Spring 2017

Financing Strategies For Real Estate Investments

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2017

Abstract:

Most people have a dream of being financially independent and in order to do so it is necessary to save and invest their money. The key is to invest wisely so that one can earn a solid return on their money. Real estate investments are a great way to build wealth because of the benefits they have over other investments. Many are under the misconception that they cannot invest in real estate because of a lack of capital. This belief is entirely untrue and there are dozens of different strategies for investing in real estate with little or no capital from one's own pocket. Many of these strategies don't require bank involvement either. Leveraging other people's money (OPM) in order to invest is a way to speed up the traditional route of getting to financial freedom/retirement. Although financing real estate is not the only hurdle to overcome in this business, it is usually the first people see and immediately don't believe they can overcome that hurdle. This research is intended to explain some of these different finance strategies in order to invest in real estate no matter what a person's situation is.

Introduction

Andrew Carnegie once stated, "90% of all millionaires become so through owning real estate." What he means by this is real estate investment. Although this is not accurate today and may have not even been accurate back then, there is truth to the fact that real estate investment is a great way to build wealth and achieve financial freedom. There are several different strategies for investing in real estate: "flipping" (buying, rehabbing, and selling); rentals; *wholesaling* (all italicized terms can be found in the glossary in Appendix A); buying, selling, and/or holding *mortgage notes*; developing; etc. Real estate is a very unique investment vehicle because it offers a tangible piece of property. With that being said, there is a limited quantity available on the planet. Real estate has arguably the most control of any investment class as well. Anyone can evaluate a real estate deal to make sure it will be profitable unlike purchasing stocks on the stock market. For example, look at Volkswagen's recent scandal in September of 2015. No one owning stock in Volkswagen could have predicted that they had been cheating emissions standards yet they took a hit to their stock prices when it was exposed. One doesn't have control over the choices of large companies when investing in them. Real estate investors can turn a profit in a booming market or during an economic downturn, like the recent Financial Crisis, because they have options for hedging risk that other investments don't provide. For people only interested in passive investments, buying real estate may not be the best option because it does require a certain level of involvement, but it can offer returns much greater than other investments.

As opposed to stocks or bonds, the problem with real estate investments is that real estate usually requires a lot of money to purchase, renovate, and/or build. Many people are under a false assumption that they can't get into real estate investments because of a lack of capital and that you already have to be extremely wealthy to invest. However, only 24% of investors in the U.S. plan to pay cash with no other financing for their next real estate investment ("American Real Estate…"). In regards to financing, Brandon Turner states, "One of my favorite aspects of real estate investing is the ability to trade cash for creativity… You can't easily do this with stocks, *mutual funds*, gold, or most other kinds of investments. If you wanted to buy gold but only had $1,000 to spend, you would probably buy just $1,000 [of gold]. If the price of gold then doubled over the next decade, you would make only another $1,000 in that ten-year frame… You can imagine how long building serious wealth might take with this method, especially with the market fluctuating so greatly" (Turner).

Even from a non-investor standpoint, when buying a home most people only put 20% or less as a down payment. The bank funds the rest and they make their money on the interest paid to them. This is different than purchasing stocks or bonds, which requires full payment at the time of purchase. In the terms of the mortgage, the house is *collateral* for the borrowed money. This is the reason access to money for real estate investment is not very difficult: the property is collateral and although the value can change, it will retain some value. The great quality of finance is that it is just as much an art as a science and that there are countless ways to finance real estate investments. For example, using retirement accounts to make tax-free profits, which will be discussed later. Everyone can find their own strategy that works for them and they can combine several financing options to have no money out of pocket. Some investors even refuse to use any of their own money for investments.

Since the Financial Crisis, it is more difficult to get financing for real estate investments, and requires more time and paperwork. On top of this, there are other restrictions as well. For example, when buying residential properties, the total number of financed properties one can have at once under *Fannie Mae* backed-loans is 10 including one's primary residence ("Multiple…"). Under *Freddie Mac*, the limit is only 4. If an investor wants to build a large rental portfolio of *residential properties*, they will have to find other ways of financing the properties. The reason for this is that banks look much more at a person's income and credit score to determine if they will pay back the loan than how the asset itself performs and generates a *net operating income*. However, when buying *commercial real estate*, which includes properties with five or more units, banks look more at the profitability of the asset itself. Banks can be a very useful strategy when investing in real estate especially because they offer some of the lowest interest rates of any financing option. Although, the restrictions and time involvement can limit your access to funds and/or make an investment fall through.

Before the 2007-2008 Financial Crisis, loans from banks for real estate were extremely accessible. Lenders were allowing customers to borrow against their house(s) for more than what the property was worth. They believed the housing prices would continue to rise if anything were to happen with the borrower. Also, lenders were creating *sub-prime mortgages* where the borrower was high-risk, likely to default, and had to put little or no money down on the houses. Banks were packaging mortgage notes and selling them in *credit default swaps*. These high-risk assets spiraled out of control and everything came crashing down when interest rates rose. Ever since then, it has been much harder to receive financing from banks. Typically, banks are the first and/or only option that people think of when trying to find a lender. But the bottom line is that unless someone is already very wealthy, using banks to grow their real estate investment business is very limiting and will take much longer than if they use other methods of finance as well. In the investing world, there are so many different options for acquiring money to invest.

The goal of this integrative review is to examine and educate on the subject of financing options for real estate investments. There will also be some focus on how FINTECH is changing/disrupting finance in real estate investments. By reading this paper, one will gain the knowledge on using several strategies to finance and invest in real estate as a means to build wealth. There will be several categories explored more in-depth including: FINTECH, Private Money, Methods for a Seller to fund a Real Estate purchase, Banks, and Wholesaling. Within these there are even more subcategories to look into. Lastly, there are two interviews with professional real estate investors regarding their experience with finance.

FINTECH

First, we will look at how *FINTECH* is shaping financing for real estate. "Financial Technology (FINTECH) describes a business that aims at providing financial services by making use of software and modern technology" ("FinTech…"). These FINTECH companies are becoming more popular and competing with banks in most areas of the financial sector. Generally, their financial solutions/services are easier and more flexible than banks. The speed of FINTECH innovation is also much faster than traditional banks. FINTECH companies realize that to stay relevant in the financial services industry they need to integrate into the lives of the increasing tech-savvy and sophisticated customers. Future customers of these businesses are only going to be more proficient with technology as they are the Generation Y and Z groups. The financial services that these companies provide include: money transfer, lending, investments, payments, and more. The younger generations prefer quick and easy financial services that they can do from their smartphones ("FinTech…"). These newer companies cut out the middleman, such as banks, to make consumer services more efficient, consumer friendly, and in some cases cheaper.

A great example of a FINTECH company is Acorns Grow Inc. This California company allows its users to make deposits from their bank accounts into an Acorns account that invests the money in different exchange-traded funds (Demos). Customers will round up purchases they make to the nearest dollar and use the spare change to invest. The average account size is $175. Many asset managers consider this to be too small and not worth the hassle. However, it is enticing younger generations with three-quarters of users between 18 and 34 with an annual income less than $100,000. The company reached $150 million in assets as of April 24th, 2016. This is still quickly growing and although not extremely large yet, Acorns Grow Inc. is on the banks' radars because the company is taking deposits away from them.

So how is FINTECH changing the way real estate investments are financed? The use of technology is making connecting lenders with active real estate investment companies a much easier task. These lenders are mostly non-professionals though. It's similar to the Acorn app mentioned earlier. Some FINTECH companies allow people to invest in real estate deals just like they would invest in a stock and/or bond portfolio. However, these newer companies are for people that want a more passive approach to real estate investing by investing in *Real Estate Investment Trusts (REITs).* To be clear, this doesn't allow an individual investor access to capital, it only allows someone to be a part of lending to a large-scale real estate project. To be on the receiving side of the lending, an investor would have to have their own REIT. This, however, would be extremely difficult for a newer investor to do with higher barriers to entry because of needed experience and knowledge. Right now, FINTECH is much more aimed at large commercial real estate deals. These companies are making it much easier to invest in real estate deals with the ability to do it right from a phone. Most of these FINTECH companies involved in real estate are taking an old concept, *crowd-funding*, and making it more transparent, accessible, and overall just easier to do.

One of the most innovative companies in this area is Fundrise, LLC. Brothers Ben and Dan Miller started the company. Fundrise has around 60,000 users and offers a low minimum to entry of just $1,000. Their primary focus are mid-size commercial projects, but have even had opportunities to invest in iconic properties like 3 World Trade Center in NYC. Their platform makes it much easier to diversify and invest in multiple properties at one time (Fundrise). They offer *eREITs* to investors solely in the United States. They have different categories for investors based on characteristics like location and performance of the investment. For example, the company offers a West Coast eREIT that will invest money in projects in some of the western states of the U.S. and it provides a quarterly dividend. They offer lower fees (roughly 90% less) than traditional investments, since they cut out middlemen and they have beat out major indices like the S&P 500, NAREIT

Composite, and NASDAQ in 2015 ("The Best Way…"). They have become a key player in not only commercial real estate investment, but also in the whole FINTECH industry.

Another company revolutionizing this industry is PeerStreet. This startup gives individual investors access to *first lien* real estate-backed loans online (Reuters). "In the first year of operation about $165 million for about 400 loans were funded via the platform by about 2,000 accredited investors with zero losses to date" (Chernova). Like Fundrise, the minimum investment is $1,000, which makes investing more accessible for people that aren't already extremely wealthy.

As stated earlier, these FINTECH companies are a more passive and accessible way to invest in real estate but in this case it is still the investor's money being invested therefore one is still limited in their returns and the ability to grow their wealth. Hopefully, in the near future FINTECH companies will have the means to allow access to capital for smaller/newer investors and smaller real estate deals, like less than $500,000. As of now, for a lot of these companies an investor is strictly acting as a lender to larger real estate investment companies and trusts. There are companies like Lending Club that will do loans as large as $40,000, however purchasing usually requires larger loans. Moving on from FINTECH, there are other financing strategies to use besides banks that can help with one's own real estate investments.

Private Money

The next financing tool is private money. "A private money lender is a non-institutional (non-bank) individual or company that loans money, generally secured by a note and deed of trust, for the purpose of funding a real estate transaction. A private money lender can be anyone from a friend or family member to a complete stranger.

Consider three circles of people that can be a private money lender. First is the primary circle. This includes: family, friends, neighbors, and coworkers. The secondary circle is made up of associates of the primary circle. Last is the third party circle. This can include accredited investors, people found through advertising, strangers, and/or people found through networking. Millions of Americans have plenty of cash sitting around in a retirement account, savings account, CDs, etc. that aren't earning a great return. "Private money lenders are all around. A recent study showed that 22% of American workers have at least $100,000 in their retirement fund. With 154 million workers in America, that means more than 30 million Americans have more than $100,000 in their retirement account, being shaken around by the stock market, or accepting low fixed returns from *CDs*/*annuities*/savings accounts or other investments" (Turner).

There is a lot of money out there; one just has to find it. Once the appropriate lender is found, an investor has to properly market themselves and their business well, and lastly convince the lender of the potential of the investment. Private money can be one of the best ways to grow a real estate business.

Hard Money

A very common source of funds for real estate investments is Hard Money. This is funding from professional lenders, either private individuals or businesses. These individuals or businesses are not banks and they lend based on the value of the property and the strength of the deal (Turner). All hard money lenders have different criteria for how they lend and what they lend on. As stated, they will lend based on the strength of deal and not so much on the ability of the borrower to pay it back (although that is important). Most real estate hard money lenders out there will lend 60-70% *loan-to-value (LTV).* For example, if a property has an *after-repair-value (ARV)* of $100,000 based off of *comparables*, the lender will usually lend anywhere from $60,000-$70,000 on the property. When flipping houses, one should not be much over that anyways or they won't be making a great return especially if they're using hard money. The property is collateral for the loan, just like all of these strategies, therefore the lender does not want to be over-invested in the loan in case the borrower fails to pay back the loan. If the borrower can't repay them, the lender will repossess the property because they have a first lien position and will handle it themselves. The lender will usually work with an investor so that it doesn't go that far. Either way, the lender will most likely make money.

Generally, these lenders will charge anywhere from 8-18% interest on the loan and a couple *loan points* up-front meaning a percentage of the loan. For example, if they charge three points and the borrowers borrows $100,000, the borrower would owe the lender $3,000 up-front. These numbers frighten people away from hard money. It should be regarded as the cost of doing business and should be factored into decision-making regarding the deal. If both parties are making money off of the deal, there isn't a problem because it could be either that or no deal at all. Initially, these lenders like to see that a borrower has some "skin in the game", meaning money invested in the deal, so that the borrower is more committed to it. That doesn't mean the borrower can't use another source of funding talked about later to fund the rest of a deal. With a lot of lenders, as a borrower builds a relationship and trust, they will more often than not bring down the interest and/or points on the loan or increase their loan-to-value (LTV) with a borrower.

Because of the cost of a hard money loan, these are almost always short-term (3 months to 1 year), as they would not make sense for long-term rentals. Most lenders do an interest-only payment plan until the property is sold. Some lenders will even defer interest until the end. One key aspect of hard money is that there has to be a solid deal in place, meaning after lending costs the borrower is still making a decent return on investment. And there are several benefits of hard money loans. First and foremost, these lenders can close on a property in as little as a few days and they are paying in cash so the borrower doesn't have to jump through hurdles like one would for a bank loan. This can really appeal to motivated sellers with whom an investor is negotiating a deal. Another great thing is that an investor isn't maxed out with properties. If an investor finds ten great deals, they could potentially fund them all with hard money. With a bank it would be nearly impossible. Also, many hard money lenders will not look for income verification or a credit report. Some will check credit but it is more for bankruptcies, foreclosures, charge offs, and collections (Schuricht). Another benefit is that these lenders normally don't care about the condition of the property. Obtaining bank financing can be extremely difficult on properties in bad condition like a lot of foreclosures out there. Even if the property is meant to be a rental, hard money can be a great tool to get a property back to livable condition and then refinance through a bank or by another method. Hard money will most likely be the most expensive source of capital. It can, however, be a great tool to use in the real estate investment business. With all of the methods discussed, the key is finding a great deal (Turner). The saying goes, "You make your money when you buy".

IRA's

As a subsection of private money, the use of *Individual Retirement Accounts (IRA's)* or *401k's* can be an excellent way to fund real estate deals. IRA's were created in 1974 and have a lot of tax benefits. The *Traditional IRA* has been around since then and allows contributions to avoid taxes until retirement when you draw from the account. The contributions are even tax-deductible for the year they are put in. It is considered a tax-deferred account. In 1998, *Roth IRA's* were created. These allow no tax deduction for contributions but all investment earnings and withdrawals are tax-free (Allen). Many people, even people that have IRA's, don't know that there are *IRA custodians* out there that let you hold a *self-directed IRA.* "Although there have been many changes and adjustments to the basic IRA structure originally enacted by Congress, the ability to self-direct your IRA into *"nontraditional" assets* has been available since the original act was passed in 1974" (Allen). "Nontraditional" assets include almost anything including real estate. The only assets you cannot hold in an IRA are life insurance and most collectibles (artwork, rugs, antiques, etc.). Companies like Equity Trust Company in Westlake, Ohio offer numerous self-directed retirement account options including different IRA's, 401k's, a *Health Savings Account (HSA)*, and a *Coverdell Education Savings Account (CESA)* (Equity Trust Company…).

There are a lot of different options for using self-directed retirement accounts. An investor can use their IRA to build either tax-deferred or tax-free wealth. Even if an investor is not using their IRA to do an investment, private lenders can still lend money for the real estate deal from their IRA to build their retirement fund from interest on the money they lend out. Self-directed retirement accounts can be very flexible if the right custodian is holding the account, meaning an IRA custodian that specializes in self-directed IRA's. One benefit of the IRA is that when buying real estate, there are institutionalized lenders (banks) that do *non-recourse loans* solely for IRA's. This is beneficial because, like hard money lenders, they look at the value of the asset more to determine the loan amount. Because they are non-recourse, they can repossess a property if an investor fails to pay on the loan but they cannot come after the money in the IRA account (Allen). These non-recourse loans or loans from private lenders can be very useful especially in building up a rental portfolio. Whether it's a self-directed retirement account or not, opening an IRA at a young age can save a lot of money in taxes. It is highly recommended to educate oneself on IRA's and the benefits they can provide.

Whole Life Insurance

Another subsection of private lending is one that very few people realize can be a great source of money: life insurance. This strategy can only be used with *permanent life insurance*, which includes *whole life insurance* and *universal life insurance* policies. Think of these as "buying" insurance. Like buying a house, as someone pays a premium every month they build cash value in the policy, just like equity in a house. This strategy does not work with *term life insurance*, which is more like “renting” insurance, because term life insurance does not build cash value. For permanent life insurance, the cash value that is built up from making premium payments into it can be borrowed against. The owner of the policy is not just borrowing their cash from the policy but is taking a loan out with the cash value as collateral. Therefore, there is interest on the loan. The interest on these loans is usually between 5-9%. However, the cash balance that isn’t loaned out earns interest from the insurance company investing your money. It is very possible that both interests, one working for the policy owner and one against, can cancel each other out leaving them without a cost of money on the loan.

Because a policyholder is borrowing against the cash value of the policy, it is fairly easy to obtain the loan. For most insurance companies, all that is needed is a form to be filled out and the loan can be obtained within a couple days. Repayment on these loans is also very flexible with no repayment schedule. “If you want to make a large payment one month, you can. If you want to pay nothing one month, you can” (Northwestern Mutual). However, they do have to be paid back and in failing to at least make payments on the interest, interest will compound on interest. An excellent part of this strategy is that if one has a policy loan out and he/she should pass away, the *beneficiaries* will still receive the life insurance payout less the amount borrowed. Therefore there is no penalty in case something should happen.

The policy owner must be aware that if the principal plus interest should accrue to the cash value of the policy, the policy will lapse. This means they have to manage the loan carefully. Also, there are tax implications from the use of the loan, some good and some bad. A great tax benefit is that if someone loans themselves money from their policy, they can charge themselves interest at a rate which adheres to the law. The laws on interest rates vary by state and type of loan. For example, if a policyholder uses a loan and they charge themselves 15%, their policy is earning 15% minus whatever the interest on the loan is. If the interest on the loan is 5%, the policy is earning 10% and then the remaining cash balance is also earning interest. On top of this, since the policyholder charged interest, they can use the 15% interest paid to the policy as a tax write-off. An investor can use this financing strategy to borrow from their policy (if they have one) or find private individuals and borrow from their policies. Just like regular private money, an investor has to give the lender a fair return on the loaned out money for it to be worth it for the lender. This is negotiated between the two parties. Because of the complex legal and tax implications, it is important to consult with an accountant, attorney, and/or insurance professional if one plans on implementing this strategy.

Partnerships

As a last part of private lending, partnerships can be another great strategy. This could be a use of any of the talked about strategies but instead of paying interest on the loan, an investor pays the lender part of the overall profit. The lender might even be an active partner in the investment. Here's an example: An investor finds a property that they did their *due diligence* on. With purchase, rehab, and other costs, the investor would be invested in it for $100,000 and can sell it for $120,000. The profit would be approximately $20,000. The problem is, he/she doesn't have any capital to fund the deal. They might find a friend, family member, or just a private individual that wants to partner on the deal with them who has the cash. To compensate for lack of capital, the investor can agree to manage much more of the deal than the partner because he/she is providing the cash. The two might agree to split 50/50 so each would make $10,000 on the deal. Fifty percent of a good deal is better than one hundred percent of no deal.

Partnerships are an amazing strategy but it is crucial for the partners to have a written contract that defines what roles each person is to play in the deal so that each has their share of responsibility. If any problems arise, the partners can go back to the contract to see how to resolve them (Turner). To conclude, private lending is much more relationship-based meaning that someone lending money to an investor has to have trust and confidence in them and that they will deliver positive results. One’s ability to sell themselves and their investments is the key to success.

Methods For The Seller To Fund A Real Estate Purchase

The next section is all about how the seller of a property can fund the real estate purchase for an investor. These methods include: lease options, seller financing, subject-to agreements, and loan assumptions.

Lease Options

The next strategy involves lease options, also known as rent-to-own in the real estate world. A *lease option* is a contract in which a property is leased to someone and includes an option to buy within a certain time period. This prevents the property owner from legally selling to anyone else during the period that is defined in the contract (Turner). These are most common in residential real estate. In many instances, a buyer wants to purchase the property but needs time to repair their credit to qualify for a loan (National Association of Realtors). The lease option gives the lessee the choice of buying the property if they choose but they are not legally obligated to do so. The lessor is obligated to sell under the terms of the contract if the lessee decides to purchase the property. There is a lease purchase as well, in which both the lessee and lessor have a legal obligation to follow through with the purchase and sale respectively. The *lease purchase* is much more rare than the lease option, which is why the focus will only be on the latter.

In most cases, there is an *option fee* as well as a rent payment and *security deposit.* The option fee gives the lessee the right of exclusivity to the property. This means that the lessor cannot sell the property without the lessee giving up their option to purchase it. Also in most cases, this fee is nonrefundable and will apply towards the purchase of the property if the lessee chooses to exercise that right. You can be on the lessor side of the transaction for a property if you already own it. A lot of investors use this to attract a tenant/buyer. However, this doesn't help you purchase it creatively.

There are several ways to use lease options as a way to invest with little or no money out of pocket though. One way is to do a lease option as a lessee with a seller. Definitely not all sellers want to do a lease option but there are circumstances where some might. One scenario could be that they are having trouble selling their home and don't want to rent it and deal with tenants. An investor can do a lease option agreement and sublet the lease to a tenant. The key is to sign the lease option with the lowest rent and longest term possible. Then, the investor can sublet the property to a tenant for the highest rent possible and collect the difference in cash flow. Obviously, being open and honest about the plan with the lessor is crucial because being secretive will only cause problems. Using this strategy will provide monthly cash flow without even owning the property. On top of this, because there is an option to purchase the property at a certain price, the investor can sell the option to purchase the property to someone else if they so choose. If after the term of the lease the property value increases, he/she can profit from the sale of the house without ever owning it.

Another use of lease options is very similar to the last except that there are two lease options in place. It starts off by doing a lease option as a lessee on a property. Instead of just renting out the property, the investor provides another lease option as a lessor with someone else. The key is to find someone in the second lease option to pay a higher option fee, pay a higher rent, agree upon a higher purchase price, and have the lease be a shorter term than what the lease option with the owner is.

Lastly, there is a *master lease option.* This type of lease option is similar to a traditional option except the lessee is responsible for all expenses on the property. This would include insurance, taxes, and maintenance. The lessee would then sublet out the property to tenants (Turner). The lessor would receive monthly payments from the lessee and wouldn't have anything to do with managing the property. Once again, the lessee would receive the difference in cash flow and lock in a future purchase price that may appreciate over time.

Seller Financing

Seller financing, or seller carryback, is another strategy for financing real estate. In this method, the seller acts as a bank and carries the mortgage/*promissory note on* the property. Unlike a lease option, the title on the property does change to the buyer. The buyer and seller will agree upon down payment, monthly payment, interest, etc. This can be very appealing to people looking to create a monthly cash flow from a property without dealing with tenants (if the buyer is using the property as a rental). Even if the buyer is rehabbing and selling or wholesaling the property, the seller will receive all their money when the property is sold to another buyer or the original buyer pays off the mortgage. This strategy is useful especially if the buyer can't get traditional bank financing because they can't qualify, the property is too distressed, etc. What this method does is allow buyers to "cut out the middle man".

Most likely, sellers are going to charge a higher rate of interest than a bank normally would. It works out for the seller because the house is collateral therefore if the buyer fails to pay, they can foreclose on the buyer and take the house back. Furthermore, if the seller eventually doesn't want to hold the note on the property, they can sell the note to an investor who would then carry it. This strategy is best when the seller owns the property outright and there are no mortgages/*liens* on it. It can be done if there is a mortgage on the house but it complicates things. If there is a mortgage and the seller plans on financing a buyer, it is necessary to consult with the bank to see if they will even allow it. Normally this doesn't happen but banks can assert the *due-on-sale clause* of a mortgage if the house is sold. This means the bank wants the remainder of the mortgage paid off because the property was sold to someone else (Trulia). If the property is owned without a mortgage, it eliminates the risk of this happening altogether. The good news is that in 2013 about 29.3% of homeowners, or nearly 21 million, own their property with no mortgage (Lazo). That leaves a lot of opportunity for investors.

This strategy can be very flexible depending on the seller. All of the terms of the sale are negotiated directly between the buyer and seller so it simplifies the process. As a buyer, one could potentially have to put nothing down as a down payment and pay a low rate of interest on the note. This is obviously ideal and will not always happen if a deal can even be reached at all. If a deal can be made, seller financing can be extremely beneficial to both parties involved in the deal. In making the deal, be sure that all legal documents are in order, such as the loan agreement, to ensure that it is successful.

Subject-To Agreement

Next is the "Subject to" strategy. When writing up a real estate contract, one can put subject to clauses in them for protection. These clauses are called *contingencies.* For example, when purchasing a property one can say "subject to inspection" so that they can back out of the contract if any major issues arise as a result of the inspection. The strategy here is subject to the existing mortgage. How this works is that the buyer assumes ownership of the property (the title transfers to the buyer). The second part of it is that the mortgage stays in place in the seller's name. This is different than assuming a loan, which is covered shortly. Because they are assuming a lot of risk, many people wonder why a seller might do this. It is usually because the seller is in some sort of tough situation and is in need of debt relief or is out of time to sell the house (Van Horn). Some of these reasons can include: divorce, job transfer, buying a new home, financially bound, etc. The "subject-to" strategy can solve their problem and be beneficial to the buyer as well. The average time on the market when selling a home is 89 days in the U.S. (Van Horn). This fluctuates when looking at different regions, cities, states, etc. but aIf the buyer needs out quick, the traditional route of listing with an agent may not be a viable option and a subject-to agreement would be beneficial.

As a buyer in this transaction, one doesn't have any personal liability unless they have money invested in the property such as a down payment. If the buyer and seller don't make the payments on the property, the bank will foreclose. And since the mortgage is still in the seller's name, it will hurt their credit. The title may be in the buyer's name but the foreclosure will only affect the seller's credit. Even though the buyer is not legally obligated to make the payments, they are morally obligated to do so. Not only would the buyer be harming someone else but his/her reputation is also on the line.

The buyer in the subject to transaction does not have to qualify for a loan. There is one concern with using this method. As we mentioned before when talking about seller financing, there's a due on sale clause contained in bank mortgages. The banks have the right to call the mortgage due when the title transfers to someone else. As stated before, this rarely ever happens and it is always advised that the seller speak with the bank before the transaction. That way they can get approval from the bank to transfer title without the note being called due. Even so, an investor/buyer should always have another exit strategy lined up, such as hard money, just in case. It is unlikely that banks will call the note due because of the implications on them. Banks are in the lending business to make money on interest. If they call the note due, they are not making any more interest on the loan. The original loan might also be carrying an interest rate higher than what we are seeing in today's market. It wouldn't make sense for them to call the note due if the current note is at an 8% interest rate and in today's market they would maybe make 4% on the same money. On top of this, government-insured lenders are "punished" when calling a note due or trying to foreclose because they have a non-performing loan on their books (France).

This strategy can be very useful especially for properties with little equity in them. A buyer can rent out a property they purchased "subject to" and make money on the cash flow difference between rental rate and mortgage payment, on paying down the debt on the existing mortgage, and from *appreciation* of the property. As a side note, the way a mortgage note works is that it's on an *amortization schedule*. This means that the first payments are mostly interest being paid and little principal and the last payments are little interest and mostly principal being paid. As time goes on, more is going towards equity in the property. Because the mortgage note has been around for some time before the investor purchases the property, the payment could be going more towards the principal than the interest. For a buyer, this means that equity will be built up much more quickly in the property than if he/she originated a new loan (Van Horn). Of all the strategies so far, this one is probably one of the least used but it can be useful in the right situations as long as a seller is comfortable doing so.

Loan Assumption

The next method is extremely rare because there are very limited circumstances it can be used. The method is *loan assumption*. Similar to the "subject to" agreement, the only difference is that instead of the seller still having their name on the mortgage, the buyer would take over the mortgage in their name. The upside to this is that a buyer may be able to assume a mortgage with a low interest rate and could possibly be at a good point in the amortization schedule as discussed earlier. Also, doing this is much less costly than creating a new mortgage. Unlike the "subject to" method, the seller would now be able to cut all ties with the property and not have to worry about the buyer making payments. The downside of this method is that the buyer still has to be approved by the lender. On top of this, if there is considerable amount of equity in the property the seller may want to recoup some of that when selling. If this is the case, the buyer is going to have to come up with that money another way. Therefore, it might be better to finance an entirely different way. And another restriction on this is that the loans that can be assumed have to be either an *FHA loan* or a *VA loan*. *Conventional loans* are typically not assumable, although in theory there is no reason they couldn't (Geffner). This option is very seldom used but for an investor a situation where it arises is a possibility.

Banks

As discussed, banks can be very limiting in real estate. However, there are times when they can offer some of the best options available besides a traditional mortgage or other types of mortgages and knowing one's options can only help. There are some bank options that won't be discussed because they are similar to a traditional mortgage but can be very useful for beginning investors such as an *FHA loan* or an *FHA 203k loan*. These two both require little money down and 203k loans include remodeling costs.

Equity Loans and Lines of Credit

The next thing to talk about is *Home Equity Loans*, otherwise known as a second mortgage, and *Home Equity Lines of Credit (HELOC).* Equity equals the difference between what a property is worth and how much is owed on it. The Home Equity Loan is almost identical to a regular mortgage. The amount of the loan is disbursed at one time and the loan is to be paid back (usually in monthly payments) for a set number of years at either a fixed or variable interest rate. A Home Equity Line of Credit has a few differences. It is much more similar to a credit card. On a HELOC, there is a set maximum that can be borrowed on it but it is much more flexible than an Equity Loan. One doesn't need to use the full limit and it doesn't have to be used at the beginning of opening one. The payment schedule for a Line of Credit is also flexible. Usually, the monthly payment is just the interest on the amount borrowed. Although someone using an equity line only has to pay the interest every month, there is normally a set amount of time in which they have to pay a draw back. Therefore, if only the interest is paid back for the life of the draw, at the end the remaining principal must be paid back all at once. Typically, HELOC's have variable interest rates but there are some that have fixed interest (Bankrate).

These loans and lines of credit are acquired through a bank or credit union. As opposed to a traditional mortgage, the qualifications are more focused on the amount of equity in a property. These are much more limited though just like a traditional mortgage. Most people use these from their own personal residence because it is very difficult to find banks to do equity loans or lines on investment properties unless there is a significant amount of equity. The reason for this is that banks don't want people overleveraging properties like they were doing pre-Recession. These loans and lines of credit can be useful since the cost of capital is lower than a lot of other sources. However, mixing business and personal affairs might lead to negative legal implications.

There are also business loans and lines of credit that companies will offer. They work similarly to the Home Equity Loan and HELOC therefore going more in-depth with them is not necessary. The key with any of them is to understand the terms of the financing and how they work to know if they are useful to investing.

Portfolio Lenders

These are savings and loan institutions, usually banks, which originate loans for their own portfolio. This means that they don't sell their mortgage notes in the secondary markets. *Portfolio lenders* can be difficult to find because most banks package their loans and sell them off. Therefore they must conform to Fannie Mae and Freddie Mac rules. The advantage of portfolio lenders is that they will loan money on properties with no limit to the number as long as one can prove that they are in a position to financially handle it. These lenders generally want at least a 20% down payment and many only offer adjustable rate loans. Using a portfolio lender can be a great way to build up a rental property portfolio because of a lower interest rates.

Wholesaling

The last strategy we are going to talk about is wholesaling, a strategy that may allow for little or no money out of pocket in a few different ways. Wholesaling is the process of being a middleman in a transaction that connects a buyer and a seller. There are wholesalers in just about every business. In real estate, the way it works is that an investor will get a property under contract and then sell or assign the contract to a cash buyer for more money. There are a few different ways to legally wholesale a property that should be followed. If not done correctly, there can be serious penalties adding up to tens of thousands of dollars. Each state has its own codes and laws regarding this so an investor should consult an attorney specializing in real estate before doing a wholesale transaction. In Ohio, one can find information regarding real estate laws in the Ohio Revised Code. Also, It is best to do a lot of research and find mentor who's doing it correctly to see how it's done. The biggest reason people get in trouble with wholesaling is that they market a property under contract. This is illegal unless the investor is a licensed real estate agent or broker. In Ohio, there is a $1000.00 fine per day per violation the property is marketed under contract. To legally market, an investor must market the contract itself and not the property. Also, it's always important to be open and honest with a motivated seller so they understand what the investor is doing.

Assigning a Contract

The first way to wholesale is to assign the contract. To do this, in the real estate contract under buyer an investor would sign their name or their company name and after it "and/or assigns". An issue with this is that most bank *REO's* (foreclosures) don't allow an *assignee* in their contracts. Also, the seller may see the fee the wholesaler is collecting in this method. A lot of wholesalers don't use the assignment method (Turner).

Double Closing

The second way to do this is called a *simultaneous* or *double closing*. This is using the buyer's cash to fund both of the purchases being done. The buyer pays the wholesaler and then the wholesaler pays the seller. The problem is the wholesaler sells the property to the buyer before they even own it. These are rarely done today and are illegal in some states so we don't recommend doing this sort of wholesale deal even if it is legal in your state. The one benefit is that the wholesaler doesn't need any capital in the transaction.

Back-to-back Closings

The most common way to transact a wholesale deals is by doing *back-to-back closings*. This is very similar to double closing and the only difference is that you don't use the buyer's money to fund the deal. *Transactional lending* is the last form of funding discussed. These lenders will lend money out for a short period of time, usually a maximum of a few days. They will wire money to the title company for the wholesaler to purchase the property and then within minutes transfer the property again to the end buyer. Transactional lenders normally charge anywhere from 1-3%

of the total transaction price. Because of this and the additional fees of document preparation from doing two closings, it is important to incorporate these costs into the math of the investment when working out the deal. A lot of hard money lenders will do transactional lending so they are a good place to start when trying to find one. They like doing these types of deals because there is almost no risk involved for them. They just tie up their money for a short period of time.

Selling A Business Entity

The last way to do a wholesale deal is a lesser-known way to do it, but arguably the best way from a legal standpoint. This method involves purchasing a property from a seller in a legal entity, such as an LLC, and then selling the entity to the end-buyer. Instead of two real estate transactions, there is only one with one corporate transaction as well. The title to the property has only changed hands once. In using any of the wholesale methods, it is recommended that one find a mentor/professional to learn the process. There are a lot of wholesalers doing it illegally and give wholesalers a bad name for all of them.

Mixing Strategies and Cost of Capital

These are all of the methods that will be covered although there are many others not discussed that can make investing creative. People even use strategies like credit cards to fund purchases. Real estate investing in most places is an expensive investment option but can achieve much greater returns than other investments if done correctly, and all under one's control.

Some of these strategies discussed by themselves won't provide a completely 100% financed way to invest in real estate. The good news is that an investor can employ the use of several of the strategies in one deal so that he/she doesn't have to use his/her own money.

Many new investors don't have much capital to put into these investments when starting. Even some seasoned investors that started out with no money still won't use their own capital. An investor can use a strategy like using hard money to fund a purchase of a property and the remodeling costs. There are still the monthly interest payments on the hard money and other associated costs of the property. Therefore, they can tie in another strategy like finding a private lender to lend money for monthly payment until the property is sold. That is a very simple example and there are almost unlimited ways to reach the same goal. An investor can tie together 2 or 3 sources of financing and make deals work with no money from their pocket. When someone does a few investments and builds up some cash, it does give them more breathing room and more flexibility in this business or any business. If possible, experienced investors will always recommend reinvesting most profits back into their investing business in order to grow it.

The important thing to understand is that there is always a cost of capital when borrowing money and it can make a deal not worth it. It should always be seen as a cost of doing business though in terms of competition and should not be included in a final offer. The best way to explain this is by example: suppose two investors are both offering on the same property and one runs their numbers and makes an offer of $50,000 and is paying with his/her own cash, and the second investor might be borrowing cash from a lender. The second investor should come up with around the same number, $50,000, as long as they both estimated all the costs right. He/she should not include the cost of capital in offering or they will offer lower than investor 1 and will always lose out on the property. However, the cost of capital might make the deal not profitable and should be looked at for decision-making in undertaking an investment.

Interviews

Interview with Jason Rose

Jason Rose is an experienced investor with about 20 years of experience. He got into the investing world right after high school and has since been involved in over 700 fix and flip deals and has a portfolio of about 200 rental properties. His current focus is on his real estate investor school named FreedomSource REI Academy, which is a program he started to teach investors how to do business the right way and by then showing them how to take action because he believes experience is the best teacher. He is ideal for an interview because he has never used any of his own capital to fund the real estate deals he has been involved in. Here is a quick interview with him on real estate finance:

1. What is the primary finance strategy (if there is one) you have used to find success in investing and why?

"My primary finance strategy is utilizing private funding sources; that is people with cash to back my investments."

2. How do you think the financial technology (FINTECH) industry is changing real

estate finance? Do you think financial technology will change your finance strategies in the future?

“I believe that the financial technology is providing investors many more options, which does allow them pursue more competitive rates and financing options. I do not believe that FINTECH will change my approach to financing deals, but possibly become an additional source.”

3. Do you think FINTECH will eventually make older financing strategies in real estate obsolete in the future?

“No, I believe that real estate investors will always tap into the various sources available and utilize FINTECH as just another source. There's nothing like being able to tap into a local source who can provide funding quickly versus the process that takes place with FINTECH lending (i.e. credit approval, appraisal etc.) In real estate investing, time is of the essence, which makes it critical to get money quickly. The more efficient and flexible FINTECH companies become, will be the more useful they become to real estate investors.”

Interview with Gary Pallini

Gary Pallini is another professional real estate investor who has nearly 20 years of experience in the business. He runs the Great Lakes Real Estate Investors Association (GLREIA), an organization to connect local investors and businesses to create opportunities primarily in Northeast Ohio but also throughout the world. There are over 400 members, with some being from out of the country. His real estate business focuses on real estate involved in probate, with the goal of helping people during a difficult time in their lives'. His main strategy is wholesaling properties. With the same questions as before, here is his interview:

1. What is the primary finance strategy (if there is one) you have used to find success in investing and why?

"There is no one particular funding source or financing strategy that is regularly employed in any of the real estate transactions I am involved in. My general "rule-of-thumb" is to create opportunities for not just myself, but friends, family, and associates whenever possible. Also, each transaction comes with its own specific characteristics, therefore, there is no real "one-size-fits-all" funding or financing mechanism or strategy."

2. How do you think the financial technology (FINTECH) industry is changing real estate finance? Do you think financial technology will change your finance strategies in the future?

"I have not researched or employed any FINTECH resources in a real estate or business transactions to-date. However, now that you have brought it to my attention, I will be on the lookout for further and ongoing information in that arena.

Additionally, I will look to our National organization (National REIA) to see if they have any information or resources available to us at this time."

3. Do you think FINTECH will eventually make older financing strategies in real estate obsolete in the future?

"See #2"

Although not very in-depth, the questions aim to at least see a little inside the heads' of two professionals that have been very successful in the real estate business. Both have reached financial freedom but they continue to have a positive impact in their communities and help/educate others on the possibilities real estate and entrepreneurship can offer.

Conclusion

In conclusion, real estate is arguably one of the best investment classes as long as an investor invests the right way. It offers numerous benefits over stocks, bonds, and other classes like tax benefits, appreciation, ability to buy under market value, cash flow, hedging against inflation, debt pay down, and control. If an investor is looking for something more passive, this isn't the type of investing for them unless they just want to be a lender on real estate deals. In that case, some of the FINTECH options are great because one can lend to multimillion-dollar projects that he/she could go and see being built. Otherwise, it might just be best for the passive investor to just invest in *index funds* for the long haul. It all depends on how committed and active someone wants to be in his/her investments.

The main purpose of this paper was to show that there are options for investing in real estate and that it is possible to do using other people's money if an investor doesn't have or want to use your own capital. Some of the methods discussed are applicable for any business venture that people are interested in pursuing. People limit themselves by thinking they can't afford things. As Robert Kiyosaki states, "Never say you cannot afford something. That is a poor man's attitude. Ask how to afford it" (Kiyosaki). Saying "can't" shuts the brain down while asking how to afford it starts making it work.

Anyways, real estate investing is a game that needs to be played by leveraging other people's money to an investor's advantage. Many options have been discussed about the finance area of real estate investments, however there is much more to know about the business if an investor wants to be successful including marketing, negotiation, project management, and so much more. It can all be learned with education and experience. The first roadblock most people think is the financing. But now you should have some clear insight into that. The business of real estate investing is not an easy one but it can definitely be worth it.

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Appendix A

Glossary of Terms

Amortization Schedule – a complete table of periodic loan payments, showing the amount of principal and the amount of interest that comprise each payment until the loan is paid off at the end of its term.

Annuity- a contractual financial product sold by financial institutions that is designed to accept and grow funds from an individual and then, upon annuitization, pay out a stream of payments to the individual at a later point in time.

Appreciation- an increase in the value of an asset over time.

Assignee- a person, company, or entity who receives the transfer of property, title or rights from a contract. The assignee receives the transfer from the assignor.

Back-to-back Closing- the process of closing on a sale of real property and immediately closing on the same property again or another property. In wholesaling, this refers to closing on a property with a seller and then immediately after, closing again with the sale to the end buyer.

Beneficiary- any person who gains an advantage and/or profits from something. Typically, it refers to someone who is eligible to receive distributions from a trust, will, or life insurance policy.

Certificate of Deposit (CD)- a savings certificate with a fixed maturity date, specified fixed interest rate and can be issued in any denomination aside from minimum investment requirements.

Collateral- a property or other asset that a borrower offers as a way for a lender to secure the loan.

Commercial Property- real estate property that is used for business activities. Commercial properties fall into many categories and include industrial properties, shopping centers, farms, offices, or even vacant land.

Comparable- a real estate appraisal term referring to properties with characteristics that are similar to a subject property whole value is being sought.

Contingency- conditions included with an offer on a property that must be fulfilled before the deal can close.

Conventional Loan/Mortgage- any type of homebuyer's loan that is not offered or secured by a government entity, like the Federal Housing Administration (FHA), but rather available through or guaranteed a private lender (banks, credit unions, mortgage companies) or the two government-sponsored enterprises, Fannie Mae and Freddie Mac.

Coverdell Education Savings Account (CESA)- a tax-deferred trust account created by the U.S. government to assist families in funding educational expenses for beneficiaries 18 years old or younger. The total maximum contribution per year for any single beneficiary is $2,000.

Credit Default Swap (CDS)- a particular type of swap designed to transfer the credit exposure of fixed income products between two or more parties. In a CDS, the buyer of the swap makes payments to the swap's seller up until the maturity date of a contract. In return, the seller agrees that, in the event that the debt issuer defaults or experiences another credit event, the seller will pay the buyer the security's premium as well as all interest payments that would have been paid between that time and the security's maturity date.

Crowd-funding- the use of small amounts of capital from a large number of investors to finance a new business venture.

Due Diligence- an investigation or audit of a potential investment to confirm all facts, such as reviewing all financial records, plus anything else deemed material.

Due-On-Sale Clause- a provision in a mortgage contract that requires the mortgage to be repaid in full upon a sale or conveyance of partial or full interest in the property that secures the mortgage.

eREIT- an online real estate investment trust.

Fannie Mae- officially the Federal National Mortgage Association or FNMA. A government-sponsored enterprise that serves to stimulate homeownership and expand the liquidity of mortgage money by creating a secondary market.

FHA Loan- a mortgage issued by federally qualified lenders and insured by the Federal Housing Administration (FHA). These loans are designed for low-to-moderate income borrowers who are unable to make a large down payment.

FHA 203(k) Loan- a type of federally insured mortgage product for individuals who want to rehabilitate or repair a damaged home that will become their residence. In addition to the funds to cover the purchase price of the house, it provides the money needed for repairs and related expenses as part of the loan.

FINTECH- a portmanteau of financial technology that describes an emerging financial services sector in the 21st century.

First Lien- the highest priority debt in the case of default.

Freddie Mac- Federal Home Loan Mortgage Corp. (FHLMC). A stockholder-owned, government-sponsored enterprise chartered by Congress in 1970 to keep money flowing to mortgage lenders in support of homeownership and rental housing for middle-income Americans.

Hard Money Loan- loans that are backed by the value of the property, not by the credit worthiness of the borrower. Since the property itself is used as the only protection against default by the borrower, hard money loans have lower loan-to-value (LTV) ratios than traditional loans.

Health Savings Account (HSA)- an account created for individuals who are covered under high-deductible health plans (HDHPs) to save for medical expenses that HDHPs do not cover. Contributions are made into the account by the individual or the individual's employer and are limited to a maximum amount each year. The contributions are invested over time and can be used to pay for qualified medical expenses.

Home Equity Line of Credit (HELOC)- a loan in which the lender agrees to lend a maximum amount within an agreed period, where the collateral is the borrower's equity in his/her house.

Home Equity Loan- also known as a second mortgage, is a type of consumer debt. It allows home owners to borrow against their equity in the residence. The loan is based on the difference between the homeowner's equity and the home's current market value.

Index Fund- an index fund is a type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the S&P 500 Index.

Individual Retirement Account (IRA)- is an investing tool used by individuals to earn and earmark funds for retirement savings. There are several types of IRAs as of 2016: Traditional IRAs, Roth IRAs, SIMPLE IRAs, and SEP IRAs.

IRA Custodian- a financial institution that holds customers' securities for safekeeping to minimize the risk of their theft or loss.

Lease Option- an agreement that gives a renter the choice to purchase a property during or at the end of the rental period. As long as the lease option period is in effect, the landlord/seller may not offer the property for sale to anyone else.

Lease Purchase- a lease contract under which a portion of the lease payment or rent is applied to the purchase price of the leased asset or property. When the full price is paid up, the title to the item is transferred from the seller or owner (lessor) to the buyer or tenant (lessee).

Lien- a legal right granted by the owner of property, by a law or otherwise acquired by a creditor. It serves to guarantee an underlying obligation, such as the repayment of a loan. If the underlying obligation is not satisfied, the creditor may be able to seize the asset that is the subject of the lien.

Loan Assumption- when the seller of a home passes the responsibility of the mortgage contract onto the buyer of the home. In other words, the new homeowner assumes the existing mortgage.

Loan Points- otherwise known as mortgage points. Each point is equal to 1% of the total amount mortgaged.

Master Lease Option- a lease option in which the lessee pays for all costs associated with the property including insurance taxes and maintenance. The lessee can sublet the property to other lessees.

Mortgage Note- a type of promissory note secured by a specified mortgage loan. The mortgage loan is backed by a piece of real property.

Mutual Fund- an investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets.

Net Operating Income (NOI)- a calculation used to analyze real estate investments that generate income. NOI equals all revenue from the property minus all reasonably necessary operating expenses.

Non-Recourse Loan- type of loan secured by collateral, which is usually property. If the borrower defaults, the issuer can seize the collateral but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount.

Nontraditional Asset- otherwise known as an alternative asset. Any non-traditional asset with potential economic value that would not be found in a standard investment portfolio.

Option Fee- a fee associated with a lease option. This is paid by the lessee to the lessor for the option to terminate a real estate contract. In a lease option, it gives the lessee an exclusive right to purchase a property within a certain amount of time.

Permanent Life Insurance- a term for life insurance plans that do not expire and combine a death benefit with a savings portion. This savings portion can build cash value – against which the policy owner can borrow funds.

Portfolio Lender- a company that not only originates mortgage loans, but also holds a portfolio of their loans instead of selling them off in the secondary market.

Private Lender- a non-institutional individual or company that loans money, generally secured by a note and deed of trust.

Promissory Note- a financial instrument that contains a written promise by one party to pay another party a definite sum of money, either on demand or at a specified future date.

Real Estate Investment Trust (REIT)- a type of security that invests in real estate through property or mortgages and often trades on major exchanges like a stock. They provide investors with an extremely liquid stake in real estate. They receive special tax considerations and typically offer high dividend yields.

Real Estate Owned (REO)- the name given to foreclosed-upon real estate in a bank's portfolio.

Residential Property- a building that is used or suitable for use as a dwelling, or is in the process of being constructed or adapted for use as a dwelling.

Roth IRA- an IRA that is funded with after-tax dollars; the contributions are not tax deductible. But when you start withdrawing funds, these qualified distributions are tax free.

Self-Directed IRA (SDIRA)- a retirement account in which the individual investor is in charge of making all investment decisions. It provides the investor with greater opportunity for asset diversification outside of the traditional stocks, bonds, and mutual funds.

Seller Financing- a real estate agreement where financing provided by the seller is included in the purchase price.

Simultaneous/Double Closing- a real estate financing strategy in which two simultaneous transactions occur during the closing on a piece of property.

Sub-Prime Mortgage- a type of loan granted to individuals with poor credit histories, who, as a result of their deficient credit ratings, would not be able to qualify for conventional mortgages.

Term Life Insurance- a policy wit a set duration limit on the coverage period. Once the policy is expired, it is up to the policy owner to decide whether to renew the policy or to let the coverage end.

Traditional IRA- an IRA that allows individuals to direct pretax income towards investments that can grow tax-deferred; no capital gains or dividend income is taxed until it is withdrawn.

Transactional Lending- a form of short term, hard money lending, which allows a wholesaler the opportunity to purchase a property with none of his/her funds, provided that there is already an end buyer in place to purchase the property from the wholesaler within a short time frame, usually 2-5 days.
Universal Life Insurance- a type of flexible permanent life insurance offering the low-cost protection of term life insurance as well as a savings element (like whole life insurance), which is invested to provide a cash-value buildup.

VA Loan- a mortgage loan program established by the United States Department of Veterans Affairs to help veterans and their families obtain home financing.

Whole Life Insurance- a contract with premiums that includes insurance and investment components. The insurance component pays a predetermined amount when the insured dies. The investment component builds an accumulated cash value the insured individual can borrow against or withdraw.

Wholesaling- the sale and distribution of goods to specific customer types such as the most commonly referred to as resellers. In real estate, it is the process of getting a property under contract with a seller, marketing to potential buyers, and then assigning the contract to a buyer.

401k- a qualified employer-established retirement plan to which eligible employees may make salary deferral contributions on a post-tax and/or pretax basis.