

“Discovering Hidden Profits: The Art of Creative Deal Structuring”

BY STEVE COOK



❖ **Deal Structuring: Do you worry about where to get money from?**

Ingredients to Making a Deal Work

- Motivated _____ or _____
- They must really need to sell or want to buy
- D_____ of buyer or seller means they'll go the extra mile to make things happen.

Elements of a Deal

- The D_____ I_____
- Money
- E_____
- Contacts

More deals would be done each day if everyone had unlimited access to money. While money isn't the topic of this discussion today, it's a part of deal structuring.

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Money: The Easiest Part of the Business

- If the _____ work, the deal can be structured properly.
- The less you bring to the table, the more you have to give to make things happen. You have to bring something to the table in order to participate in the deal.
- Where investors make their money is in _____ the deals.
- Ask yourself:
 - **Who would buy?**
ARV \$150k, purchase \$110k, needs \$15k
ARV \$150k, purchase \$50k, needs \$30k
 - **Who would lend?**
ARV \$150k, loan needed \$135k
ARV \$150k, loan needed \$100k
 - **Who would partner?**
 - **Who would put up down payment?**
\$20k down for 10% of \$30k profit (\$3000)
\$20k down for 50% of \$30k profit (\$15,000)

Type of Lenders

- Focus on S_____, L_____ Banks
- Private Lenders
- Hard Money Lenders

What About Seasoning?

This is *no problem* if you are using the _____ lenders! This is not a law, it's a lender rule. It would be unconstitutional to make it a law!

Typical Small Local Bank

- 80 % LTV Renovation Loan
- Lender will lend _____% of purchase price at settlement
- Lender will lend _____% of renovation costs

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- Total loan not to exceed 80% of ARV
- Will consider loaning Closing Costs
- Will consider loaning payment escrow
- Can be flexible with credit
- Not opposed to borrowing down payment

Some Small Locals

- 80% LTV renovation loan
- _____% of purchase price (with collateral)
- _____% of renovations
- Total loan not to exceed 80% of ARV
- Will consider Closing Costs and Payments

Small Local Bank

- Portfolio Long Term Loans- Not Rehab
- 80% LTV Loan
- Require 20% down payment. Source doesn't matter.
- Prime + 1%, 20 year amortization, 5 year call

Hard Money Lender

- P_____ P_____ are much easier to work with
 - Quick Decisions, no credit checks, usually a personal inspection with no appraisal, can sometimes negotiate
- Institutional Lenders have guidelines to follow.
- It's not their money that they are lending so they have to follow all the rules.
- Longer decisions, credit dependent, appraisals, full underwriting
- Like any lender, relationships are great

Small Time Private Lenders

- You all probably know someone with money or access to money.
- Lending down payments, or _____ purchase and rehab for small deals.

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Knowing the Lender

- You need to get to know your lenders I_____.
 - Know what they like
 - Know their tolerances
 - Know their appraisals
 - Are they aggressive or conservative
- Lenders influence appraisals

Relationship with your Lender

- In time you can T____ your lender what you need the deal to look like
- You influence appraisal
- You get bank to work to make your loan happen the way you want it to happen

Structuring Deals

- Know how to make an offer and what kind of offer to A_____
- Combining Financing

Draw Schedule for Bank

Draw #1

Heating and air	\$ 7,000
Install new windows	\$ 5,000
New Roof	\$ 3,000
Demolition of interior	\$ 2,000
Total	\$17,000

Draw #2

Sheet rocking and repairs	\$ 5,000
Repair Sub-floors	\$ 1,000
Electrical system updates	\$ 1,000
Plumbing updates	\$ 1,000
Repair replace doors	\$ 1,000
Porch repairs	\$ 1,000
Replace front and rear door	\$ 1,000
Mailbox, light fixture, address	\$ 1,000
Siding, soffit and gutters	\$ 5,000
Total	\$17,000

Draw #3

New kitchen	\$ 5,000
Update bathroom	\$ 3,000
Painting interior of home	\$ 3,000
Install all new light fixtures	\$ 1,500
Install new vinyl flooring in k & b	\$ 1,500
Install new carpeting	\$ 2,500
Landscaping	\$ 500
Total	\$17,000

Combining Financing

- First and Second Mortgage combinations can get _____ deals done
- Small Local Bank and private second mortgage
- Owner carry back
- Loan from ___ ___ ___ (yourself or another party)
- Hard money lender
- Build Down Payment into repair escrow
- Final Draw

Deal Structuring Exercises

Exercise #1

Your Deal

ARV \$200k
Purchase Price \$90k
Repairs \$35k

Prospective Buyer

Credit Scores 750
Cash on hand \$100k
Income \$150k/yr
First Deal

- *What would you sell the house for?*
- *How would you structure the deal?*
- *Lender?*
- *Terms?*

Exercise #2

Your Deal

ARV \$200k
Purchase Price \$90k
ARV \$35k

Your Buyer

Great Credit 750
Cash \$0
Income \$100k/year
First Deal

- *What would you sell the house for?*
- *How would you structure the deal?*
- *Lender?*
- *Terms?*

Exercise #3

Your Deal

ARV \$200k
Purchase \$90k
Repairs \$35k

Your Buyer

Credit Score 550
Cash \$15k
Income Unknown
Seasoned Rehabber

- *What would you sell the house for?*
- *How would you structure the deal?*
- *Lender?*
- *Terms?*

Exercise #4

Your Deal

\$200k FMV
Purchase price \$140k
Rented for \$2700/mo.
Repairs \$0

Your Buyer

Great Credit
Owns 4 rentals
Cash \$5,000
Income \$50k/year

- *What would you sell the house for?*
- *How would you structure the deal?*
- *Lender?*
- *Terms?*

Wholesaling Huge Deals

- How many of you are scared to wholesale a \$1,000,000 property?
- Why do most investors not buy \$1,000,000 properties?
- If it were easy would you buy \$1,000,000 properties?
- Make it E_____!

Packaging Your Deals

- Create the V_____ for your buyers
- Show them how this deal can be profitable
- Show them how easy it will be to pull off if they work with you
- Understand that buyers will pay a little more for G_____ T_____!

Package These Deals

FOR SALE

Yucky House
\$250k ARV
60k in repairs
Your purchase price \$100k

What Would You Do with This?

Property with ARV of \$80k
Repairs \$12k
Your purchase \$35k

- How would you present this to a buyer?

CONSIDER:

It's easier to sell an apartment building that needs work for \$500,000 than it is to sell it for \$400,000.

How about this BIG Deal

Apartment building
20 units, Rented for \$600/mo. Each
Appraised value \$1,100,000
You have under contract for \$800,000 cash

- If you are a buyer, would you buy this for \$850,000 or \$1,100,000?

Players When Structuring a Deal

- Seller
- Buyer
- B_____
- L_____
- Others

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Key to Successful Deal Structuring

- Understanding the N_____ of all the players
- Understanding the M_____ of all the players
- M_____ the needs of all players as best as you can

Make it Easy

- When you make deals easy for all parties, they fall right into place
- Meet **Sellers'** needs, meet **Buyers'** needs, meet **Brokers'** needs, meet **Lenders'** needs, meet **ALL players'** needs and deals just fall into place.

Deals Get Easy

- Someone has to take the lead to make sure deals come together and happen. Often the players don't know how, or are not willing to do the work.
- You can hold the keys to all of your transactions by making it easy on all parties involved. It's not hard, someone just has to do it.

SO GET OUT THERE AND DO IT!

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