

How To Buy Houses Without Needing Bank Mortgages

By Jim Ingersoll



www.investingnownetwork.com

How to eliminate banks from your investing equation

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Have you heard the great news. Real estate is on sale throughout the country. Inventory of distressed housing is way up, and we are experiencing the great real estate wealth transfer of our generation.

What is holding you back?

For most investors today, the answer is the lack of bank financing. That's why I believe 2012 is the year that you should fire your bank and set yourself free. Just a few years ago, we had the opposite problems. Inventory of distressed housing was low, prices were high, and bank financing was loose and easy to obtain. Which market would you rather operate in?

Today's market provides much better opportunities for investors IF you are ready to fire your bank and look elsewhere for financing.

Instead of just having the skills to rehab a house, today you need to have the skill to rehab your financing. This requires a shift in your thinking about how to invest today. Here are three reasons you need to use private lending and not a bank:

1. You'll Never Run Out of Money

Even though real estate prices have come way down compared to a few years ago, houses still take a lot of capital to purchase. You can buy houses as cheap as cars in today's market, but that is still a lot of money if you are paying cash or having to make 20% down payments to get bank financing.

It is imperative to learn to use other people's money (OPM) to ensure your success in real estate. Otherwise, you will eventually run out of funds.

When you fire your bank, you will find that you do not need to make a down payment or even pay for your closing costs. As a real estate investor, your returns will be infinite if you do not have any of your own money in the deal. An infinite return is a great goal for your next transaction and will allow you to continue buying more properties without running out of funds.

2. You Can Close Your Deals Much Faster

Purchasing houses that are in distress situations often require a very fast closing. If you are relying on bank financing, you will find the process to be full of hurdles that continue to slow down your closings. These hurdles come in the shape of credit applications, loads of personal financial documentation, rent rolls and leases for other properties you own, credit reports, and appraisals.

Each of these hurdles represents an opportunity for delays in closing. When you are buying distressed real estate you must be able to close on time and without hassles. Each of these bank-financing hurdles can lead to a lost transaction.

When you use private financing, you avoid most of these standard delays and hassles.

3. No One to Say “No”

Today’s mortgage regulations have led to increased underwriting guidelines that can become problematic for many investors. Each underwriting requirement can lead to a bank saying “no” to funding your real estate deal.

How many houses would you like to buy this year if you did not need any of your own money and did not need to be concerned with getting a bank mortgage?

When you eliminate bank financing from your [investing strategies](#), you will be liberated to buy as many houses as you want without using any of your own money. Freedom to buy as many houses as you want will get you off to a great start in 2012.

I hope you’re wondering how to begin to purchase homes without a bank, because this blog series will answer your questions and take you through the process of finding and using private lenders.

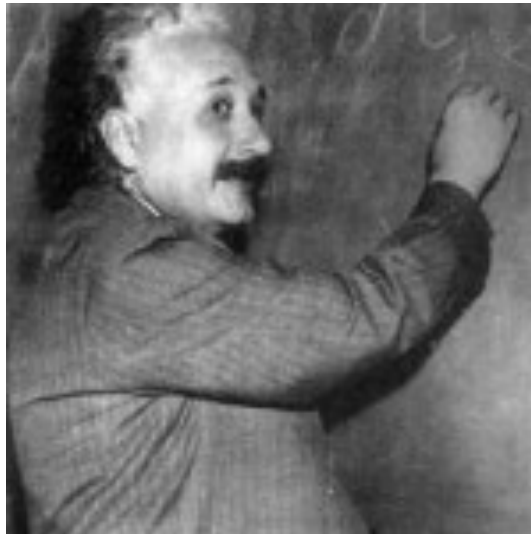
Show Me The Money:

Now that you understand the “why” behind private lending, you may be wondering **“Jim, How can I find the money for my deals.”** I am glad you asked!

First, you need to understand that you have to solve money problems. Second, understand that EVERYONE has a money problem. That includes both the good folks left unemployed by our bad economy and the folks with lots of funds who are tired of LOSING in the market, CDs, etc. **To understand the money problems that the folks with the money have you need to understand the future value of money and compound interest so you know the difference it makes over a long period of time.** The difference in value of future investments between a CD at 2% and a real estate investment at 10% is a gap larger than the grand canyon!

**“The Most Powerful Force In The Universe is Compound Interest”
– Albert Einstein**

I love great quotes, don't you? What do you think of this quote from Albert Einstein? Seriously I would love to hear your thoughts so leave me a post on my facebook wall at www.facebook.com/investingnow,



In case you forgot what compound interest is: **“Compound interest** arises when the interest gets added to the principal,” so that the interest

that has been added *also itself* earns interest. This addition of interest to the principal is called *compounding interest*. A **retirement account**, for example, may have its interest compounded every year: in this case, an account with \$100,000 initial principal and 20% interest per year would have a balance of \$120,000 at the end of the first year, \$144,000 at the end of the second year, and so on. Millions of people are earning 2% or less in money-market accounts and CD's so it is important to know the return.

Get over it! Everyone has a money problem. You either don't have enough money or you have too much; but either way you have a money problem in today's economy. If you know how to make money in real estate by collecting income producing properties or can flip houses for capital gains, then you can help solve the problems that millions of people who are afraid of losing their money right now and are sick and tired of earning that 2% in a CD or money market account.



The stock market has a history of sharp drops that started with the crash of 1929 which led right into the great depression, but others also include "black Monday" in 1987 and more recently the 9-11 attacks in 2001. But even recently the market has been extremely challenged.

Some of the headlines from 2011 include:

"Fear drives perfect storm of selling"

"Dow drops over 500 points, 9th largest drop..."

"Stocks down 10% in just 10 days"

"U.S. loses top credit rating"

The issues domestically that have resulted from unlimited government spending spree's and economic issues in European countries such as Italy and Greece have further challenged the ability of the stock market to not lose value. Today the Dow Jones is hovering in the 11,250 range and my point is that it was also in this same range of value several different points since 1999. In November 2011 the market dropped 6% in just 30 days. People with money in the stock market have serious money problem. They struggle with what to do with their accounts, do they pull the money out now and take the loss at the end of the year or do they leave it in the market hoping to regain a portion of their loss. The challenge is that is very hard to make up for the loss; in other words the market has to have a huge rally to get you back to break even and start to produce any sort of positive return on investment.

If you are **very wealthy** and have \$5M invested in the 30 stocks that comprise the Dow Jones Industrial Average, you would have lost \$300,000 in one November 2011 if you sell the stock. If you don't sell the stock you are gambling future losses and trying to determine how big of a market rally you really need to regain your \$300,000 of losses in November 2011. Many well off people are likely losing sleep as their stock market investments are dropping quickly and they don't know what to do with their money. That is why the wealthy are also having money problems.

If the money is taken out of the market where can you put it where it is safe and secure and maybe earn a reasonable return? For many people the answer to this question was to move their funds into bank CD's. At least the funds will be secure up to the FDIC limits (\$250,000 per depositor) and they cut off the losses from the stock market. But, can they handle the prospect of having nearly no returns on all that capital? A CD sounds like a safe and secure investment, but the safety and security will cost a lot in the way of virtually no returns on investment.

In December 2011 CD rates are not providing much return on investment. If you have \$100,000 to invest you can earn between .5% and 2.0% if you are able to invest in the CD for one to five years. Generally the longer the term and higher the balance will lead to a slightly higher return. But also remember that if you want to use the invested capital before the term expires you generally have to pay penalties and will lose most of your interest anyways. The CD rates generally provide a return that is near the

anticipated inflation rate so the owner of the CD is safe and secure by FDIC but in reality is not earning much of a return.

People who have moved funds from the stock market into a CD certainly have money problems. If you have moved \$100,000 from the stock market and placed it into a three year CD earning 1.5%, how much money will you have when the three-year term expires? Exactly \$104,599.85. The \$4,599.85 in interest will likely keep up with inflation and that is about it.

This is what is happening in today's economic climate, balances are not growing any faster than the inflation rate. **Millions of dollars are moving out of the stock market** and investors are looking for new alternate ways to earn a reasonable rate on their investment so they can get their plans for retirement, college savings and so on back on track.

Everyone does have a money problem. This includes those who have lost jobs, the middle class that is losing their retirement savings, the wealthy who are paralyzed with fear about losing their wealth and even our own Government continues spend more than they receive.

As a **successful real estate investor** you should have no problem finding a half-price house right now, fixing it up and renting it or flipping it. You can find ways to provide a fantastic, safe return and solve a problem for someone with money sitting on the sidelines right now.

You should be able to offer private lenders, which could be a self directed IRA of course, a nice and safe return of 6 -8% and let them earn more than banks are getting on mortgages today. They have a nice, safe and passive investment and you do all the work to buy, fix up and manage the property. Or, maybe you could offer future equity and a portion of your monthly rental income. **This will create a huge return for your private lender in the form of 15 – 30% annually.**

Understanding compound interest along with knowing the economic climate we face today should help you structure real estate deals that are very successful for both the real estate investor and for the private lender. It is a nice win-win scenario where we help each other and both mutually benefit.

The **very first secret** to private lending is that the people holding onto the millions of dollars need to be able to earn a reasonable return in a secure environment such as local real estate. The folks with all the money need great real estate investors as much as real estate investors need them. **Lisa Moren Bromma** put it best in a recent call we had with her when she said, “There is plenty of anxious money around” **and Scott Britton** followed that up saying that “people with money pulled out of the market want to invest in their local economies rather than on wall street.” Once you have the confidence in that first secret, your ability to find and use private money increase dramatically.

Looking for that very first private lender? Maybe you have a 401k that you can roll into a self-directed IRA. If so, find another real estate investor who has a similar balance and begin to lend to one another. That will allow you to understand both sides of the table as both an investor and a lender. From there, it is like a ripple affect. Go to the first ring of family or friends and begin telling people what you do and try to get someone to want to invest with you. Networking at REIA meetings, IRA and CPA meet-ups, etc. are also great places to make financial friends who will want to make great returns on investments in local real estate. Eventually you will begin to attract the money right to you as people find out that you are credible, honest, trustworthy and know how to structure deals which make great returns on investments.

How can you find your first private lender Jim?

I get that question a lot, so here are some ideas. Once you have worked with a private lender and created great returns you will discover that you attract more money.

1. **Start with your closest circle of influence:** For many people this may be a extended family member who have money sitting in a CD or put on the sidelines from the stock market. It could be in a 401k or IRA. If so be sure they are not a prohibited member for a self-directed IRA and encourage them to roll their funds into a

self-directed IRA and lend you the money. This will create fantastic returns for them and provide you with your first lender.

2. **Extend your circle:** You can then extend your circle of influence outward and think of this as a ripple in a lake. Each ring further out will be another opportunity for you to work with a new private lender. Begin to network at CPA, financial and real estate meet-ups. Become good at telling your story in 5-7 seconds when someone asks what you do. You want them to ask you if there is an opportunity to joint venture together on some real estate deals.
3. **Swap accounts:** Find a real estate investor who has a balance similar to your own 401k or IRA, then you both roll into self-directed IRA and lend to one another on the exact same terms.

Ready to help someone roll-over their funds? I have the contact information for self-directed IRA custodians listed in the Links and Resources section of my website at: www.investingnownetwork.com. I like to use both Quest IRA out of Houston, TX but also have good experience with the other trust style self-directed IRA custodians.

How to use private money

Another secret is that you must learn how to **structure your funding**. You will also no longer be going to a bank and having them tell you the interest rate, points, junk fee's, amortization and terms of the loan. You need to become very comfortable structuring your own deals that make sense for you and your private lender and every deal may be a little different. This is a paradigm shift after you fire your bank. In other words, you will set your own terms on the deal, not some bank officer. After you fire your bank, you wont have a bank to prepare your documentation. Instead you need to be able to tell the private lender what is in it for them. If you are doing simple debt financing with a private lender, start by trying to get them to loan you money at 6 or 8% which is 3-5 times the earning of a CD. Do not volunteer to pay any points, pre-payment penalties or other

junk type fees. These fee's only exist in regular conventional bank financing.

You need to be prepared to properly structure your deals such that the person lending the money has as much security in the collateral as possible. Once you understand how to structure the notes, deeds of trusts, insurance, etc. you will be able to properly protect your private lender. **Walter Wofford** said it best during a recent phone conference, "develop a climate of trust and the private lender will be ready to write your checks on your deals."

Another option to buy and hold real estate is to offer to work with your private lender as a joint venture where you will share the future equity of the house and you will share the monthly rental income stream as well. Personally, I am happy to give up 50% of future equity and 50% of my monthly rent in exchange for a joint venture where I use none of my own money to buy a house. I can buy as many houses as I want using this strategy.

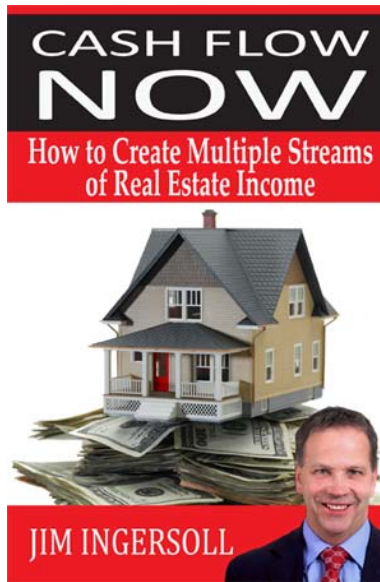
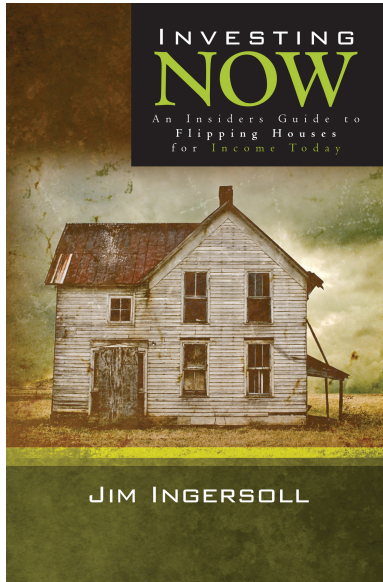
Want to invest in yourself further and learn more about Private Lending?

Learning private lending is a journey that starts with understanding why it is needed and culminates with structuring great transactions that really work great in today's market with awesome deals everywhere around us. Want to continue on this journey with me? I will be happy to answer your questions. Here are some more ways to continue your own journey to Firing Your Bank!

IF you are interested in a structured **coaching program**, please check out www.investingnownetwork.com/coaching

We have coaching programs for private lending, wholesaling, flipping houses, rental properties and more. Each provide focus on your needs and your goals.

Finally, be sure to pick up a copy of my book “*Investing Now*” available on Amazon and at Barnes & Nobles. My new book “Cash Flow Now: How to create multiple streams of real estate income” is also a must read!



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Jim Ingersoll is a successful real estate author, entrepreneur and coach who has bought and sold hundreds of houses. Also a Class A contractor he holds a BS in Electrical Engineering and a Masters Degree in Engineering Management. Jim resides in Richmond, VA. He enjoys helping others achieve their own freedom!

