YOUR DIGITAL GUIDE TO REAL ESTATE WEALTH

REI WEALTH

Issue 28

Monthly

ANDREW CORDLE
FOUNDER
NATIONAL ASSOCIATION
OF REAL ESTATE INVESTORS

NAREI
HELPS INVESTORS
EDUCATE THEMSELVES

CREATIVE LAND TRUST STRATEGIES

WHAT IS THE APPROPRIATE ENTITY FOR REAL ESTATE INVESTORS?

7 TIPS
FOR NAILING
THE NEGOTIATION
PROCESS

PROBATES
WILL GIVE YOU
REAL ESTATE
LEADS AND
PROFITS
IN 2016

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national association of real estate investors


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Investor's
Success Story
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"It's the first quarter of 2016 and I'm so motivated to skyrocket my life, business and portfolio.

I know you must be as well, since you are reading this publication and as a frequent follower of our online network.

As a publisher in the REI space, I've had the pleasure of socializing with amazing executives from leading industry companies in several cities across the country, and I can say that there are truly some great resources for investors out there; resources we want to make available through this publication.

Recently, I spoke with a vice president from a leading finance firm at length at an industry event. We had the pleasure of being next to one another and he practically gave me a personal financial analysis during our down time.

After asking me a few questions about my portfolio and goals, he determined it was time to take full advantage of my hard-earned equity to continue to expand. It was a gentle nudge to get going and not become complacent, which I so appreciated.

It's wonderful to have knowledgeable people around you to guide your direction. And, that is what we want REI Wealth Monthly, and all of our issues and websites, to also do for you.

Since 2007, when our first magazine began as a 12-page publication, our mission has been to provide our readers with the resources they need to be successful. It's been a great journey, as I have seen our network continually expand and move forward. In the process, our readers and industry clients have inspired me to also push myself.

In the past, with my professional and business life, I have tended to be very conservative and not take a whole lot of risk; I just have always taken baby steps to ensure my safety as an investor and entrepreneur. It has worked well for me and my family for the past twenty years since I began to take real estate classes and actively manage rental property. (It was exactly around this same time that I also became a national magazine publisher.)

By Linda Pliagas,
Owner, Realty411 Expo:
http://Realty411guide.com/events

But lately, thanks to the gentle nudges of those around me and the guidance and support of my family, I have began to leave my comfort zone. Lately, I've been taking on added risks and making greater investments in my business and in my life in general.

Recently I made a substantial investment purchasing a new domain, expanded our expos to new cities, approved capital improvements on some properties, and also helped my husband expand his business with new inventory. Now I'm on the prowl for another acquisition to add to our rental portfolio.

I'm thankful that this vibrant industry keeps me on my toes and always pushes me to expand and grow... as a person, as a publisher and as an investor. Enjoy reading the new issue of REI Wealth Monthly. Please contact me at my personal email if I can help you in any way: pliagas@msn.com

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"Success is not measured by money, but how much better you leave the world."

– Andrew Cordle

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From Miserable Lawyer to Full-Time Real Estate Investor

By Jonathan Twombly

Going from lawyer to full-time real estate entrepreneur was tough. Here's how I did it.

Trading My Life for Money

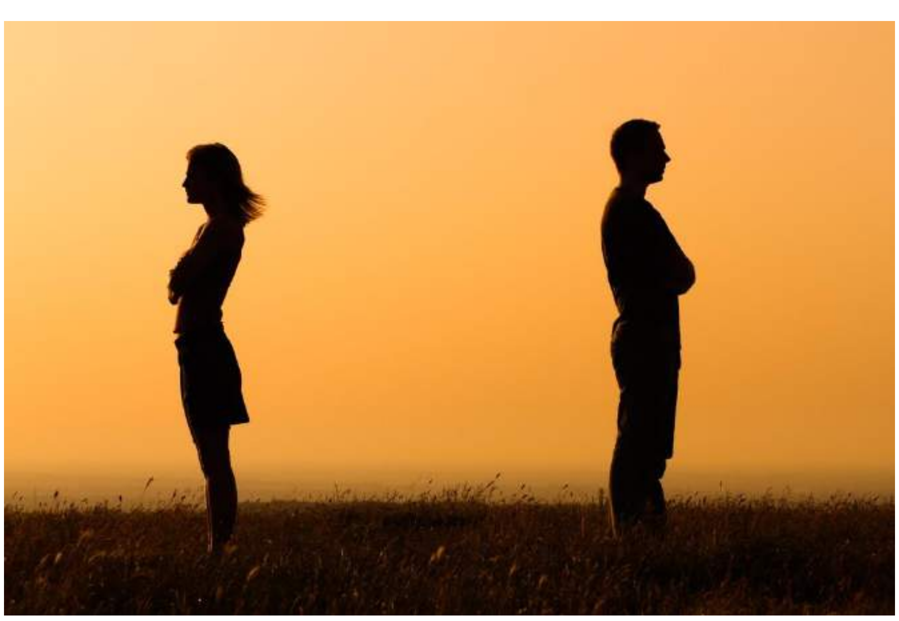
I practiced law for 12 years. I worked 14-hour days, ate every meal at my desk, and worked most weekends. Sometimes I went a month without a day off. I ate terribly, got fat, and felt miserable. I hardly dated or saw friends.

My life consisted of eating, working, and sleeping (very little). The money was good. But my "Sunday night blues" started on Friday night. I wasn't just trading time for money, I was trading away my life.

Why was I working so hard? So my faceless billion-dollar corporate could fight over millions of dollars with another faceless billion-dollar corporation. And, right before trial, they'd always exchange some money and settle. The client would go right back to doing business with the enemy. I'd have just wasted three years of my life.

And, for what? To make partner? Yeah, right. Law firm partners don't like to dilute their profits. And even if you make partner, then what? You work just as hard as the associates, except now you have to bring in business too. The pressure never stops. You have to feed the machine clients or it stops dead.

I tried to escape several times. I walked off the job with no plan. I just needed out. But, with no plan, I would drift back into law. I even went back to school for two years. Then I met my wife and returned to law for the money. But law firm life nearly destroyed my marriage.



In 2008, the Great Recession hit. I was grateful to have a job. But the work dried up, and as it did, my stress level rose. I surfed the Internet all day, dreading a knock on the door that meant someone was firing me or bringing me work. I could not decide which was worse.

Breaking In Nearly Broke Me

In early 2011, my firm got tired of paying me to surf the Internet and let me go. I was more relieved than upset. But the idea of interviewing for another law job made my stomach turn. I had to make a change. I'd always been interested in real estate. A friend and I had looked at properties together but had not made any offers. I started looking into real estate as a career. But, because of the recession, I was competing with guys out on the street with years of experience. I stood no chance.

One day, a very experienced real estate hand sat me down over coffee. "Look," he said. "I'll tell it to you straight. At your age [42], and with your background, *no one* in this city is going to hire you. The only way you're going to break into this field is if someone just takes a liking to you and offers to make you their partner."

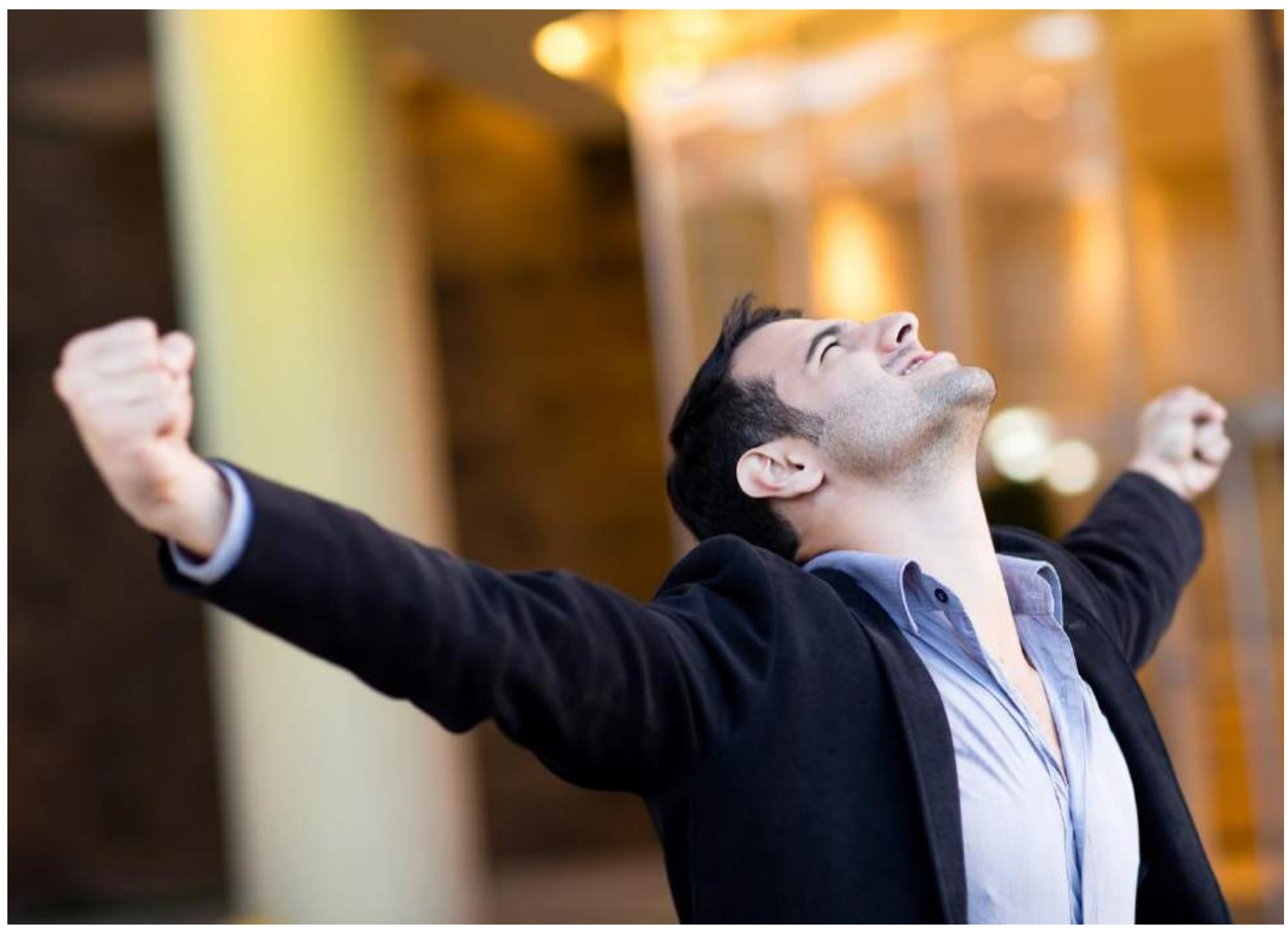
Unbelievably, a few weeks later, that happened. I had been networking with everyone I could in real estate. I met a woman who owned property with her husband and wanted make real estate a business. She asked me to join her. “This isn’t rocket science. You’re smart. You can learn it,” she told me. “And, you have integrity. I can trust you. That’s most important.” She also thought I could raise money.

She must have had some kind of second-sight. I was not sure whether to accept her offer, so I asked some close friends for advice. Two of them told me that, if I accepted the offer, they would invest money with us. And the amounts they mentioned were substantial.

So, having a partnership offer and two investors in hand, I decided to go for it.

It was not easy. It took us more than a year to find our first deal. Then we found another from the same seller. But after we had spent money on due diligence costs, travel, legal fees, lender fees, etc., the lender backed out of one deal and we terminated the other. We lost months of work and tens of thousands of dollars each. And I was supporting my family out of savings at the time.

We decided to break up the partnership. We’d had some disagreements over strategy and decided at this point it was best to go our separate ways.



After Three Tough Years, Success at Last

Now what? I wondered.

A few weeks later, I was having dinner with one of my investors. I said I might have to go back into law. He said not to be hasty and then suggested that we form our own venture. In early 2013, we founded Two Bridges Asset Management LLC. It took a year to get any traction. But by 2015, we had four properties in our portfolio, comprising 404 apartments, worth nearly $20 million. Now we’re planning to raise our first investment fund.

What enabled me to leap from miserable lawyer to full-time real estate entrepreneur?

- I exercised a high degree of professionalism, which I learned as a lawyer
- I established a reputation for intelligence, integrity and trustworthiness
- I networked actively with people in the industry and followed their advice
- I absorbed the losses personally when our deals went bad, rather than look to our investors, demonstrating integrity and commitment to the business
- I kept moving forward in the face of setbacks
- I said yes to opportunity when it came my way

If you are committed to a career in real estate, and you develop these traits, too, you can free yourself from the corporate grind. I did it. So can you.

Jonathan D. Twombly

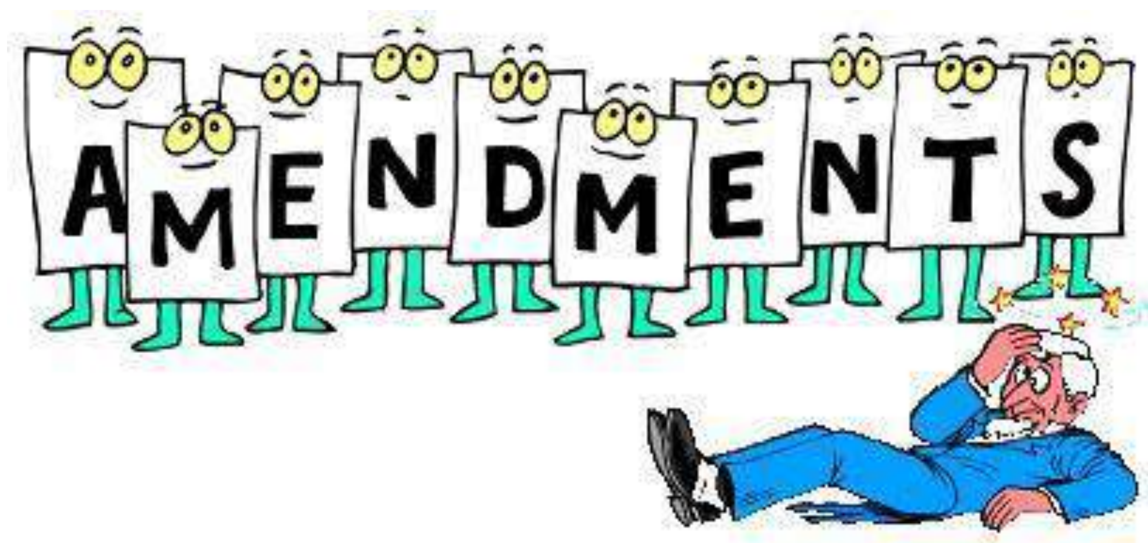
Mr. Twombly is President and Managing Member of Two Bridges Asset Management LLC. Before founding Two Bridges, he was a partner in the real estate investment firm TRB Investment Group LLC. He began his career as a lawyer and spent over a decade practicing in American Lawyer Top 100 firms, where he focused on real estate and hospitality matters.

Mr. Twombly holds a bachelor's degree from Harvard College and a law degree from Columbia University School of Law. He currently serves as a member of the board of directors of the Harvard Alumni Real Estate Organization, Inc., a non-profit.

Creative Land Trust Strategies

By Randy Hughes,
AKA, Mr. Land Trust ™

In my previous Land Trust articles you have learned how easy it is to create your own Land Trust and many other essentials like; who should be the Trustee, who should be the Beneficiary and who should hold the Power of Direction.



When I discuss the use of a Land Trust to hold title to investment real estate I am mostly talking about a **Revocable Grantor Type Land Trust**. What this means is that the Trust itself can be altered after its creation. I tell my students to create their first Land Trust as quickly as possible so they get the experience of what it feels like. Then, if they don't like something in the Trust Agreement or they learn something new that they want to put in their Trust Agreement…all they have to do is **Amend** their Trust Agreement and viola…as of the date of the Amendment the Trust Agreement is changed!

For you readers who prefer documentation to the conversation, here is the support documentation for this concept:

Land trust agreements can ordinarily be freely amended. (H. Kenoe, Land Trusts § 2.47 (Ill. Inst. Cont. Leg. Ed. 1978) (hereinafter Kenoe).) While some trust agreements do no expressly provide the right to amend, such right will be inferred from the right of the immediate beneficiaries to terminate the trust, take a conveyance, and create a new land trust with the changes that they desire. Unless restricted by an agreement of the parties, amendments concerning the identity of the beneficiaries, the power of direction, or the allocation of proportionate interests in the trust may be effectuated by simple assignment without further documentation. Kenoe § 4.12; see *Shefner* v. *University National Bank* (1976), 40 Ill.App.3d 978, 353 N.E.2d 126; *Ciolek* v. *Jaskiewicz* (1976), 38 Ill.App.3d 822, 349 N.E.2d 914.

Certainly an **Irrevocable Land Trust** has more asset protection benefit to it than a **Revocable Land Trust** because under court order the Revocable Trust can be revoked and all assets exposed to the claims of creditors. But the Revocable Trust has more flexibility than the Irrevocable Trust and sometimes that is more important. In either case, a Trust is effective in providing privacy, but a Revocable Trust is like a curtain while an Irrevocable Trust acts more like a wall for asset protection purposes.

Here are a few more concepts that you will not hear about anywhere else, but from Mr. Land Trust™!

Since the liability on the property held in the Land Trust flows through to the Beneficiary, it is a good idea to use an entity as the Beneficiary. But there are other options besides using an LLC. Certainly a Corporation could be the Beneficiary of your Land Trust, but this decision is a tax issue more than an asset protection issue. The liability protection from a Corporation is about the same as from an LLC.

Another alternative to serve as your Beneficiary is a Personal Property Trust (PPT). There are basic PPT's (two pages long) and there are more sophisticated PPT's that are 30-50 pages long. How do you decide which to use?

Some states are more competitive for Trust business (from non-residents) and certainly South Dakota, Nevada, Alaska, Delaware, Tennessee and Ohio are the most aggressive ones. Because of limited space in this article, I cannot go into detail about the virtues of each state's laws. However, I can tell you that Ohio has been increasingly aggressive with their statute of limitations on creditor's ability to attack their Trusts. Consider Googling "Asset Protection Trusts" for each of the above States and you will find more information about their differences.

Beware, there is an issue about **Fraudulent Transfers** when using an Asset Protection PPT. A court will ignore transfers to an Asset Protection Trust if:

1. A creditor's claim arose before you made the transfer

2. You made the transfer with the intent to defraud a creditor

3. You incurred debts without a reasonable expectation of paying them

You need to seek competent legal advice when setting up an Asset Protection Trust.

This article has discussed several creative Land Trust Techniques including **Personal Property Trusts & VA & FL Trusts**. We learned that some states have better Land Trust Laws than others and we can use those states to create Land Trusts in other states.

***Randy Hughes**, aka, Mr. Land Trust™*

P.P.S. If you want to jump start your Land Trust education, go to my online **FREE** training right now for more on how to create your own Land Trusts immediately. Here is the link: www.landtrustwebinar.com/411 also, feel free to call me with any questions, I actually answer my own phone @ 866-696-7347 or email me @ Randy@mrlandtrust.net

National Association of Real Estate Investors Takes the Sharing Economy Viral

Featuring Andrew Cordle
By Tim Houghten

Fast growing NAREI networks 6k+ professional members, and arms them with winning strategies for investing safely and profitably in the new digital economy…

Realty 411 Magazine caught up with NAREI founder Andrew Cordle between flights to speak at local investor events, to get the inside scoop on the new technology driven investor network. This is no small feat given the in-demand speaker averages 12 events each month, and in a single week might be found in Phoenix, Atlanta, and West Palm Beach. In our exclusive interview Andrew unveiled new data, announced the launch of a new mobile app, and revealed the core philosophy behind the success.

Next Gen Investors Connect via Association Designed for the Digital Revolution

While there may be many great real estate investment groups and learning resources out there, NAREI president Andrew Cordle reminds us *"few are truly designed for the new digital age, and next generation of property investors."*

Andrew adds that *"some may have an online presence, but often that just doesn't cut it for today's tech savvy, mobile investor. They want and deserve tools that are specifically designed for them, and that will empower them to operate effectively and efficiently in all areas."*

So how is this tech driven network different? What advantages does it offer members?

NAREI has 6,000 plus members. 90% are US based. 10% connect from as far away as Canada, Singapore, and Australia. For $1 a day members get access to a robust suite of online tools, resources, and much more.

This includes:

- ✓ A vast library of multimedia content
- ✓ Weekly training on the 12 real estate investment strategies
- ✓ Discounts with vendors for building and rehab materials
- ✓ Live events
- ✓ Access to funding for deals
- ✓ NEW NAREI social app

The New Facebook of Real Estate Investing

Launched on February 1st 2016 the new NAREI social media app creates a dynamic *"Real Estate Association 3.0 built by investors, for investors."*

Think of this app as a blend of a members only Facebook for property investors, and an upgraded version of BiggerPockets® that is only for serious investors. Andrew explains; *“Users are able to trade tips, ask for advice, share photos of projects in progress, give kudos to others that are hitting their goals, and warm network online. Members are even using this to curate their own local mastermind groups and arrange meetups with others in their cities.”* No doubt there are thousands more that will find appeal in this, and being able to network over coffee or a meal with careful curated contracts versus those old school days of cold, forced introductions and business card exchanges. The app which is available for both Android and iPhone, *“integrates with other major social networks including Twitter and Instagram so that users can benefit from one touch syndication and publish more efficiently from one app.”*

“Success is not measured by money, but how much better you leave the world.”

The National Association of Real Estate Investors has a backstory and ethos that drives its mission to consistently disrupt the status quo, and innovate new solutions that better serve the next generation of power investors.

Andrew Cordle is no stranger to the real estate market. After going through the boom and bust of the early 2000s, Andrew came on the other side of the foreclosure tsunami on a ‘hover-board’. He rebuilt with at least 146 documented real estate deals in just 18 months. To date these have ranged from simple cosmetic fixer uppers, to home additions and gut rehabs, to full on new construction. Then determining that wasn’t enough, he dedicated himself to sharing his knowledge and experience, and creating a framework that would keep other investors investing safe and profitable, no matter what the market throws at them.

Andrew explains that *“equipping association members with details of 12 different investment strategies enables them to be prepared to make the right moves, with the right mix of tactics, at the right time, depending on current and future market conditions.”* This weekly training includes *“video, podcast interviews with industry experts that have really made a living in the business, live open online Q&A sessions, webinars, and email newsletters which detail both the pros and cons of each strategy, and the nuts and bolts of applying them on the street.”*

This ‘real-time’ training ensures association members are on top of the game, and are always tuned into current and developing real estate trends.

It's not just content, knowledge, and networking either. Andrew Cordle says that if *"there is one consistent denominator between all ultra-successful leaders from Tony Robbins, to Warren Buffett it is – they give."* NAREI also accomplishes this through supporting nonprofit missions including "*donations for families of fallen soldiers, and even giving a car to a wounded soldier." Then taking the value of membership a step further there is aggressive "funding available for transactional deals, rehabs, and rental properties. To date the association has helped secure over $400M in funding for its members."*

Looking ahead Andrew Cordle sees a bright future for NAREI members who are equipped to profit in all market phases. For those interested in learning more about Andrew, and for further interview requests, visit his personal website at AndrewCordle.com. For details of NAREI benefits and membership applications NAREI.com.

GROWTH EQUITY GROUP

SETTING THE TRENDS FOR EMERGING MARKETS

Growth Equity Group is a nation wide real estate investment firm and one of the **largest buyers and sellers of BULK real estate** in the United States. The firm is constantly exploring and analyzing real estate markets throughout the United States, **identifying emerging and re-emerging markets that are prime for rapid growth.** Taking the quality over quantity approach, and utilizing a strict due diligence process, the investment properties Growth Equity Group offers investors are located in desirable regions with strong local economies poised for significant upside. Growth Equity Group's innovative GEGManager and Non-Recourse financing available on all properties allows for investing to be as simple as stocks or mutual funds. By leveraging expertise, resources and relationships, GEG pushes the traditional market approach to provide superior market analysis, development, financing, asset management, and disposition of residential real estate throughout the U.S. Growth Equity Group structures investments with a high-yield, low-risk approach in a complete solution called, "The GEG Solution".

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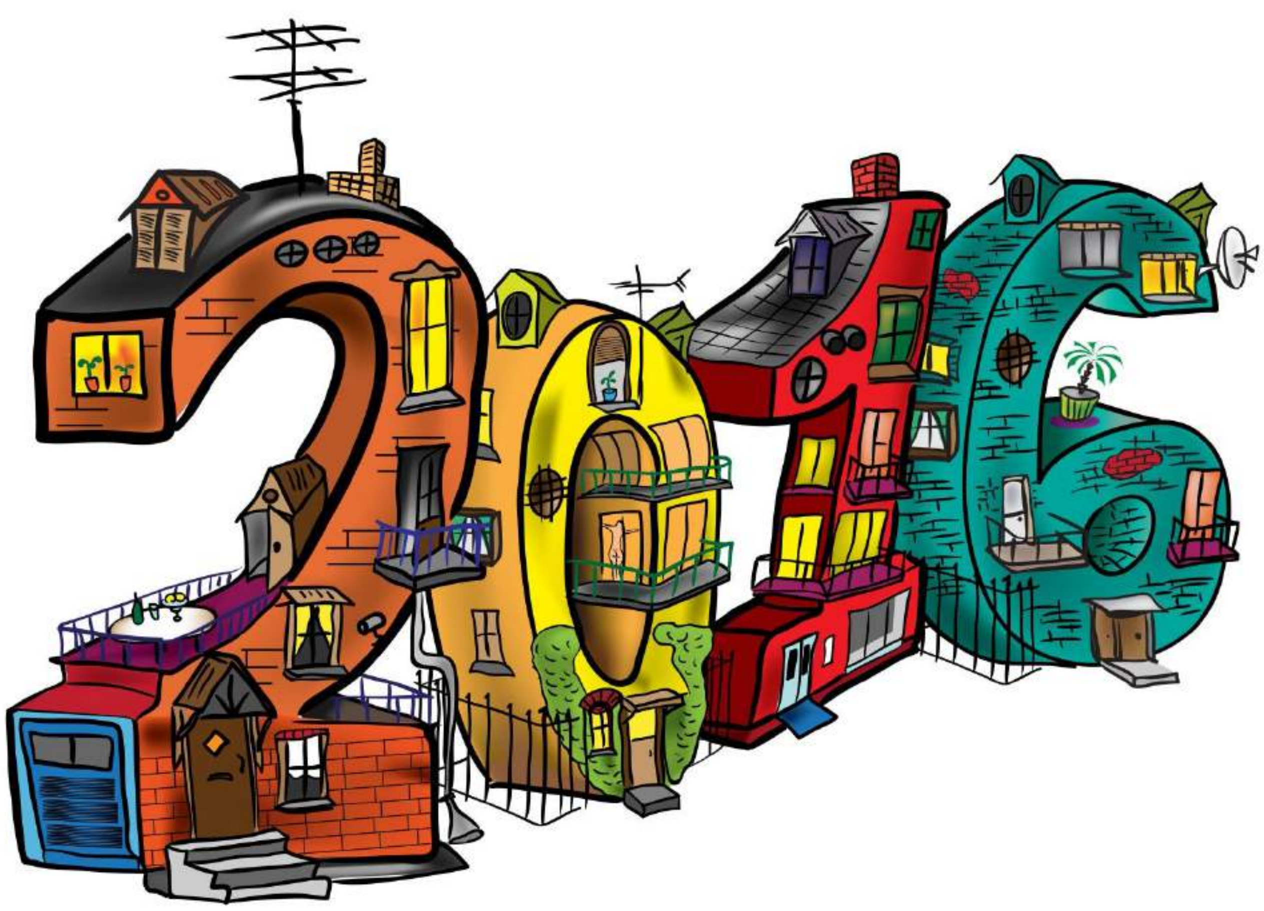
Probates Will Give You Real Estate Leads and Profits in 2016

By Leon McKenzie,
Managing Partner, US Probate leads



Working in real estate has the potential to really change your financial future. There are few other industries where there are unlimited opportunities for making money as well as developing a passive income. Creating profits for your real estate business will certainly take your operation to the next level.

But, today's real estate market isn't like any other that we have experienced in history. Since the decline in the markets in 2008, there have been fundamental shifts in the way that real estate is bought and sold. Knowing about these changes that have occurred will help you to take advantage of areas where profits are plentiful as well as avoiding the frustration of trying to work in segments that are overpriced and are experiencing a high level of demand.

Will Real Estate Investing Work For Me?

William Bronchick writes, "I get a lot of questions from people asking, 'Will real estate investing work in my market?' The truth is, real estate investing works in every market. But you need to learn your market and adapt the techniques that it requires. There are many ways to describe real estate markets, including 'hot' versus 'flat' or 'rising' versus 'falling' or 'buyer's' versus 'seller's.' All real estate markets are subject to fluctuations; but these fluctuations typically do not greatly influence the ability for the informed investor to make a profit."[1] The key to Bronchick's statement is that you need to be informed before you enter the market in order to give your business the best odds for success.

Creating profits in real estate investing requires an understanding of the current state of the market and whether the market is rising or falling. Each of these circumstances influences the ability of a real estate investor to make money on a year to year basis. Bronchick writes, "Let's be clear: There is no such thing as an ideal real estate market for investing. It tends to be more difficult to find bargains in rising markets, however, because if the market keeps rising, the probability of selling the property quickly for a large profit increases. In contrast, when property values are falling, more 'bargains' become available. Yet you need to assess the true value of these properties based on when you expect to sell the property. Thus, your purchase must be made at a steep discount to allow for a profitable sale later."[2]

Overvalued Real Estate is Common in Today's Market

The true value of the property can be deceiving, especially if you are working in the traditional markets. Over the last few years, there has been a real estate shortage in the markets. This is due to several factors, one of which being that there is still some tightening in the lending markets. Homeowners who currently own a home are reluctant to purchase a new home as they may not be able to get the funding that they need in order to buy up.

Another trend in real estate that is driving prices upwards is the decrease in new construction. A builder's inability to get financing for new projects, coupled with a lack of real estate in urban areas has created a shortage of new homes. This puts pressure on home prices as there are fewer homes for buyers who want to move up into a larger home, try a new area or for those who want to downsize into more affordable housing.

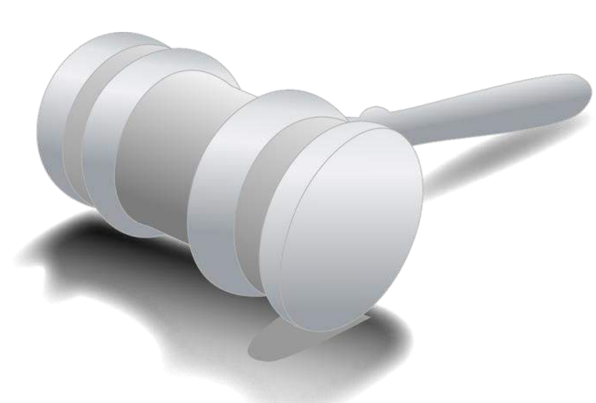
The final pressure on real estate prices is that many homeowners who might want to sell their home simply can't because the value of their home is underwater. "Underwater" means that the value of the home has sunk below the value of the mortgage. In order for homeowners to sell their current home if the value is below the mortgage amount means that they would have to bring cash to the closing table. Most homeowners simply don't have the liquidity to bring what could be tens of thousands of dollars to their mortgage company in order to sell their home. This has created a situation where homeowners are simply staying put until home prices rebound to avoid having to literally pay out of their own pocket to sell their home.

With fewer homeowners putting their homes on the market, it has created a shortage throughout the United States, which has driven prices up. This surge in pricing is not a favorable situation for real estate investors.

Probate Investing Offers Solutions for Real Estate Investors

One of the best ways for real estate investors to create profits during 2016 is to look to aspects of the market that do offer discounted prices and motivated sellers – something that traditional parts of the market simply do not provide. The best way to find favorable pricing and easy closings is to focus on probate real estate.

What is probate real estate investing? If this is a new term to you, this definition should help. Tamara Aragon writes, "Probate is the court supervised legal process that includes determining the validity of your will, gathering assets (including real estate), paying debts, taxes, and the expenses of will administration, and then distributing the remaining assets to those persons entitled to them. This process commonly takes a few months to a year. 'Probate' real estate investing provides opportunities for discounted properties because the person who is left to handle the assets often must sell the real estate they were left with." [3]



The person who is in charge of selling all of the personal and business property for the individual who has passed is called an Executor by the local court system. The Executor has the legal right, given by their local court system, to sell property and make business deals in order to get the probate closed. This can include paying bills, selling a business, signing contracts for real estate and paying credit card, tax and funeral expenses.

Distinct Benefits for Probate Investors

When you consider taking your real estate investment business to another level of development through probates, you are exposing yourself to some distinct benefits. According to Aragon, these include items such as,

"**Bargain Basement Prices:** The probate market is full of tremendous properties you can snap up for 30% to 50% below market value. Resell quickly and capture a lifetime of gains within days. It's the ultimate buy low/sell high scenario.

Huge Inventory: There are almost 6 million estates in probate, with assets worth trillions of dollars. Every type of real estate — from houses to beach front motels — are in probate.

Buyer's Market: Purchasing property out of an estate assures you of a highly motivated seller. Most beneficiaries are anxious to sell the house (and other unwanted assets) so that they can pay off debts attached to the estate that must all be settled before the estate can be distributed.

All Kinds of Treasures: in addition to real estate you'll find, classic cars, fine jewelry, antiques, art, toys, collectibles, and much more enter into probate every day.

Millions of items. And they can sit there for years unless you rescue them.

It's a Investing Secret: Few people know how to find and purchase property from an estate. Even the beneficiaries don't know how to sell. That means, you'll be the first one on the scene because you have little or no competition from other buyer's — plus you're helping anxious sellers."[4]

The benefits to probate investing are clear, but that brings many investors to their next question, which is how to find probate properties in order to make a deal.

Finding Probate Leads that Will Create Profit

Understanding how to find probate leads starts with some basic information as to what the probate process really looks like. According to Gary Digrazia, there is a system that every court follows. He writes, "First, everything starts (lead wise) with the Notice to Administer the Estate. This is the posting from the estate attorney that a new probate has started. It's published in local newspapers and over three different dates. You can find these notices in the legal news section of the newspapers (next to the TS Sales). This posting will list the deceased name, the estate attorney and most important the court case number."[5] Knowing this, you can go to the courthouse and pull the information yourself. It may take you time to learn the system and this can create frustration.

The better practice if you are looking to get into probate real estate investing is to get access to leads that are delivered right to your inbox. As a savvy real estate investor, spending time looking at properties, talking to Executors and making deals is the best way to schedule your time. It is not a good idea to spend hours at the courthouse digging through legal filings.

Lead services can save you a ton of time and frustration. Trained evaluators go out to each and every courthouse in the United States and pull the listings of probates that have been filed in every county. These can be collated and sent to an investor, using the county as the basis for separating the leads.

Once you do have a list of leads, it is time to focus on contacting the Executor, though this needs to be done with some sensitivity. Sharon Vornholt writes, "While this is a sad time for folks, it is also a time when those left behind have to 'take care of business.' They have the business of settling the estate to attend to. That

may include selling the property, and it almost always involves disposing of the deceased's personal belongings."[6] That said, there is also an opportunity for probate investors to assist a family by hosting an estate sale or helping them to dispose of personal property.

Why Are Executors So Motivated?

The reality is that Executors have to sell the property they have been charged with in order to pay bills and give the heirs their inheritance. This has to be done in a certain amount of time to meet with court deadlines and requirements. In addition, if the Executor (usually a family member) has a busy life of their own or they live out of state, they may not want to have to continually travel in order to ensure that the property is being cared for, work on cleaning the house out or meet with buyers. These needs make probates an ideal situation for investors who can offer quick closings as Executors are generally happy to sell the property in as-is condition for a discounted price.

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Some Facts about Probate

- ✓ *~ 6 million unsettled probates every minute of every day in the United States, Estimated value of $600 Billion.*
- ✓ *Over two million new probate cases open each and every year*
- ✓ *95% of Probate cases have some type of personal property opportunity.*
- ✓ *70-75% of probate cases have some type of real estate opportunity*
- ✓ *Within 4-6 months of filing more than 40% of the properties in the probate estate will be sold*
- ✓ *More than 20% of the Executors are out of county and many need local assistance*

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What is the appropriate entity for real estate investors?

By Clint Coons

What is the appropriate entity for real estate investors who buy and sell, wholesale, buy tax liens and deeds, or any other activity that does not require holding on to real estate for more than one year? This question is typically answered as follows – use a limited liability company. This is an entity of choice for many investors but what is not so obvious is how it should be taxed. Depending on who sets up your LLC you will receive different answers.

The Typical Lawyer Structure

Most attorneys focus on the liability aspect of real estate investing and will set up the LLC as either disregarded or treated as a partnership for federal tax purposes. Neither of these choices will produce a desirable tax result for real estate investors engaged in an active business. Yes, the aforementioned activity can be considered an active trade or business. Courts look at seven factors which include:

1. the frequency and regularity of sales of real properties;

2. the substantiality of the sales and the relative amounts of income taxpayers derived from their regular business and the sales of real properties;

3. the length of time the taxpayers held the real properties;

4. the nature and extent of the taxpayers' business and the relationship of the real properties to that business;

5. the purpose for which the taxpayers acquired and held the real properties before sale;

6. the extent of the taxpayers' efforts to sell the property by advertising or otherwise; and

7. any improvements the taxpayers made to the real properties.

If a court finds your real estate investing satisfies these factors, then your income is considered active and subject to self-employment tax. An LLC, treated as a partnership or disregarded, does not change the nature of the income to the LLCs owner. In fact, an LLC member who actively participates in the business of the LLC is treated as a sole proprietor.

For example, if Freddy Flipper generates $100,000 from the buying and selling of real estate in a single member LLC, his federal tax liability will be approximately $31,000 (regular income and self-employment tax). A CPA looking at Freddy's situation could easily find a strategy to save him on taxes.

The Typical CPA Structure

CPAs have the tax issue nailed and prefer to set up their client's LLCs taxed as an S-Corporation. S-Corporation taxation shares many of the same characteristics of partnership taxation in so much as both are considered flow-thru for tax purposes. A flow-thru entity is one where the income or loss passes through to the owner's 1040. For real estate investors engaged in an active trade or business, the flow thru characteristic of the S-Corporation is preferable to disregarded or partnership status. With an S-Corporation, the portion of the income treated as a distribution is not subject to self-employment taxes.

If we look at Freddy's situation again but this time with an LLC treated as an S-Corporation his tax situation will be very different. Freddy will take one-half of his $100,000 as a salary (this is subject to employment taxes) and the remainder as a distribution (this is not subject to employment taxes). The net result is Freddy's taxes are only $25,000. A $6,000 tax savings by electing a different tax status for his LLC.

You might assume the CPA's plan is the best solution for the active real estate investor. You might be correct if taxes were your only concern. Real estate investors have other interests beyond taxes typically borrowing, i.e., having access to capital. Both the attorney and CPA strategy do not address the impact flow through entities have on a real estate investor's tax return.

When applying for a loan the lender will ask for your 1040 personal income tax return. If you are running your active business through a flow through a disregarded LLC, the lender will consider you a sole proprietor because all of your income is reported on Schedule C. If you are using an LLC taxed as an S-Corporation, you will have W-2 income and a K-1 with income from your LLC. Upon their discovery of the K-1, your lender will ask to see the LLC's tax return, its profit and loss statement, balance sheet and possibly its bank statements. In both the attorney and CPA structure, your lender will view you as a higher risk borrower because you run your own business.

Real Estate Investor / Attorney Structure

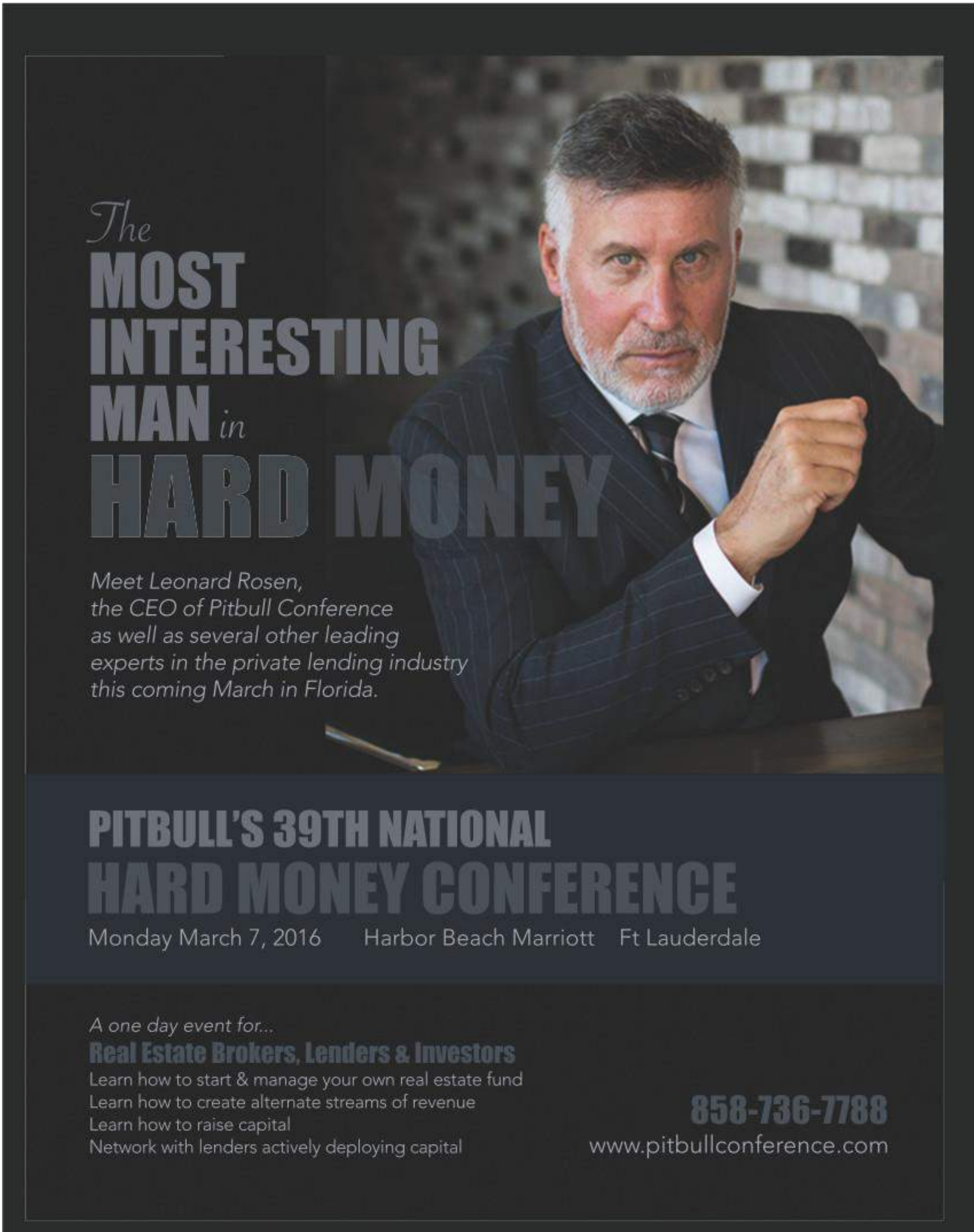
A good real estate planning firm might recommend you treat your active real estate business as a C-Corporation and receive your profits as W-2 income. The advantage to this approach is your lender does not know you own a business because your ownership is not disclosed on your 1040 (less risk), and you fit into their preferred lending profile – W-2 wage earner. The downside to using the C-Corporation approach is your tax liability will be the same as the single member LLC but with increased access it can be an acceptable trade-off. I employed the aforementioned strategy to assist one of my real estate clients in accessing the equity in his home. My client earned $150,000 on average from his real estate flipping but lenders, uncomfortable with his source of income, refused to give him more access to the equity in his personal residence, approximately $600,000. To solve this problem, we created a C-Corporation for his real estate business and treated all of his income as W-2 earnings. Within the year, he had access to his equity.

Real estate investing requires studying your objectives from many angles then deciding on a plan that meets your overall objectives. In some instances, it may only be taxed while in others it could be the ability to fund a retirement plan or in the case of my client, borrow more money. Whatever your investing objectives, work with professionals who understand investing and not just the tax or legal aspects of real estate.

Clint Coons

Clint Coons is a nationally recognized attorney and author who regularly teaches workshops on asset protection. His latest book “Asset Protection for Real Estate Investors” is available on Amazon or his website, www.alglaw.com.

Click HERE for a Free Asset Protection Blueprint Consultation to find out more about how to properly structure your entity and protect your assets from creditors and other threats.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7 Tips for Nailing the Negotiation Process

By Sharon Vornholt

If they were to be honest, most investors would tell you they don't really like negotiating. They would also tell you they aren't terribly confident when it comes to the whole negotiation process (especially in the beginning). However, this is one of the most important skills needed to be successful as an investor.

Why Is It So Uncomfortable?

When the subject of negotiation comes up, there are inevitably some people that will tell you negotiation comes easily for them and I'm sure that is true. However for most people, that just simply isn't the case. We aren't born to be good negotiators; it's a skill we develop. Whether it is easy or not, the negotiation process is something that everyone can learn with a little practice.

My First Time

My first time might be called a “failure to launch”. When I bought my first property I wasn’t even able to negotiate the deal. I was terrified. The person selling the house was a member of my REIA group; a man known to be a very intimidating “in your face” investor. I was at least smart enough to know I didn’t stand a chance against him. So I did what a lot of newbies would do, I had someone else do my dirty work. A realtor friend from that same investor’s group negotiated the deal for me.

When the seller (who was also an investor) wanted to talk to me personally because he didn’t like the way the negotiations were going with the Realtor, I was so scared I refused to talk to him. I was pretty sure it wouldn’t end well for me. After a little “back and forth” on the price, my realtor friend AKA the negotiator refused to back down, and I got my first deal at the price I wanted to pay. Watching her in action was when I learned how to stand my ground with this type of investor. I never had to have someone else do the negotiating for me after that first time.

There is No Substitute for Practice

Things are different now. I don’t have any problem negotiating deals today, but it was a learning process that a lot of new investors will need to work through. Do I like negotiating? Not really.

An investor friend told me something a long time ago that I have always remembered. We were talking about negotiation and he said, “If you are not embarrassed or at least uncomfortable by your (low) offer, then you have just offered too much for the property”. That was a lesson I have never forgotten.

So What Exactly is Negotiation?

Simply put, negotiation is when two or more people try to reach an agreement about something. When you are a real estate investor this will almost always involve the sale of a property. Negotiation is not only about money. It might be about "terms" or something else the seller needs. Regardless, at the end of every negotiation, both parties should feel like they won. When everyone leaves the table feeling good you have just completed a successful negotiation.

Sometimes You Just Can't Agree

There are times however when you just can't make a deal come together. I have learned over the years that when this happens it's usually for the best. When you are dealing with someone that has a large list of objections, can't make a decision, or you just can't seem to reach an agreement with them, this is almost always a red flag. This is the same person that will either have buyers' remorse after signing the contract or you will hear from a hundred times after the closing.

Here Are 7 Tips for Nailing the Negotiation Process

No matter how you feel about negotiation, I have some tips that will make the whole process a little bit easier.

1. Always do your homework. Whether you are buying or selling a property, know what the comps are for the area.

2. Know your numbers. How much will the repairs cost? (no guessing here) What is a realistic ARV (after repaired value) for the property? Having all of this information will be invaluable as you try to negotiate the deal.

3. Know your desired outcome. Knowing what you **must have** from the negotiations is essential. What's more important to you; the price or terms (or a combination of both)?

4. What is your exit strategy? You need to know what this is the day you buy the property. Your exit strategy will affect how much you can pay for the property.

5. Find out what the seller really needs or their true motivation. Be prepared to really listen to the other person. In addition to the cash, is there something else that they really need? Closing Costs? Moving Expenses? Maybe they just can't face cleaning out "mom's" house. There are many times the seller will take less money for the property if you can solve another problem for them.

6. Don't beat up the other person to get your way. There is a give and take in any negotiation. At the end of the day, both parties need to feel like they won in any negotiation. Remember that getting top dollar may not be what they really need to feel like they "won".

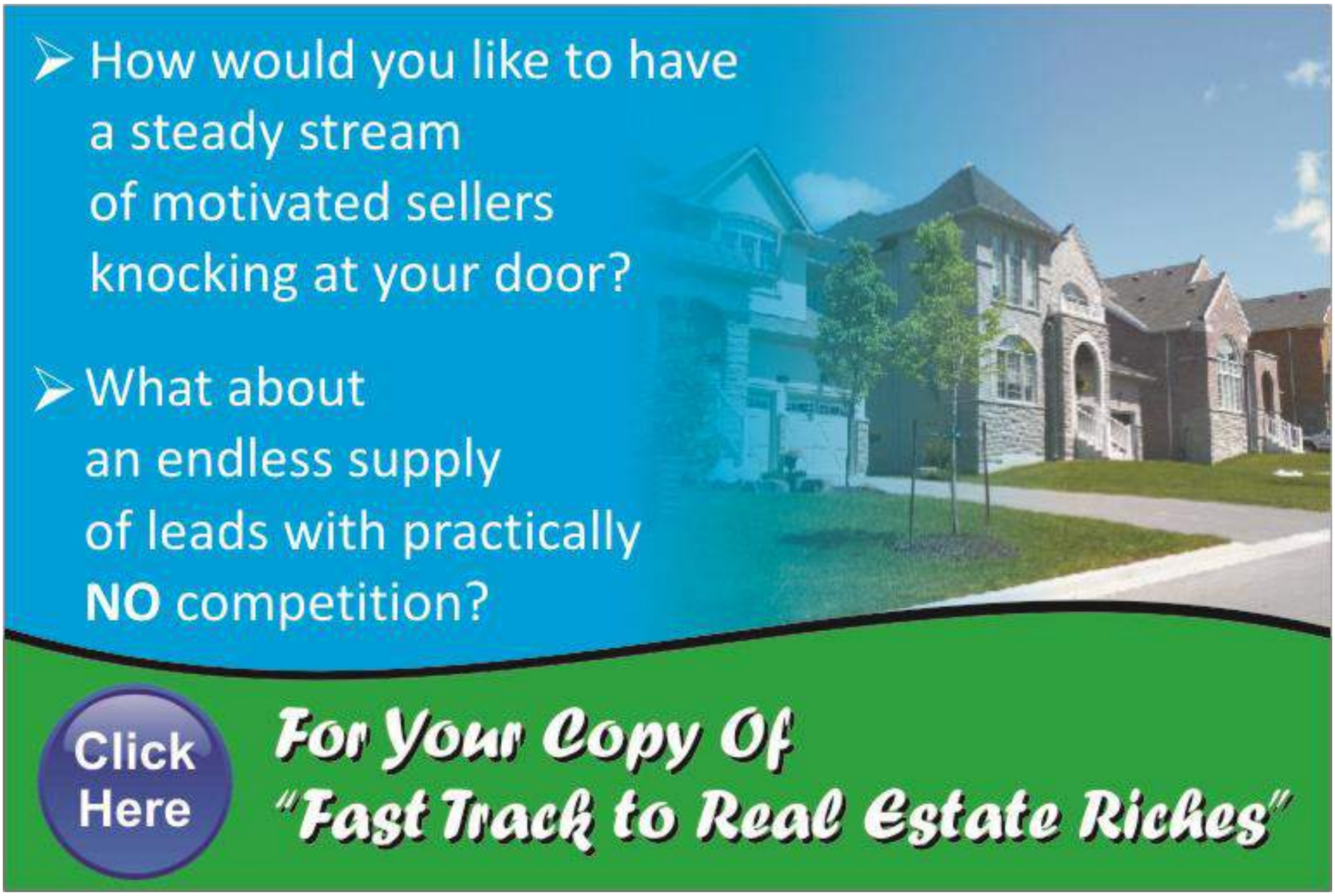
7. Realize that there will be times that you will just need to walk away. In fact, sometimes that is the only solution.

Remember that most great deals are created, not found. The money is in the follow up. Sometimes negotiation takes a while, so follow up with all those sellers that say no. In many cases no just means, "not now".

Know When to Fold'em

This brings me to my next point. Know when to walk away!

As Kenny Rogers says in his song The Gambler: "You have to know when to hold'em. Know when to fold'em." I'd say that is pretty good advice when it comes to real estate.



Sharon Vornholt

Sharon Vornholt is the owner of Innovative Property Solutions in Louisville, KY. She has been investing in real estate for over 15 years. Sharon is the creator of the Louisville Gals Real Estate Blog, and the popular podcast "Let's Talk Real Estate Investing" which you can find on iTunes. She is also a mentor and coach who loves teaching others how to succeed in this business.

If you'd like to find out more about Sharon's real estate coaching and mentoring programs, you can reach her at Sharon@sharonvornholt.com

For your **FREE REPORT "Probates and Absentee Owners: Your Fast Track to Real Estate Riches",** stop by her blog at: http://LouisvilleGalsRealEstateBlog.com.

Is the California "Bubble" Too Hot to Handle?

By Carole Ellis

The Golden State market is making more than a few people nervous these days, and it's easy to see why. In the wake of the housing crash – and yes, we're still operating and investing in the wake of that massive meltdown nearly a decade later – analysts, homeowners, and especially investors have very little peace of mind available with anything that looks like it's rising too high too fast, although many are willing to dive in despite their concerns. With most of California's "big name" markets spiraling out of the realm of affordability at lightning speed and even smaller orbital markets moving in that direction, it's no surprise that even when investors are willing to plant their money on the West Coast, it's making them nervous. Fortunately, California's unique environment will, at the very least, send up some clear warning flares before it heads for rock bottom and, in reality, that kind of plunge is reasonably unlikely.

Setting the Stage for "Disaster"

On the surface, all the warning signs of a bubble are present in California's biggest markets. Housing prices are skyrocketing; days on market are getting shorter and shorter, and bidding wars speculators appear, at least anecdotally and in the media, to be getting a bit out of control. Add an affordability crisis that has seasoned professionals "happily" forking over thousands of dollars a month to live in tiny apartments or even renting unplumbed garages and you have plenty of fodder for speculation that, as *CNBC* described it last October, California is experiencing "a bubble larger than 2006." With the additional recent turmoil in the financial markets, many investors are considering pulling their funds before it's too late.

Interestingly, however, despite all the classic warning signals and the general air of unease in the media, California's unique real estate environment today is largely founded on pillars that could turn many of these superficially problematic issues into the basis for continued growth. With any potential bubble scenario, the real question is whether the growth will "bust," leading home values to plummet and potentially demolishing local economies, or level off (plateau) and continue to grow at a more "normal" rate. In extreme scenarios like those in many California markets, at first glance the only option seems to be "bust" because the situation is so extreme right now. Things are booming in such magnitude that our inherently pessimistic human nature instantly assumes that the only question is when the market will fall, not if it will do so.

Is It Possible to Remain Active on the West Coast and Emerge Unscathed?

California's real estate market is driven by a unique blend of tech opportunities, massive growth potential, and foreign investment interest. This is, at the heart of it, the key to "California Dreaming." The state uniquely represents all that is aspirational to homeowners, investors, and professionals, and markets like Silicon

Valley, which is literally founded on the idea that a startup, *any startup*, can revolutionize not only the founder's life, but that of the wider population as well, bolster this largely accurate perception. Add in a healthy population of foreign investors from countries such as China who have a legitimate need to place their money in high-dollar U.S. real estate investments and get those funds out of their own country before its economic system implodes or its government takes over their bank accounts, and you have a recipe for an extended boom and the potential for leveling off that generally does not exist under such extreme circumstances. One *Forbes* analyst recently went so far as to predict that the current volatility in the U.S. stock market would not deter and might actually motivate "one-percenter" Chinese investors in particular to sink multiple millions into the "long-term safety" of luxury U.S. property in the Los Angeles area and elsewhere in California. Factor in other, smaller-scale foreign investors following the lead of these "big fish" and you have a reliable, external source of interest in and market insulation for local real estate and local investment properties that is at least one step removed from many of the factors that might slow or discourage U.S. investors.

No matter where you are buying in California or in what volumes, it is imperative that at this point in the market cycle you monitor every facet of your target market closely.

Another issue of concern for investors with money on the West Coast is certainly the potential over-valuing of tech stocks in today's financial markets. Thanks to a somewhat unhealthy faith in the ability of just about any tech stock to appreciate over time, investors have sunk large amounts of money into popular technology companies, including Apple, based on the belief that their outlays would pay off when those companies generated future large revenue streams. As those streams have been delayed in coming and, in some cases, proved to be smaller than hoped or nonexistent, tech stock values have fallen hard and taken U.S. financial markets with them. Clearly, such a threat to a pillar in the foundation of California business could create serious problems for investors if job creation out west were to slow or dry up. This is probably the biggest threat to local economies at the present time, but trouble is unlikely to fully manifest in the next 12 months by most models thanks, in large part, to global exposure of many technology companies and the sheer mammoth size of their operations.

Watching the Signs and Measuring Markets

So what is a savvy real estate investor who wants to remain involved in the still-burgeoning California real estate market to do? For starters, keep an eye on builders and developers. It is indisputable that California does not, at present, have the type of affordable, single-family housing available in terms of renting or buying that many residents and would-be residents need. Provide that housing in a thoughtful, calculated way, and you can dramatically improve the state of your portfolio. However, do not be taken in by building permits numbers standing alone. Monitor actual activity rather than basing your investment decisions on how many permits have been taken out. Instead, evaluate orbital markets that are presently in demand because they are affordable and accessible. For example, Stockton, California, although it does not enjoy the best reputation, is ideally located for commuters hoping to own their own home and travel to Sacramento, San Francisco and outlying areas, and San Jose. Properties for sale, particularly in desirable areas of Stockton, spend only days on the market in many cases, and home prices appreciated in the double digits in Stockton last year and are projected to appreciate between seven and 10 percent in 2016.

No matter where you are buying in California or in what volumes, it is imperative that at this point in the market cycle you monitor every facet of your target market closely. This means watching employers, stocks, and population trends carefully in addition to simply keeping an eye on your bottom line. Furthermore, keep a quick exit strategy in mind that will enable you to at least recoup your investment money should the markets turn more quickly than you expect. Ideally, builders will begin to develop more "starter residences" in California in the coming year and that influx of options will help the market level out and normalize to a healthy rate of appreciation and growth instead of falling dramatically and drastically thanks to lack of affordability at the lower end of the spectrum. Wherever you invest on the gradient, watch not only your own strata, but also those surrounding it.

Carole Ellis

Carole Ellis is editor of and chief market analyst for *REI.today*, a real estate research publication focused on identification of burgeoning trends and market factors that accelerate wealth accumulation for real estate investors. To see Carole's latest list of Hot Topics for savvy investors, visit http://www.REI.today or email her at editor@rei.today.

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The Changing US Housing Landscape

By Gary Geist

The following is the first of a four part series discussing the changes to the US housing market and how you as an investor can protect your investments. The failing US economy and difficulties within the financial markets continue to hamper new home loans slowing the growth of new home owners and those returning to the home market after foreclosure. This four parts series can be downloaded from www.homereplay.com and include:

1. Part 1 - Why US housing market is changing from a nation of home owners to renters
2. Part 2 - The make up of property management
3. Part 3 - Identification of issues investors have with property managers
4. Part 4 - Definition of a new business model property management

The Changing US Housing Market

The 20th Century saw a significant change in the US housing market brought about by new technologies, two world wars, and the computer age. It is almost impossible to find an area of our lives that has not been significantly impacted by these events.

We have seen our society change from a agrarian culture in 1900 where 41% of the people lived and worked on farms to an industrial/metropolitan culture in 2000, where only 1.9% of the US workforce is involved in agriculture careers. This has changed the landscape of the US housing market forever.

In addition, the rise of the computer age in the 1960's and 1970's brought a revolution to the workplace which made many life-long jobs obsolete. Many individuals were forced to retrain into other career fields to take advantage of new jobs in the computer field; all of which has changed the US housing market forever.

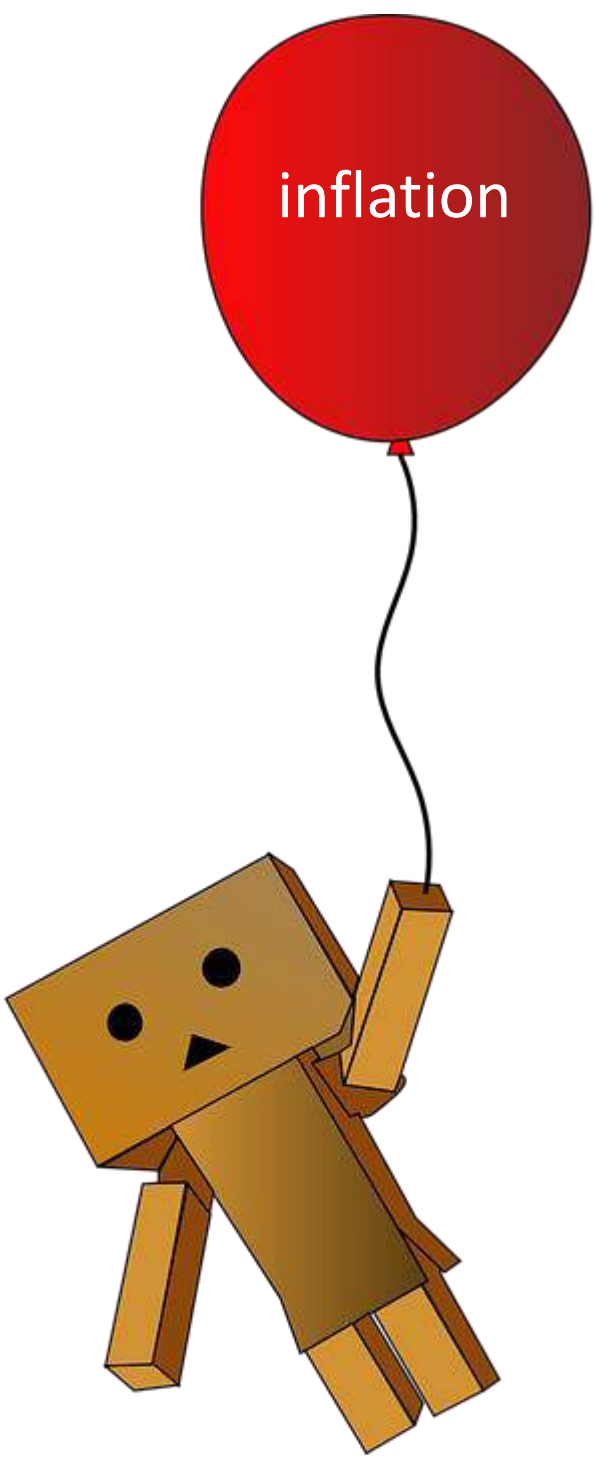
Rise of the Mobile Workforce

Two other crises impacted the US economy in the 1970's. The first was the energy crisis caused by difficulties with Iran and other OAPEC countries in the Middle East. The decrease production of US domestic products combined with the oil embargo from Middle East, severely limited the oil supply and gasoline prices sky rocketed forcing many businesses to close.

The second major event was the failure of Savings & Loan Institutions in the late 1970's and lasting until the early 1990's. Because of run away inflation is the 1970's, deregulation of banking industry in 1980, and the buying of "junk bonds", nearly 1/3 of the Savings & Loans failed. Individuals who had placed their life savings in these institutions lost their homes when these institutions failed.

Impact to the US Housing Market

The combined effect of these crises caused large segments of the population to move for work. The relocation of these people who had to leave their homes, eventually lost them to foreclosure. Realtors and Government agencies such as HUD, Fannie Mae, and Freddie Mac ended up with huge inventories of unsold houses. The record number of vacant houses along with poor economic conditions in the US economy made it almost impossible for home owners to obtain new financing just adding to the problem.



The number of families that had to change jobs because of all of these events has been documented by the US Bureau of Labor statistics which reveals that the tenure of an employee who used to work his whole career at one company as late as the 1950's has fallen to only 3.5 years by the year 2000. Even though employee tenure has risen slightly to 4.6 years by 2012, we still have a highly transient workforce in the US. Now employees move frequently for work and the 'American Dream' of home ownership is a thing of the past.

Birth of Property Management Companies

The growing number of "unsold" houses were not only problems for Realtors, banks and institutions holding the mortgages; but also for remaining home owners in the neighborhoods where these vacant houses were located. These vacant homes were depressing local real estate values, causing local market property values to plummet. This problem grew even worse when the 'Housing Bubble' burst in 2007 causing even more foreclosures. The sheer quantity of vacant houses forced these institutions to find a solution and what emerged was a whole new industry, known as *Property Management*.

Initially, Realtors performed a "care-taking" service for clients whose houses did not sell when they moved. Based solely as a convenience for these clients, Realtors provided a service designed to care for these properties, until they were sold or were rented. However, when the US economy failed to recover and the housing market still was going down, the need for these services became permanent.

Since a more structured approach was needed to solve this problem, Realtors began setting up separate groups (Property Management) handle this volume of new business. Realtors looked upon this as an added revenue stream and set about structuring this new business to solely benefit their interest and not the owners.

Thus the current property management business model was developed by Realtors and does not meet the needs of today's investor who wants to make a profit. The Realtor's interests are satisfied when maintenance expenses and management fees are collected each month. The Property Managers manage to cover costs while the investor wants the property managed to make a profit. Two dramatically different business philosophies.

Today's Marketplace

The slow economic recovery continues to hurt individuals with IRA accounts and pension funds. In recent years they have been turning to real estate where cash flow yields of 8 - 10%, or higher are possible. These new investors are more sophisticated and demand a more active role in the management of their property. This is causing problems for property managers because they can not meet the dynamic needs of these new investors. These new investors want the "Charles Schwab" look & feel to their investment portfolios where they can at any time get an up-to-date view of their investment just like they did when talking to their stock broker.

These new investors have brought along a whole set of new requirements which many property managers are finding hard to address. This includes having instant access to their accounts showing a variety of performance metrics on individual properties, quick response to their questions, and complete transparency on all monetary transactions. Just like the stock market day-trader, this investor is actively involved in the acquisition, renovation and maintenance of his property to drive down costs.

These new demands are hard for existing property managers to address. First, property managers have long had a free hand in managing their client's properties and don't like input from the owners. Second, they have out-dated management systems and can not answer the questions this new investor is asking, let alone in real time. Finally, this investor is forcing them to change their way they do business. The new investor wants control over his invested capital and the collected rents, because after all - ***It is his money***.

AUTHOR'S COMMENT:

If this paper has stirred some thoughts you would like to share and become part of the campaign to change the property management business model to make it performance driven, please share your thoughts by emailing to: ggeist@homereplay.com

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R2R - Nashville Office

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The Re-Emergence of Flexible Financing

By Rick Tobin

Every financial "boom and bust" housing cycle over almost the past 100 years has been directly or indirectly tied to the flooding of markets with relatively cheap and easy money prior to the banks and Federal Reserve slamming their doors shut to the access to affordable capital for their customers. The access to third party capital is truly the main reason why housing is positive, stagnant, or negative partly since the vast majority of consumers need some type of third party financing to purchase residential or commercial properties.

In spite of interest rates reaching historical lows in recent years, it is still quite challenging to qualify for a home mortgage. This is especially true since the vast majority (upwards of 97% +) of funded conventional and secondary market residential mortgage loans have been either government backed or insured especially after both Fannie Mae and Freddie Mac were both bailed out by the federal government back in 2008. It is interesting and quite synchronistic that the average FHA loan funded is typically also near **97% loan to value (LTV)** financing, and that upwards of 97% all funded conventional residential loans were either government backed or insured (e.g., FHA, VA, USDA, Fannie Mae, Freddie Mac, etc.) in recent years.

The Dodd-Frank Wall Street Reform Act

The Dodd-Frank Wall Street Reform Act was signed by President Barack Obama into federal law on July 21, 2010. Dodd-Frank, in turn, created the Consumer Financial Protection Bureau (CFPB). One of the main alleged core reasons for the creation of the Consumer Financial Protection Bureau was to rapidly improve mortgage loan pricing and fee disclosures for U.S. consumers.

The Consumer Financial Protection Bureau later established the Qualified Mortgage (QM) and the Ability-to-Repay Rule. To best simplify the explanation of Qualified Mortgage and the Ability-to-Repay Rule, lenders were supposed to better qualify their prospective buyers for mortgage loans, or these same lenders (banks and even individual sellers offering certain types of seller financing options) might be financially liable for future loan losses should the borrower later default.

These Qualified Mortgage guidelines made the qualification for mortgages much more challenging for mortgage loan prospects. An example of tighter underwriting guidelines is the maximum ceiling of the 43% debt-to-income (proposed mortgage payment, and possibly other fixed monthly debts, as a percentage of mortgage prospect's gross monthly income) rule for any conventional loans to be saleable in the secondary markets. Some old subprime and Alt-A lenders used to allow much more flexible underwriting guidelines with upwards of 50% to 60% debt-to-income ratios.

Both Qualified Mortgage and the Ability-to-Repay Rule went into effect on January 10th, 2014. Shortly thereafter, it became much more difficult to qualify for conventional mortgage loans in spite of mortgage rates hitting incredibly low rates in recent years. Cheap loans are exceptional options for property owners IF they can qualify for these same mortgages.

Qualified Mortgage and an Ability or Not to Repay

The key root word in the "Qualified Mortgage" phrase is the shorter version of the first word which is "Qualify." A mortgage loan product is useless for a borrower who cannot qualify for it, even if the lender is paying their clients 1% per month to borrow money from them, somewhat akin to a NIRP (Negative Interest Rate Policy) bank account option.

Let's take a look below at the Consumer Financial Protection Bureau's own words used to describe their Qualified Mortgage (QM) and Ability-to-Repay guidelines from their main website:

"A Qualified Mortgage is a category of loans that have certain, more stable features that help make it more likely that you'll be able to afford your loan.

A lender must make a good-faith effort to determine that you have the ability to repay your mortgage before you take it out. This is known as the "ability-to-repay" rule. If a lender loans you a Qualified Mortgage it means the lender met certain requirements and it's assumed that the lender followed the ability-to-repay rule.

Generally, the requirements for a qualified mortgage include:

- **Certain harmful loan features are not permitted**, such as:
  - An "interest-only" period, when you pay only the interest without paying down the principal, which is the amount of money you borrowed.
  - "Negative amortization," which can allow your loan principal to increase over time, even though you're making payments.
  - "Balloon payments," which are larger-than-usual payments at the end of a loan term. The loan term is the length of time over which your loan should be paid back. Note that balloon payments are allowed under certain conditions for loans made by small lenders.
  - Loan terms that are longer than 30 years.

- **A limit on how much of your income can go towards your debt**, including your mortgage and all other monthly debt payments. This is also known as the debt-to-income ratio.

- **No excess upfront points and fees.** If you get a Qualified Mortgage, there are limits on the amount of certain upfront points and fees your lender can charge. These limits will depend on the size of your loan. Not all charges, like the cost of a credit report, for example, are included in this limit. If the points and fees exceed the threshold, then the loan can't be a Qualified Mortgage.

- **Certain legal protections for lenders.** Your lender gets certain legal protections when showing that it made sure you had the ability to repay your loan. Even with these protections, you may still be able to challenge your lender in court if you believe it did not make sure you had the ability to repay your loan."

(*source above: http://www.consumerfinance.gov/askcfpb/1789/what-qualified-mortgage.html)

Ability to Repay Rule

"The ability-to-repay rule requires most mortgage lenders to make a good-faith effort to determine that you are likely to be able to pay back the loan. This is important because during the financial crisis many lenders made loans without making sure borrowers had enough income to repay their mortgage loans. As a result many borrowers ended up in risky loans they could not afford. Congress responded by passing a common-sense law that says mortgage lenders must make a reasonable effort to figure out if a borrower has the ability to repay the mortgage before the loan is made.

The CFPB is responsible for enforcing this law, and we have written a rule that says lenders have to make a reasonable and good-faith effort to figure out a borrower's ability to repay a mortgage. In practice this means lenders must generally find out, consider, and document a borrower's income, assets, employment, credit history and monthly expenses. Lenders cannot just use an introductory or "teaser" rate to figure out if a borrower can repay a loan. For example, if a mortgage has a low interest rate that goes up in later years, the lender has to make a reasonable effort to figure out if the borrower can pay the higher interest rate too."

(Source above: http://www.consumerfinance.gov/regulations/ability-to-repay-and-qualified-mortgage-standards-under-the-truth-in-lending-act-regulation-z/)

High FICO Scores and Less Qualified Borrowers

Over the past several years, conventional lenders have been funding mortgage loans for borrowers with much higher average FICO credit scores than perhaps ever seen in the mortgage profession. Lenders want to meet the Qualified Mortgage and Ability-to-Repay Rules while also not potentially being financially "on the hook" for their customers' future mortgage defaults as well as not losing their access to government-owned secondary market institutions such as Fannie Mae and Freddie Mac. Most banks need to unload their funded loans as quickly as possible in the secondary markets. Should primary banks lose access to secondary markets, then these same banks may eventually run out of cash.

Ellie Mac (https://www.elliemae.com/), a technology company which analyzes mortgage data, recently reported that the average FICO (Fair Isaac Company) credit score for funded conventional loans in December 2015 was 754. This average FICO score was just one point lower than the average FICO score for mortgages funded in December 2014. FICO scores range from 300 (very poor credit risk) to 850 (exceptional), so a 754 credit score is almost equivalent to a very solid "A" credit score.

What is even more mind-boggling is that FHA (Federal Housing Administration) mortgage loans funded in December 2015 had an average FICO credit score of 688. It is a bit of a head scratcher because this average score was 7 points higher than the average FICO scores for funded FHA loans the month before in November 2015, and that FHA loans used to be known for much more flexible FICO score approvals in the 500 and low 600 FICO ranges in many cases.

The average FICO score nationally is closer to 695. Yet, only about 47% of younger Millennials (people between the ages of 18 and 35) have FICO scores above 670. Millennials, as of 2015, represent the largest percentage of home buyers nationally as well as the largest generation of all Americans. As a result, the number of qualified first-time home buyers for conventional mortgage loans is declining in many regions of the U.S.

Subprime and Alt-A Loans to the Rescue

As far back as the late 1990s, several subprime mortgage credit lenders were offering 100% loan to value financing for both owner and non-owner occupied residential loans (1 to 4 units). Some lenders offered zero down loans, with or without formal proof of income or assets, to as high as $1 million to $1.4 million dollars. Some lenders would offer these loans to clients with FICO scores as low as 620, and also did not require any proof of income such as tax returns or W2 forms, or even bank or investment account statements in order to confirm proof of liquid funds.

In 2015, a large number of institutional investors such as crowdfunding platforms for real estate and hedge funds significantly reduced their acquisitions of real estate for both residential and commercial properties. As a result, many conventional banks and private funding sources are getting more aggressive with their mortgage underwriting policies by reintroducing subprime and Alt-A type loans products with much easier mortgage loan qualifications such as lower FICO scores, less paperwork documentation, and even 100% financing for properties as high as $2 million in order to provide more non-Qualified Mortgage type financing options for individual investors at much higher loan amounts.

As a prime example of more flexible mortgage financing in 2016: Let's take a look below at the $2 million dollar "Poppy Loan" offered by a federal credit union in the San Francisco region with no money down and 100% financing as described from the financial institution's own website below:

"STOP PAYING RIDICULOUS RENT!

For the first time ever, San Francisco Federal Credit Union has created a home loan product that offers up to 100% financing. Created by San Franciscans for San Franciscans who are fed up with paying ridiculous rents. The customizable POPPYLOAN™ is a game-changing solution that can significantly reduce the down payment needed to make your dream of home ownership a reality.

Why did we create POPPYLOAN™ ?

We were seeing too many people interested in home loans, who were qualified in every way, and either didn't have enough money saved up, had to tap into their retirement accounts, or needed to borrow from a family member for the 20% down payment required for a conventional mortgage loan.

We also see Bay Area rents skyrocketing. It's not that people can't afford to make a house payment (look at the amount of rent that's being paid!), it was the lack of funds or access to the size of down payment that is typically required. We wanted to find a solution to this growing problem and help our community.

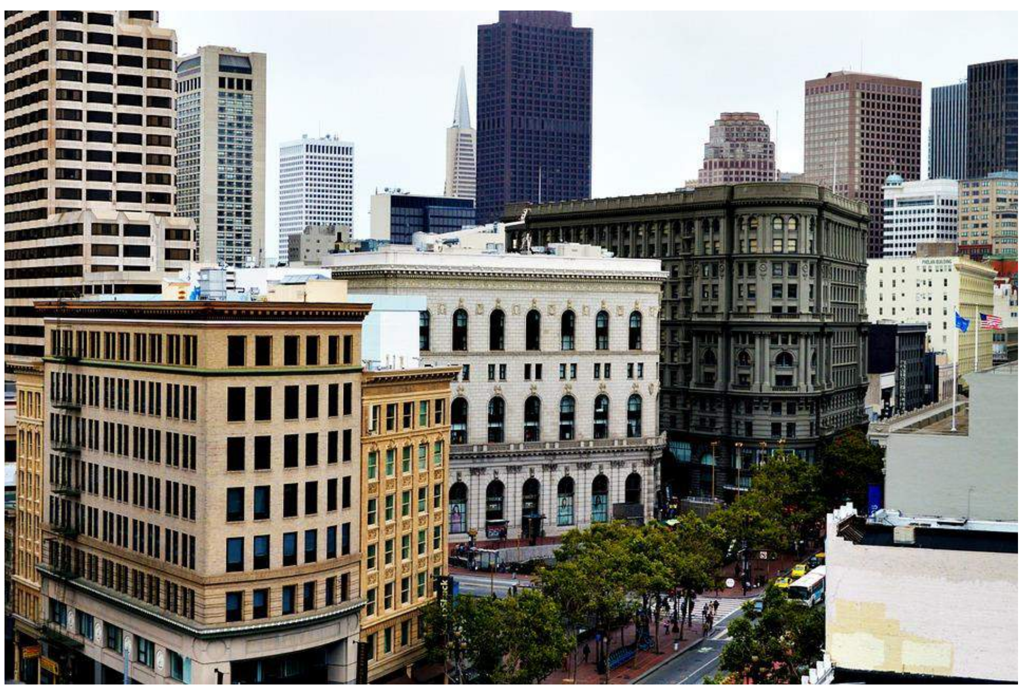
As San Francisco's credit union of choice, we delivered a real solution for our community. Our Proud Ownership Purchase Program for You - POPPYLOANTM is our answer to the down payment problem so many people struggle with when trying to buy a home in the Bay Area. Too many people living and working in San Francisco give up the dream of homeownership or moving up to a larger home. The necessary down payment would require they commit their entire nest egg to the home purchase. They see it as hopeless. POPPYLOANTM brings back that hope, brings back the real opportunity to stop paying ridiculous rents and start having your money go to work for you.

How does POPPYLOAN^{TM} work?

It's simple, really.

- POPPYLOANTM is available to anyone who **works** in San Francisco or San Mateo County.
- The home you want to buy and will live in as your primary residence must be located in one of the 9 Bay Area Counties. These are San Francisco, San Mateo, Marin, Napa, Sonoma, Santa Clara, Alameda, Contra Costa, Solano.
- You can finance up to 100% of the purchase price or appraised value, whichever is less - all in one loan.
- Loans are available up to $2,000,000.
- There is NO added cost of Private Mortgage Insurance (PMI)."

(*Source above: https://www.sanfranciscofcu.com/poppyloan)



History tends to repeat itself partly since so many of the main financial institutions and investors follow the same script over and over. First, these same banks flood the markets with easy money while almost begging consumers to take the money from them. The same investors, in turn, acquire discounted properties and ride the appreciation wave for several years prior to the banks turning off their access to capital. Once the figurative water spigot to cash is turned off, then the markets begin to taper off or decline.

"Rinse, recycle, and repeat" as the markets and investors try to clean themselves up prior to the next financial boom. To me, one of more encouraging signs to be seen today for a potential upturn in housing markets is the potential for more flexible mortgage money access for a much larger number of mortgage prospects. Money makes the world go 'round, for better or worse; mortgage money continues to be the primary driver of the housing markets.

There can be a very fine line between sane and insane ("fog a mirror and qualify for a loan") loan options available during any "boom or bust" housing cycle. Hopefully, we will one day find the best middle ground so that we can have more stability for real estate and the rest of the U.S. economy. We do still have the one main positive of near record low mortgage rates helping those people who can qualify for conventional and non-conventional mortgage loans, regardless.

Rick Tobin

Look for Rick's ebook on Amazon Kindle: *The Credit Crisis Deals: Finding America's Best Real Estate Bargains.*

Rick Tobin has a diversified background in both the Real Estate and Securities fields for the past 25+ years. He has held seven (7) different Real Estate and Securities brokerage licenses to date.

Rick has an extensive background in the financing of residential and commercial properties around the U.S with debt, equity, and mezzanine money. His funding sources have included banks, life insurance companies, REITs (Real Estate Investment Trusts), Equity Funds, and foreign money sources.

You can visit Rick Tobin at RealLoans.com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Robin Williams' Napa Estate Finally Sold!

By Top Ten Real Estate Deals

When Robin Williams died in 2014, he left behind hundreds of friends, millions of fans, a long legacy of stand-up comedy, several classic movies and a home in the Napa Valley that has just sold after almost four years on the market. Robin built Villa Sorriso (Villa of Smiles) in the early 2000s while married to his second wife, Marsha Garces. They divorced in 2010 and he

married Susan Schneider in 2011. With extensive marital debts and most of his big movie and television roles gone, Robin put the estate on the market in 2012 at $35 million. With no buyer, he took it off the market and relisted it several months later at $29.9 million. After his suicide in 2014, the home passed to his three children who lowered the price to $25.9 million and months later to $22.9 million. The vineyard estate recently sold for $18.1 million to French winemakers Alfred Tesseron and his niece Melanie Tesseron.

Villa Sorriso is located in the Mayacama Mountains, straddling the Napa and Sonoma Valleys, set majestically among 23 acres of vineyards and olive groves on 653 acres. Views over the valley are classic Napa and the land is blessed with a natural spring-fed fishing pond, groomed and landscaped grounds with tennis court, large infinity-edge pool, nine-stall horse barn and riding trails. There are over 100 olive trees which can produce 30-50 gallons of oil per year, approximately 18.4

acres of vineyards producing Cabernet Sauvignon, Merlot and Cabernet Franc wines The three-level Mediterranean-style villa measures about 20,000 square feet with five bedrooms and eleven baths. It has a picturesque bell tower, a 12-seat theater, billiards room and climate-controlled cellars. The separate guest house includes four additional bedrooms.




Although Robin's estate sold at a substantial discount from the original $35 million list, the value of Napa area boutique vineyards has fallen after surging during the early 2000s. NFL Hall of Famer Joe Montana tried to sell his 9,700-square-foot Montana Villa estate with 17 horse stalls, olive tree farm, moat and drawbridge in 2009 for $49 million, later reduced to $35 million in 2011 and taken off the market in 2012. The Robert Mondavi 11,900-square-foot home on 53 acres with guest house, pool and tennis courts went on the market in 2010 at $25.9 million but didn't sell, eventually going to auction where it sold for less than the reserve price of $13.9 million.

The Tesserons own and operate Château Pontet-Canet, a vineyard and winery in the Bordeaux region of France. With today's trend of natural wine growing, the Tesseron family turned their French vineyard into an organic operation using biodynamics from the 1920's agricultural lectures of Rudolf Steiner. This more traditional method of wine making includes working the vines with horses instead of tractors, which is easier on the vines' root systems, and improving the soil and controlling pests without chemicals. With such huge success in France, it is likely they will go the same route with Villa Sorriso.

Robin Williams' Napa vineyard retreat has sold for $18.1 million. The listing agents were Joyce Rey and Cyd Greer of Coldwell Banker Previews International.

Source: http://www.toptenrealestatedeals.com/homes/weekly-ten-best-home-deals/2016/2-1-2016/

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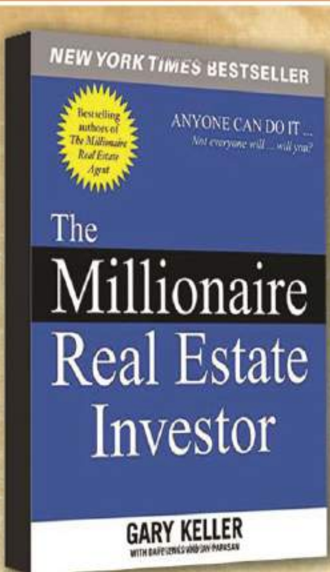

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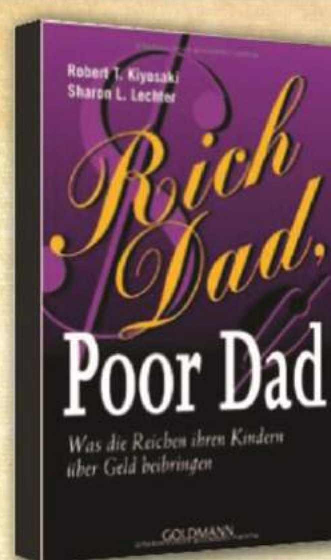

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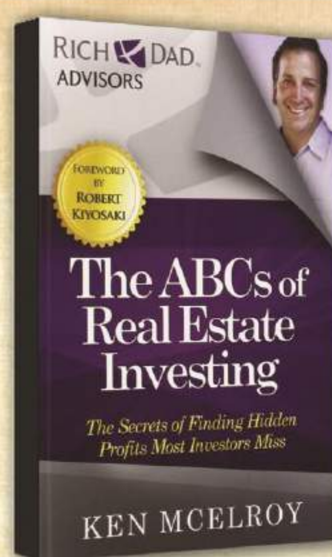

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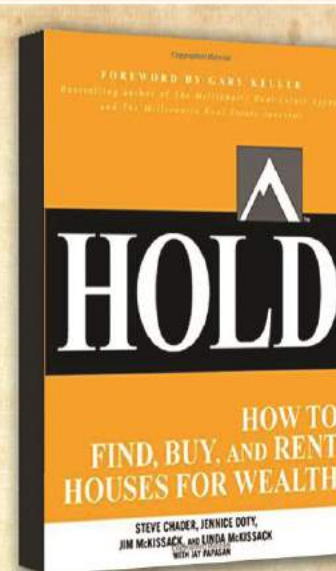

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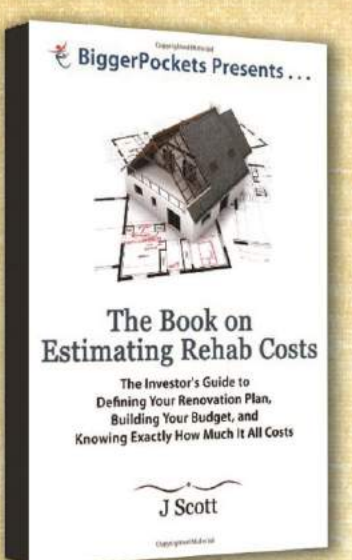

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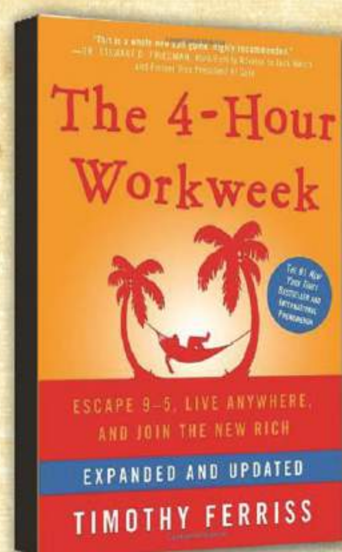

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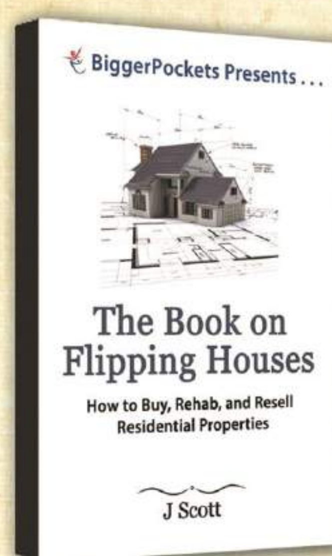

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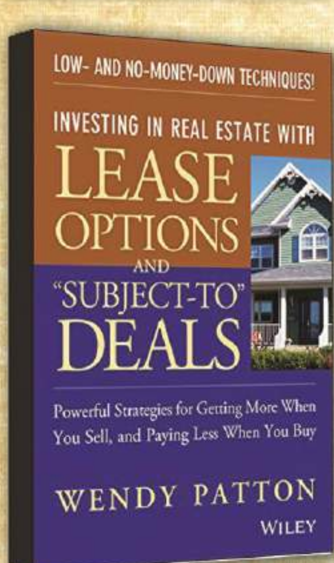

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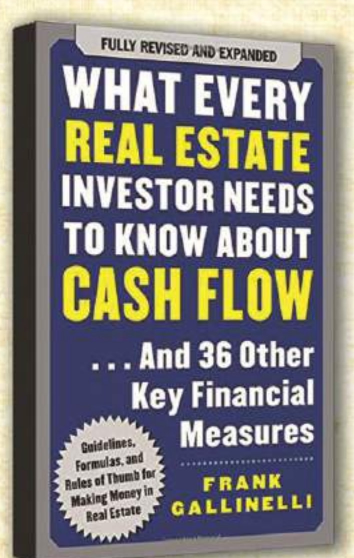

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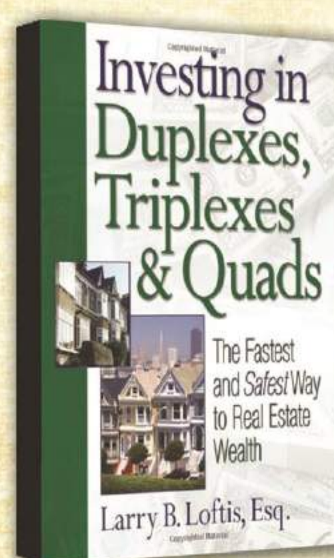

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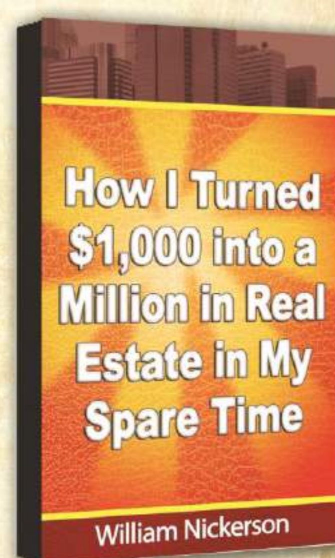

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