you make wholesaling?

You can easily make $5,000 to $10,000 in profits per wholesale deal. Look at our You Tube Channel to see some examples of students that have wholesaled multiple properties at http://www.youtube.com/lexlevinrad .Keep in mind that in the price range that we are talking about (below $100,000 houses) even a profit of $13,000 or $15,000 is possible. As a wholesaler you will also see many properties where you only make $3,000 or $5,000 per deal. Either way that is a lot of money if you are flipping 5, 10 or 15 houses a month. Some of these testimonial videos are from our coaching students that are in our Advanced Inner Circle or Private Mentoring Program. If you are interested in these programs you should make enough on your first few wholesale deals to cover the entire cost of your real estate coaching. If you would like to learn how to wholesale bank owned properties or rehab and fix and flip bank owned properties then you will find our coaching programs to be an invaluable aid to help shorten your learning curve. Please visit the following link to learn more about our coaching programs that we offer: http://lexlevinrad.com/Mentoring.html

If you would like transactional funding for your deal

First speak to us and make sure that we are willing to transactional fund your deal. You need to be enrolled in our Partnership Program if you want to split the deal 50/50 and have us find a cash buyer for you and fund the deal. If you are not enrolled in the Partnership Program and just seek transactional funding then that is fine but you must have at least your BC closing with one of our preferred title companies. If you do not have the BC closing with one of our approved title companies then we will not fund your deal. There are no exceptions so please don't call our office asking if we will make an exception for you. Wiring our money to a title company that we have never heard of or never done business with is an easy way for us to part with our money. Since we are putting up all of the cash to fund your deal for a very small fee we have to make sure that you are using one of our approved title companies for the BC closing that we are familiar with and have done business with before.

If you have the executed BC contract with one of our preferred Title Companies and you have both escrow deposits for the AB and the BC closing in place and the BC closing is with one of our approved Title Companies then please submit the following paperwork to us:

Purchase and sale contract between the bank (or seller) and you (AB Contract)
Purchase and sale contract between you (wholesaler) and the end buyer (BC Contract)
Proof of funds letter for end cash buyer for BC showing that they have the cash to close
Deposit in escrow for both contracts (cashier's check or wire only no personal checks)

PLEASE NOTE THAT THE BUYER ON THE FIRST TRANSACTION NEEDS TO BE THE SAME NAME AS THE SELLER ON THE SECOND TRANSACTION

Please fax all documents including all purchase and sale contracts for both sides, all addendums, confirmation of wire deposit and proof of funds letter to 561-948-0410 or scan and email all documents in pdf format to support@lexlevinrad.com

If you have any questions about transactional funding or double closings please call or email our office and we will do our best to assist you. For any other questions about your wholesale deals please call our support team at 561-948-2127 or email support@lexlevinrad.com

Chapter 10 Information for Real Estate Agents

I am a real estate agent myself and encourage you to get your real estate license if you don't already have it. Having a real estate license will help you as a real estate investor and has many more pros than cons. Many of my students choose to get their real estate license after attending my boot camp after hearing about the benefits and how it could help you as an investor. You should definitely get your real estate license if you are "serious" about investing in real estate as a wholesaler or even a landlord or rehabber. I meet many real estate agents at various real estate events that I host or attend. Many of these realtors would like to know how to either become investors themselves or would like to know how they can make more money as a real estate agent working with investors. A common theme I have found is that many of these same real estate agents are not making as much money as they would like to be making. In fact I was shocked to learn recently that in the State of Florida last year the average real estate agent made only $8,000. Now I know a lot of agents that make 7 figures so clearly that number is skewed by all the people that have a license and are not doing any business. But what it illustrates to you is that most people that have a real estate license are not full time professionals in the real estate business and are only working part time or pursuing it as a hobby. If you are a real estate agent and you would like to know some strategies that could help you make more money working with investors then I am going to cover a few things that you as a realtor can do to make additional money. For those real estate investors reading this that are contemplating getting their real estate license I am going to recommend that you do get licensed. It is definitely worth it and there are many benefits to being licensed. The most important benefits are having access to lock box codes, being able to access and show properties and being able to list properties on the MLS. There are many other advantages to being licensed as well namely the most important one being that in all states it is not legal to wholesale someone else's property since you would be soliciting the sale of real estate without a license. So get a license if you are serious about wholesaling.

REO listing agents

If you are a real estate agent that is lucky enough to be a listing agent with REO listings then you are used to being inundated with cash buyers. You probably have also experienced your fair share of wholesalers and you do not regard wholesalers as your favorite group of people and with good reason. Wholesalers tend to put houses under contract and then they tend to cancel just prior to the end of the inspection period. As an agent, instead of getting your commission you have to go back to listing the property back on the MLS. This is a big waste of time and aggravation for you and also does not make the asset manager at the bank thrilled with you either. It is no wonder that so many listing agents hate wholesalers. I would too if I was counting on a commission and then at the last minute found out I would not be getting one. As an agent you just want to earn your commission and move on. I understand this. Selling a property quickly means a quick commission and keeps your asset manager happy. And understandably you prefer to have your deal go as smoothly as possible and to earn your commission as quickly as possible.

As an REO listing agent you should keep the following points in mind.

You are dealing with cash investors and so you need to understand what they buy and why. The more you understand this the easier it will be to deal with your asset manager and buyers. Educate yourself on the difference between real cash buyers and wholesalers. Understand the difference between a legitimate investor and a newbie that is looking around. Know the difference between a wholesaler that is active in your market and a beginner. Understand which deals are great and which deals are not and communicate this to your buyers. Understand your product (houses). Know ARV, Repair Estimates and what makes a good deal.

A Wholesaler Could Be Your Best Friend.

- You need cash buyers to sell your listings
- Wholesalers have many cash buyers – usually a lot more than you do
- You need to get access to these cash buyers
- If you work with a wholesaler then they can find you buyers
- If a wholesaler finds you buyers then you get your commission
- This is free marketing for you as a listing agent
- But you have to choose only a few wholesalers to work with
- And they must be the biggest and best wholesalers in your town!

As a listing agent you need to be very selective on who you work with. However, it wouldn't be a bad idea for you to have a good relationship with the 3 largest wholesalers in your area. If you have many REO listings then you probably already know who these people are.

Now, when you do a BPO you can call your cash buyers and your wholesalers and give them first crack at it. If your wholesaler has an end buyer in mind they can simply bring their end buyer to the table with a contract with you earning the commission. Or they might actually buy the property themselves and flip it to the end buyer that they found and be a principal in the transaction. Either way you get paid. The most important thing for you as the real estate agent is that the deal closes. If the deal closes you get paid. That is called working smart. A lot of listing agents work hard. The ones that make all of the money work smart. Your job is to move properties for the asset manager at the highest price that you can get for the bank. As long as you move properties in a legal manner you get to earn commissions and keep your asset managers happy. And the way to do that is to have lots of cash buyers. And the easiest way to have access to unlimited cash buyers is to network with wholesalers.

Here is an example:

Assume that you are a listing agent and you have submitted a BPO to the bank of $50,000 on a property and the asset manager has agreed to list the property for $50,000. It is Friday afternoon so you figure you will list the property first thing on Monday morning.

On Saturday morning one of your cash buyers calls to find out if you have any new houses for them to buy and you let them know that there is a new property coming on the market. Assume that the wholesaler is a real estate agent and you give them the lockbox code for them to preview the property (see the benefit of being licensed?). Now the wholesaler is a cash investor and he knows a deal when he sees one and he immediately gives you a full price offer verbally and tells you that he will buy the property no problem. As the real estate you do not know if he plans on keeping it as a rental, fixing and flipping it or wholesaling it. But none of that should matter to you. The only thing that should matter to you is that he is going to close and you are going to get paid your commission. So Monday morning you call your asset manager and tell them you have a full price offer with a purchase contract and a deposit and your asset manager agrees to sell the property for $50,000. As far as you are concerned the deal is done and you are getting paid.

However after you agree to sell the property for $50,000, your buyer (who is a wholesaler) calls another cash buyer that is looking to buy multiple rental properties at exactly this price point and in this specific town. And the wholesaler tells his buyer that the price is $55,000 ($5,000 higher). The buyer agrees to buy the property. At this point the wholesaler can close on the property and then resell it to the other buyer in the future or they can do both closings on the same day and use transactional funding for the double closings. None of this should concern you as a listing agent. The only thing that should concern you is that you are getting your commission and that your buyer will close. A good wholesaler would not even let you know that they are flipping the property. And as long as there is no deed restriction then it shouldn't really matter to you.

Cash buyers are not stupid. They did not accumulate a lot of cash by being stupid. Many cash buyers know that they are paying a fee to a wholesaler and know that there is a double closing and they simply don't care. In fact most wholesalers will put the double closing in writing on the purchase contract in the addendum. We do that on every contract that we write. If the buyer asks we simply state that we are buying the property from the bank and we are reselling the property for a profit. The buyers don't care. They view it as a cost of business. It is like paying a finder's fee. Cash buyers don't have the time to go and visit every good deal that pops up on the MLS. They are doctors, lawyers, dentists and engineers and their time is way too valuable for that. So what these cash buyers do is they rely on wholesalers to find, screen and inspect properties for them. And these wholesalers only bring the suitable properties to them in exchange for a finder's fee. We have buyers that buy hundreds of houses a year. And we know what they are looking for. And if you have an REO listing that matches what they want we can move it in a 5 minute phone call.

It would serve both asset managers and REO listing agents to understand this concept better. A Periodontist that makes $20,000 per day doing dental implants is not going to leave their office for a few hours to go look at a property that may or may not be a good deal. They are not going to cancel appointments and lose $10,000 to go look at a potential rental property. If they wait till the weekend the deal will be gone. So they rely on wholesalers to tell them what is and is not a good deal. And they trust these wholesalers if they have purchased from them before. These are the best types of buyers because they buy multiple properties. Last year one cash buyer purchased a few hundred houses. Imagine if you were the listing agent on all of those houses. Talk about easy business! If REO listing agents were able to differentiate between good and bad deals a little better then perhaps there would not be a need in the marketplace for wholesalers. But there is a need. Many REO Listing agents don't even preview the property. Wholesalers have tens of thousands of cash buyers that are hungry for your next listing. And that is why you need to network and work with them. At this writing we have over 111,000 Cash Buyers that are looking for a good wholesale real estate deal. And every month a few thousand more cash buyers go into our database.

Here is another scenario:

The listing agent knows that the buyer on their bank owned property is a wholesaler and the listing agent is making a 6% commission. Another buyer calls asking about the property and usually the real estate agent says it is “pending” and that is the end of the conversation. But this realtor is smart and she notices that the buyer say things like “wow I really wanted that house” etc. Well in this scenario, it would be smart for the realtor to tell the buyer that they know the buyer of the house and that he would probably sell it for a small profit because he flips houses for a living. Let’s say the buyer says that he would have no problem paying a few thousand dollars more to get that house. The real estate agent tells the wholesaler that after they close, if they want to they can sell it to another buyer for $5,000 more. After the closing the wholesaler decides to sell it to the cash buyer and the realtor earns another commission (3% instead of 6%). Is this legal? As long as everything was disclosed to all parties and as long as the wholesaler actually closes on the property and owns it and pays for it before reselling it then yes this would be legal. The only thing preventing this type of transaction would be a deed restriction that prohibits flipping for a certain period of time like 60 days or 90 days. In that case the wholesaler would actually have to own the house and wait 60 days before reselling it to the other buyer.

Either way, the realtor stands to make potentially more commission. The realtor will also be able to move deals more quickly which means more volume and more commissions. The bottom line is that working with wholesalers does not have to be a losing proposition for a listing agent. If the wholesaler gets your house under contract and cannot move it for a few thousand dollars profit then they probably committed to overpaying on the contract. In this scenario, the best option is to get the price reduced by the bank to where buyers and sellers can meet. After all, the objective of the bank is to lower the price to the point where cash buyers will buy the house. Wholesalers do this for you. They are basically a free marketing system that you can tap into. And they take a lot of risk for what they do. They have to put up all of the cash to close. They have to buy a house putting up all of their own money and then resell the house for a small profit to a cash buyer. And they have to do this multiple times a month to make a living. Good wholesalers move 20 or more properties in a month. Let them screen the buyers for you. They will do a much better job than you will.

Buyers Agents

If you are a buyer’s agent looking for new buyers or you are a new real estate agent looking for a way to make more money then you are probably wondering how you could make some money from all of these bank owned properties that are currently on the market. Most real estate agents spend their time trying to do BPO’s in order to get access to listings for REO’s. BPO’s pay very little money ($50) and you get very few listings from it. If you want to do BPO’s then focus on BPO’s and do BPO’s and nothing else.

However, there is a far easier way to make money. The banks have tremendous amounts of inventory that they are looking to sell. The banks need cash buyers. REO listing agents are also looking for cash buyers. So are wholesalers. In short, everyone is looking for cash buyers. If you can find cash buyers then you can make money in all of the following ways:

- Be a buyer’s agent for your cash buyers and find properties for them
- Network with listing agents and bring your cash buyers to their listings
- Work with wholesalers and mark up their deals and get paid a commission OR a fee.

The last option is where it gets interesting. Assume a $50,000 wholesale deal that I am blasting out to my wholesale buyers list. Imagine that you as a realtor show one of my deals to your cash buyers and tell them the price is $55,000. If your cash investor buys the property, then you earn your $5,000 commission which would be a 10% commission. You are allowed to charge this much and we can put your commission right on the HUD. However, your cash investor might frown at you making such a large commission. Your cash investor might prefer to see you making a more standard 6% commission which would be $3,000.

In this scenario, it might make more sense for you to act as an investor and sign an agreement with us to mark up the property in exchange for an “assignment fee” of $5,000. That way, your cash investor does not see how much you make. I always tell real estate agents that if their profit is in line with what realtors normally charge then the easiest thing to do is to put it on the HUD. It is also the most kosher way to do it because your broker will get paid. However, making an assignment fee instead offers two distinct advantages. The first is that you do not need to share your fee with your broker since it is not a commission. However you need to understand the law in your state regarding this. If you are getting paid and you are not acting as a principal then your broker must get paid. However if you are acting as a principal and purchasing the property and then reselling it then that is not something that requires your broker to be paid. However be careful with this since there is a very thin line between what you can do and what you cannot do. You cannot “double dip” and get a commission and make a fee as a principal. The second advantage is that you can mark up your deal any amount, as long as the end buyer is getting a good deal. My experience has been that a markup of 10% on a $50,000 deal is very reasonable. You should be able to easily markup a wholesaler’s price by 10% and still bring a great deal to your cash investor.

Many beginners make the mistake of marking up the deal too much. Then the deal does not look as good to the cash investor and the investor does not buy the house. Or the investor does buy the house but then feels like they overpaid and got ripped off. And when they decide to complain who do you think they will complain to? They will complain to your broker or your board or both. Act ethically and make sure you know the real estate laws for your state and what your broker and your board allow before you enter into practices that could jeopardize your license. Buying a house for $40,000 and marking it up to $70,000 to an out of state buyer is not going to look too good for you when you are standing in front of the judge or your board. Unless the house really is worth $120,000 and you have the sold comps to prove it and had some way of managing to get a ridiculously below market deal. No one will frown on you making 5% or 10% or even 15%

markup. In fact, Fannie Mae properties allow buyers to flip properties for no more than 20% profit. So a $50,000 house cannot be resold for more than $60,000. Making $10,000 profit in a scenario like this is more than enough profit. Most wholesalers would be satisfied with half of that! The above issue is one of the biggest dilemmas for real estate investors that are considering getting their license. My advice to you is to act honestly and ethically and always disclose everything. And when in doubt seek the advice of an attorney. If you follow that advice you should have no problem at all being licensed.

If you want to mark up a property and flip it for a profit then that is fine. You are acting as a principal in the transaction. Just make sure that you disclose that and that your buyer does not think you are simply making a commission. Also make sure that you pay for the property before reselling it and that you are not using your end buyer's funds to close. If you are then this could be a questionable practice and may even be illegal. The bank can claim since you never paid for the transaction you never really owned the house which means you had no right to sell it. This is where transactional funding comes into place. Borrow the money from a transactional funding company like us and pay a small fee to make your transaction legal, legitimate and ethical. Always use a Title Company and always get a Title Policy and Title Insurance. And remember always disclose that you are a real estate agent when you are acting as a principal in a transaction. When in doubt ask your board, your broker or your attorney.

Easy Way To Make Money As A Realtor ®

The easiest way for you to make money right now is to sign up for wholesaler's buyer's lists see what properties they are getting by signing up to receive their email blasts. If you want to see how this works visit www.CheapHousesinSouthFlorida.com and you will see one of our capture pages for cash buyers. Put your name and email address in on that page and you will begin receiving our email blasts which we send out twice a week.

As a real estate agent, you can add your commission to our price and then work on building your own cash buyers list. Once you have cash buyers then you can sell these houses to them for a commission. Your commission can be percentage based (like 3%) or dollar based. That is an easy way to make money! Market our listings to your buyers without leaving your house and when you find a buyer simply show them the house. I am absolutely amazed at how many real estate agents find it so difficult to find cash buyers. Using the Internet is the easiest way to find cash buyers and it is free!

Short Sales

What do realtors do when they come across someone in foreclosure? They tell the homeowner that they will do a "short sale" for them. The problem with this approach is that submitting short sale packages is a highly specialized skill. You are better off leaving your short sales to an expert negotiator that has experience dealing with the banks loss mitigation department. Our associates submit as many as 50 short sale packages a month and are skilled at getting their short sale offer approved and accepted in the shortest time possible.

If you submit a short sale lead to us, we will have one of our short sale negotiators associates meet with the homeowner and work on putting the short sale package together. While you sit back and relax, an expert will handle the short sale for you. And when we get the approval, you will get your commission. Does that sound easier than trying to figure out how to do a short sale? You see we don't make money from the short sale and we don't charge up front money either (which is illegal). The way we make money is we sell the house for a profit to a cash investor. We act as the buyer and we buy the property and then resell it for a profit. And we rely on a large network of real estate agents to submit short sale leads to us. The bank pays between 5% and 6% to the realtor that lists the property and that is yours if you refer a short sale to us. The negotiator charges a fee of approximately $1,500 and this is usually paid for by the seller (bank). Some title companies offer short sale negotiation for free in exchange for getting the closing. In this case you have to do the closing at that title company and you should check with us if we have an existing relationship with them for the double closing to go smoothly. Also be aware that some banks place deed restrictions on their short sales. So if there is a deed restriction you cannot flip the property until the deed restriction period has passed. Depending on the bank this is either 30, 60 or 90 days.

Start looking for short sale leads and start looking for cash buyers. Don't waste any more time trying to negotiate a short sale. Rather focus your time on finding more leads by advertising online using the Internet, Online Classifieds and Capture Pages. You need leads if you want your business to survive and thrive in today's economy. And the cheapest and easiest way to get leads is the Internet.

If you have cash buyers and short sale leads you can make a lot of money. Remember, you are facilitating an important role. You are assisting the bank in getting rid of their REO homes by finding cash buyers for these homes. It is a win/win situation for everyone. The essence of good business is giving the customer what they need. In this case that would be giving the cash buyer a house that they can buy to fix, flip or rent out. And remember you must be licensed in order to earn a commission or fee from selling other peoples properties. So if you are not a principal in the transaction then you are violating your States real estate regulations for the unlicensed practice of real estate. For that reason alone I believe that every real estate investor should get a license. In the State of Florida soliciting the sale of real estate without a license is a third degree felony. So get your license.

Chapter 11 Summary

As you can see from reading this book, wholesaling bank owned properties and short sales is easy, lucrative and legal. Despite all the news that you hear about not being able to flip short sales you can flip short sales and bank owned properties. We do it every single day. And we would love to teach you how to do it too. Now is probably the best time in your lifetime to get started investing in real estate. I have had multiple students with no prior experience wholesale deals with a net profit of up to $15,000 on each deal! And I have multiple students that have attended my boot camp that have gone on to flip 20, 30 even 40 houses. I have quite a few students that are now full time wholesalers. In fact I often joke that 40% of the wholesalers out there are my students and have attended my boot camp. There is a lot of money to be made in this business if you are serious and work hard. I have one student that has closed 6 deals this month and has another 5 scheduled to close in the next few weeks. You do the math. Last week one student of mine purchased a car with the money he made from 3 deals!

We have personally trained many beginning real estate investors how to successfully wholesale bank owned properties and short sales. All of these investors had never ever done a deal before. Some of them had no money! One of our students was a 21 year old kid working at Wendy's making $6.75 an hour! He flipped 17 houses. We have trained stay at home moms and dads, retired people, unemployed people and those that have recently been laid off. We have trained students as young as 20 and as old as 82. We have had students that were so broke that they had to borrow $1,000 to put up the deposit on their first deal. We have trained students from every walk of life imaginable including teachers, psychologists, doctors, dentists, lawyers, engineers, physical therapists, graphic artists, realtors, mortgage brokers etc. etc.

We can train you too!

You could be doing this too.

You just need to be ready to overcome your fears and to get started. Have you ever heard the phrase "take action"? That is what that means. Just get started. And the best time to take action is always going to be right away. It is a fact that the longer you wait the more likely you will not do an activity. For example if you train for a marathon and then delay entering one there is a good chance you will never run that marathon. The hardest part is getting started. Need Proof? Watch the videos on our You Tube Channel at the links below.

Click on these links below to see students that have successfully double closed and wholesaled bank owned properties and short sales. On each of these deals we put up all of the cash for transactional funding the deal and we found the cash buyer for the deal. All of these students attended the Distressed Real Estate Boot Camp and or one of our Real Estate Coaching Programs like the Advanced Inner Circle Trainings or the Private Mentoring Coaching Program. You could be our next video! You can also visit our You Tube Channel at www.youtube.com/lexlevinrad

Our Students Flipping Houses

Please note that some of these students have flipped 30 houses or more and are now themselves full time wholesalers. Many of these students have completed more than 15 or 20 flips since attending our boot camp. Our student Mike below is on deal 14 and he quit his job and is now a full time wholesaler. Brauner is on deal 22 and he also quit his job and is wholesaling full time. So are many of our other students. Every one of these students had never flipped a house prior to attending our boot camp. Watch all of them. You could be doing this too.

http://youtu.be/oFEuXeRjXgE

http://youtu.be/ZLHn3W2KRwo

http://youtu.be/J_5HxPqyZdI

http://youtu.be/PfzxhS0Od-w

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http://youtu.be/BJH_KwRfiKg

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The key is to educate yourself by reading as much as possible as well as attending real estate investment club meetings and networking with other real estate investors in your area. You should try and go to every single real estate event that you can attend including seminars, boot camps, workshops and expos. Yes they will try and sell your stuff but look past that. Learn. Educate yourself. Be informed. Don't be that newbie seminar attendee that gets all excited and rushes up to buy everything they can. Instead sit back. Relax, take notes and learn. And if a boot camp or product makes sense for your circumstances then go ahead and do it.

Read as much as you can about real estate and wholesaling online as well so that you can have the necessary information needed to make an informed decision on whether you want to be a real estate wholesaler. There are many books now available in ebook format online for a very minimal price. If you are a Realtor ® I have outlined many different methods in this book that will allow you to learn about wholesaling and earn money and commissions at the same time. If you are a new investor you can learn how to get started wholesaling with just a little effort on your part. If you think that real estate investing is for you and part of your future then I encourage you to educate yourself, get some training like we offer at our boot camps, get motivated and focused and then start doing something to change your life, your wealth and your future for the better.

If you are serious then you should seek out and find yourself a real estate coach that can be your mentor. You can either bird dog deals for them or assist them in finding deals. After completing your training and once you know what you are doing you can begin building your cash buyers list and become a wholesaler yourself. I can think of many occupations worse than being a wholesaler. Being a wholesaler allows you to work whenever you want to, wake up whenever you want to and still being able to make a very comfortable living working a lot less hours than most people do. Imagine flipping a few real estate deals and then taking your family on vacation with the profits from those deals. Imagine paying off your credit card debt. Imagine a new life for you and your family. Anything is possible with real estate. Especially with wholesaling since there is no time commitment once you are paid. Remember that thoughts become actions so the first place you should start is with your thoughts.

Email our office at support@lexlevinrad.com and ask them to send you a free personalized copy of the book written by Napoleon Hill called "Think and Grow Rich". This is the bestselling business book of all time for good reason. It is an awesome book. "Think and Grow Rich" is mandatory reading for all students that attend my Distressed Real Estate Boot Camp. If you have an iPod or mp3 music player I encourage you to download the recordings of Napoleon Hill and listen to them in your car as you drive to work. It just might change your life. I know it changed mine!

You see everything really starts in your head. It starts with your thoughts and how you think. You cannot go on a diet, begin an exercise regimen, quit smoking or start a new business without first conceiving the idea in your head. The origin of everything is a thought. When you see a shiny new building that has just been completed then consider that at some point that building was a thought in an architect's head. It was a vision or an image of what would be. And then that image was put onto paper and that paper was turned into a blueprint. And that blueprint was turned into the shiny new building.

So my question to you is this. When was the building built? Was it built when the financing was put in place? Was it built when the money to build the building was raised? Was it built when the first worker broke ground? Was it built when they had the official ceremony to open the building? No, it was built when it was first conceived in the head of the designer. In other words it was built when the first person envisioned the creation of it. Napoleon Hill says "What the mind of man can conceive and believe, it can achieve." I really believe that. I live by that. So first you have to imagine yourself wholesaling and flipping houses. You have to imagine yourself not having a job and having a lot of spare time to spend with your family. You have to imagine yourself making more money as a wholesaler or real estate investor than you ever made on your job. You have to imagine yourself happy. Imagine yourself loving life and living life to the fullest. Imagine yourself loving your job and what you do for a living. Imagine yourself having enough money to travel, invest and do the things you love doing. In short you have to imagine yourself living an epic life. And you have to imagine yourself doing it with ease. And then, you need to live it. That is both easier than it sounds and much more difficult than it sounds. Why? Because you have hurdles. You have obstacles to overcome. So the first step is to figure out what they are.

You have to figure out how you are going to overcome those obstacles. And you have to put action steps in place to overcome them one by one. You have to view your challenge in front of you as a giant athletic race track with hurdles. Each hurdle is an obstacle in your life that you need to overcome. There will be a lot of hurdles that you will need to jump over in order to complete the race and win the battle. And make no mistake about it the battle is within you. It is within yourself. You are your own worst enemy. And you know why? You need to believe in yourself if you want to succeed. You need to believe that you can do it. You need to believe that you CAN overcome your obstacles and create a better life for yourself. I can teach you real estate. I can provide you with all of the training material that you need to become a better real estate investor and learn what you need to know to wholesale, fix and flip houses. I teach that at my boot camps and real estate inner circle programs. But I cannot teach you how to overcome your biggest obstacle which is yourself. That part is up to you. No one else can help you with that. That is inside of you. You need to have the DESIRE TO CHANGE. You need to have the courage to lay out a goal and have a clear objective of what it is that you want to achieve. You need a clear and concise vision. And then you need to plan and take the necessary action steps to move towards that goal. You need to move slowly towards your goal one day at a time, slowly overcoming those hurdles that are obstacles in your life. And you need to do it by having a clear and concise vision of a target that you are aiming for. And you need to believe that you can achieve it. And you have to work hard each and every day without giving up. That is the hard part! Not giving up.

Ironically, the biggest obstacle to overcome is going to be your own negative thoughts telling you that you cannot be successful. We do not know that we can be successful because society trains us otherwise. From a young age we are taught to go to school, to get good grades and to get a good job. That teaches you how to be a worker bee in a big company. It does not teach you how to be a self-employed real estate investor that makes their living by flipping houses. Entrepreneurs are created from within – they are not born that way. Entrepreneurs understand that the path to real wealth is not through their JOB which stands for "just over broke". Unless you are working for an investment bank getting stock options and huge bonuses or are making a very good living doing what you do ($200,000 plus) then the creation of wealth in your life is not going to come from working harder. It is going to come from your investments not from your job. Even clients of mine that are doctors that make almost $1 million per year still invest their money in real estate.

So if you can figure out how to make money in real estate then that is key. And to figure out how to do it before you quit – well that is a huge obstacle. That is an obstacle that unfortunately most students do not overcome. It reminds me of a scene from the movie "Rounders" with Matt Damon which talks about playing poker. In the movie Matt Damon says "every year the same guys are at the final round of the World Series of Poker and you think that is luck"? Well in wholesaling here in my local market in Florida there are 7 guys that completely dominate wholesaling. They have all the deals and flip all of the houses. I would say on average the top 3 guys flip 60 to 80 houses a month together. I work with all of them and we do a ton of business together. Are these guys just lucky? Hell no. They work harder than anyone else and they never ever quit. That is the difference. They flip houses, they build a base, they conserve cash and then they flip more houses. And each day their buyers list grows. And each day they have more cash to put up for deposits, to do mailers, to hire people, to grow. This is what they do – while everyone else quits.

Another big obstacle that I see with my students is that the people that know you best like your friends and your family feel like they can tell you (for your benefit of course) that you can't be a real estate investor. Or that real estate is a scam. Or that if it was that easy everyone would be doing it. What you don't realize is that these people in your life are robbing you of living an epic life. They are stealing your dreams. Most of the people who tell you this are themselves miserable and unhappy with their own lives. How dare you tell them you want an epic life! How dare you tell them that you want to make more money. They have known you since you were "this high" and they don't think you will amount to anything. That is the cold hard truth. They won't support you, they won't agree with you and they will criticize you and make negative comments. Until you succeed. Then they won't say anything else. So my advice to you is keep your thoughts to yourself. Don't share them. Make them real inside you. Then act on them. And do it alone.

You need to learn how to stay away from negative people and negative thoughts. Leave the room if you have to and don't let your brain hear negativity. Focus on being positive. If today was your last day on earth would you really want your thoughts to be that they are right and it is hopeless? This is an attitude that is full of sadness and despair. You are what you think. THINK POSITIVE. And the best way I know how to do this is to listen to those Napoleon Hill CD's every time you get in the car or every time someone says something negative to you. You are a winner. You can do it. All you need to do is to believe in yourself. I believe in you! If I believe in you then shouldn't you believe in you?

Start to take concrete action steps to educate and train yourself and to make things happen. Henry David Thoreau said "A truly good book teaches me better than to read it. I must soon lay it down, and commence living on its hint (in other words acting on what it suggests). What I began by reading, I must finish by acting." Those are words you should live by. Stop talking and start doing. The difference between people that do and people that don't is called "getting started". And the best time to take action and get started is always going to be RIGHT NOW.

Also please remember to consult with your attorney, CPA, and financial advisors before acting on any advice that you read in this or any other book. By reading this book you agree to hold the author and the publisher harmless from any actions that you undertake as a result of reading this book. Remember, verify for yourself, overcome your skepticism, educate yourself and take action. Do not rely on others. Rely on yourself. Please do not think that you can gain everything you need to know about a topic like flipping real estate by reading a few pages on it like this book. That would be extremely short sighted on your part. You will need more information and more training that you can get out of this book or any other book for that matter. I encourage you to attend live training events like our Distressed Real Estate Boot Camp if you want to take the first step towards becoming a better real estate investor. You can find out more information about our Distressed Real Estate Boot Camp at http://lexlevinrad.com/Boot_Camps.html For more info about our Partnership Program where we put up the cash for your deals visit:
http://lexlevinrad.com/partnership.html

If you live in South Florida or you are visiting South Florida you are invited to attend our monthly Distressed Real Estate Investment Club meetings which are held on the First Tuesday of every month at 6:30 p.m. For more information about our real estate investment club please visit www.distressedreia.com

We have many real estate events throughout the year including the Distressed Real Estate Boot Camps, Fixing and Flipping Houses Boot Camps, Wholesaling Inner Circle, Rehabbing Inner Circle and many other events. For more information about the Fixing and Flipping Houses Boot Camp please visit http://www.fixingandflippinghouses.com If you do come to any of our events please make sure you come by and say hi to me and introduce yourself. I love talking with new real estate investors. And I love hearing your success stories. If you have any you want to share with us feel free to email me directly to lex@lexlevinrad.com and if your story is truly inspiring for other real estate investors then I will share it on our website our blog.

If you enjoyed reading this book and you feel that you learned something useful that could benefit others by reading it then let me know by sending me an email. I love hearing from my students and I might even post your story on our website or blog.

I hope that you have learned something that will benefit you from reading this book. I would really like to see you succeed as a real estate investor. I really would! Please send me your positive success stories of houses you have flipped or how you have overcome your obstacles and I will share them online to motivate others. If you want to contribute we have a free Wholesale Real Estate Forum for real estate investors at www.wholesalerealestateforum.com

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I wish you the best of success in your real estate endeavors. I hope to see you wholesaling and flipping bank owned properties and short sales very soon. Remember, this is the best time in your lifetime to get started as a real estate investor. Overcome your fears and take action TODAY.

To Your Success in real estate,

Lex

The Distressed Real Estate Institute™
7050 W Palmetto Park Rd
Suite 15-675
Boca Raton FL 33433
www.lexlevinrad.com
support@lexlevinrad.com
Tel: 800-617-2884
Tel: 561-948-2127
Fax: 561-948-0410

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