

This is a real scenario and an example of how you can use hard money, and alternative financing to complete an investment with no money out of your own pocket.

STEP ONE

Find a property using Trulia, Realtor.com, Zillow or the website of your choice. I prefer Trulia because the “sold” listings are easier to locate.

Let's choose the following criteria for the property we're looking for:

- a) **Minimum 3 bedroom, 1.5 bathrooms.** We want to market to families once we finish the rehab.
- b) **If possible, look at the Google street view.** It doesn't have to be perfect but if you were a child, would you feel comfortable playing on that street?
- c) **Make sure the property is updated.** We are doing this to find out what the value of our TBD property will be worth after we renovate it.



PROPERTY DESCRIPTION

This 3-bedroom, 2 baths was the least expensive comp. \$95,000 is its price. It's updated relative to other properties in the area (average comps were in the \$120k range). I like to be ultra-conservative, so let's use the After Repair Value (ARV) of \$95,000.

STEP TWO

Now we find our subject property (The property we're going to buy and renovate).

In the search criteria, enter the following:

- a) Purchase price of \$50k or less.
- b) **Minimum 3 bedroom, 1.5 bathrooms.** Remember, we want to market to families once we finish the rehab.
- c) **Again, look at the Google street view.** It doesn't have to be perfect. But if you were a child, would you feel comfortable playing on that street?

I found a property with the following description:

****TURNKEY**** Tenant-occupied at \$850! Oversized brick colonial located in Russell Woods near Boston Edison Historic District, and minutes away from Downtown. Property features 3 bedrooms, 1.5 bathrooms, kitchen, living room, dining room, basement, and garage! Rooms/room sizes are estimated and should be verified by the buyer/buyer's agent. Purchaser to pay \$495 processing fee to the listing broker at closing. Buyer will receive a clean title, warranty deed, and title insurance!



- Purchase Price \$35,000 (I'll offer \$30k)
- 3 bedroom/2 bathroom
- 1,667 Square Feet

- Street looks descent enough
- No major reconfiguration needed
- Good bones

After reviewing all of the photos, I know I could get this place in tip-top shape for about \$30k.

Here's what we know so far:

\$30k

Purchase Price

\$30k

Renovation Costs

\$95k

(On the low end)

ARV (After Repair Value)

Now, we still don't know if we're going to keep it for long term hold or just flip it. We need more information.

I want to know the following:

1. If I decide to keep it, what would I be able to rent it out for?
2. What does section 8 pay in this area for a three bedroom? (I always keep section 8 as a backup).

STEP THREE

We are going to pretend we are going to move into the area and we're looking for a place to rent.

1. Go to craigslist for the area and enter the following search criteria:

- 3 bedroom
- 2 bathroom
- Property type – House
- Within 3 miles from our subject zip code
- Laundry Type – Wash/Dryer Hookups

From what I can see, there is a range we can expect to rent this property for once we've renovated it (**\$1,030 - \$1,400**). Since I want to remain conservative, let's use the worst case scenario and say we can rent it out for **\$1,030**.

2. Now we want to see what section 8 offers for a 3 bedroom as a contingency plan. I'm going to Google "Section 8 rents for Wayne County" (We're in Detroit).

Here is the first link I picked:

- <https://www.gosection8.com/Section-8-housing-in-Detroit-Wayne-MI/>
It didn't show me what section 8 offers, but I was able to see that the market rent for a unit like mine is closer to **\$1,300** conservatively in my county. We're going to stick with \$1,000 anyway. Just know we can likely get more than that.

This next link showed me everything I needed to know.

- <https://www.waynemha.org/section8.htm>
For a 3 bedroom, the voucher amount is **\$1,011**. So I know if all goes bad, I can at least get that amount. Perfect.

Let's see what we know so far:

\$30k Purchase Price	\$30k Renovation Costs	\$95k (On the low end) ARV (After Repair Value)	\$1,000/month (minimum) Monthly Rent
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Now, one slight issue we have to deal with...we're broke.

STEP FOUR

Google “Hard Money Lenders in _____” (Fill in the blank with the city). We’re using Detroit, so I’m going to Google that. I picked the first lender on the list.

Here is the link:

- <https://www.bridgewellcapital.com/fix-to-flip-loans/>

The details of the programs they offer are as follows:

- Up to 100% of rehab costs (Our cost is \$30k)
- Up to 75% ARV (Our ARV is \$95k. So 75% of that is \$71,250.
So we’re good there since we only need \$60k to buy and renovate)
- Closings in 10 days
- Damaged Credit Okay
- No interest on undrawn rehab funds
- No pre-payment penalty

This lender had the following disclaimer on their site:

***DISCLAIMER:** We strive to give our customers the best price and service possible. If you happen to find a better price for your loan before you commit, please LET US KNOW - we will match the price of ANY competitor.

I like these guys. Let's go with them.

This is where we are now.

1.

The hard money lender gave us the funds to purchase and renovate the property. The clock is ticking on the higher interest loan.

2.

We've purchased and renovated the property. Let's assume it took 4 months.



Q&A

Let's go over some what ifs:

Q.

What if the hard money lender wouldn't cover the entire purchase and rehab? I don't have any money!

A

We would reach out to a consumer lending site to make up the difference. I use Lendingclub.com. They'll give me up to \$40k. I'd use that (or what I need from that) to make up the difference.

Q.

What if I don't qualify through a consumer lending site? Don't they usually require pretty good credit?

A

Find a new hard money lender that WILL cover 100% of the purchase and rehab. You can also pull cash from credit cards (make sure to treat your credit cards like hard money and pay them back through our exit strategy) or you can take on an equity partner (a fancy way of saying, "borrow from friends").

Okay, so we're done with the rehab and it's time to implement our exit strategy:

- If we sell the property, we know we can walk away with about \$35k (We borrowed \$60k to purchase and renovate and we know the ARV is \$95k) when we pay back the \$60k to the hard money lender after selling the property for \$95k we walk away with about \$35k. I say "about" because there were fees and closing costs associated with borrowing the money and cost of the sale. So let's be more exact and say we walk away with \$30k.

Not bad, and we didn't have to use our own money or our personal credit!

But... we keep hearing the words “Generational Wealth” thrown around in conversations. If all we do is flip and keep nothing, what will we have to pass down?

Let's do a cash out refinance, keep the property, and walk away with a little cash.

STEP ONE

Find a local community bank or credit union. Any one is fine, the requirements for qualifying will be similar at most of them.

- a) Open an account there and ask to speak with a loan consultant (You can also do this on their website.)
- b) Tell them to want to do a cash out refinance at 80% loan to value. This means you want a loan equal to 80% of our ARV (remember that \$95k figure?). This means you want a loan for \$76,000. Now remember we were being conservative with our ARV. It would most likely be about \$115k for a more realistic ARV. In that case, 80% of \$115k is \$92k.
- c) Calculate the mortgage, property taxes, and insurance (called PITI – Principle, Interest, Taxes, and Insurance) on both loan amounts (\$71,250, and \$92k). You can do this with any payment calculator.

I'll help you...at 4% interest your total monthly obligation on the property if you go with the \$76,000 would be \$517 per month. If you go with the \$92k you total monthly obligation will be \$638 per month.

STEP TWO

Now we still have to pay back the hard money lender (\$60k). So we can go with the first option ($\$76,000 - \$60k = \$16,000$). Or the second ($\$92k - \$60k = \$32k$). Let's not forget we still own the property so let's see what we're cash flowing (rental income less the monthly obligation on the property) per month.

- a) **If we went with the worst-case scenario,** we would owe \$517 per month but would be getting \$1,000 per month in rent, so we would be cash flowing \$483 per month and walking away with approximately \$16k in our pockets.
- b) **If we went with the more likely scenario,** we would owe \$638 per month and would be getting \$1,000 per month in rent, so we would be cash flowing \$362 per month and walking away with approximately \$32k in our pockets.

So what's the best choice?

The better question is, "What's the best choice for YOU?"

Either way, we accomplished this with no money out of our own pockets.



Here are a few important items to note:

- You have to have good credit to use the cash out refinance option since to have to be able to qualify for a traditional home loan.
- The reason I maxed out at 80% loan to value (loan relative to our ARV) is because if you have less than 20% equity in the home, you'll have to pay Private Mortgage Insurance (PMI).
- Most hard money lenders want to see some experience before they'll lend to you. Here is the workaround. Substitute consumer lending sites (like lendingclub.com) as your "hard money lender. Find property that you can purchase and rehab for under \$50k because consumer lending sites usually will lend a maximum of around \$40 - \$50k. Document your entire experience. This will become part of your portfolio to use for hard money lenders in the future.

Questions? Contact Odis James III at:



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Odis James III

CASE STUDY

(BRRRR)

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