Citibooks' Tips and Ideas on...

Mortgage

Volume 1

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Four Important Tips for People Who are Considering a Refinance

Jim Hart

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Money Matters

Are you planning on refinancing? Homeowners…keep these simple (yet often unexplained) concepts in mind when considering a refinancing:

1. You typically want to see a 2% improvement from your current interest rate and the proposed "new rate". When you add up the costs of refinancing as well as the time and hassle associated with the process, you may find a refinancing doesn't make a lot of economic sense with a spread lower then 2%.

2. Find your break-even point by taking the total costs of refinancing (divided by) the projected monthly savings under the new rate. Doing so will tell you how many months it will take to get your money back!

3. How long you plan to own the property is important. Rule of thumb: If you plan on owning the property for less then 5 years, a refinancing may or may not make sense. Only you and the numbers can tell!

4. A "Discount point" is 1% of the amount of money you are borrowing and is paid to a lender to secure a lower interest rate on a mortgage. Many people want to pay "points" to get a lower rate. But, are you really getting a lower rate? When you pay discount points you are basically prepaying the lender interest 15 or 30 years in advance! You are handing over "real dollars" for an intangible "interest rate" that will result in a lower monthly payment…the more important question is will you live in the property for 15 or 30 years? If not, why prepay the interest? Hint: Zero point home loans often make the most sense.

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You Can't Buy a Dollar for 99 Cents

Andrew Kellerman

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Many of us make the age old mistake of thinking we can "get something for nothing". We all want the very best mortgage refinance deal. At heart, we not only want to save, but more importantly we want to be smart, or at least be able to tell others how smart we really are.

Well, this is where my story starts. Shrewdly shopping for a mortgage loan, like no other has before. I talked to dozens of mortgage lenders and mortgage brokers. I quizzed them about rates and fees. I drilled each about APRs and asked about hidden fees. I had each of them "send me more info". Boy, was I doing good. I wasn't going to get taken. Not me.

Three weeks into mortgage "webbing" I ran into, what seemed like a slow typing Southern mortgage broker who seemed to be exactly what I was hunting for. She had all the answers and took the time to explain each time I asked for more info. All my communication to date had been e-mail, faxes and even an express mail. I decided we had enough of a repoire to give out my phone number.

When Rebecca did call I wasn't surprised at how she sounded, as I had pictured her perfectly and just knew she was going to be. A slow, methodical and professional mortgage broker. She at once calmed any fears I had remaining. After all, what was I to be frightened of. I had done my homework, talked to numerous lending sources, I knew the lingo. No one was going to pull a fasty on me.

This was it, time to pin her down. So I asked the big question. "What interest rate can I lock today?". The rate quote I got was an interest rate which was a full ¼ point less than any other mortgage broker or lender had given me. It paid to have done all this work. I had proven I was absolutely the smartest borrower that has ever lived. I took the deal before she changed her mind, thinking maybe she had made a mistake and I didn't want her to back out of the deal.

I mailed all of the requested documents and signed every document presented me. About three weeks into this deal of the century I was sent a benign looking Government disclosure saying something about my APR and fees. Since I didn't want to look stupid I signed and returned it. My homework didn't prepare me for Government paperwork, and after all I could trust my mortgage broker. After all I had found her amongst all those others who were trying to rip me off with those much higher interest rates. My mortgage closed. I had ended up paying 4 points, $5,500. Instead of telling my friends how brilliant I am, I'm confessing my stupidity anonymously, to each of you who have had similar "horror" stories.

What I realized is that you can't buy a dollar for $.99. Brokers.

By Andrew Kellerman

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Don't Let Closing Costs Take You By Surprise

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You've come up with a down payment, searched for a good lawyer, and have found a reputable mortgage broker. Well done! You're off to a great start in the house purchase process.

Keep in mind that you'll also be facing -- in addition to the expected legal fees and moving costs -- a few extra payouts when the final deal is done. Knowing about these "closing costs" in advance soothes their sting. The following list covers typical costs you'll encounter when your purchase is completed or "closed".

Reimbursements

You'll need to refund the money that the seller has already paid out on your behalf: expenses that are now fairly and rightfully owed by you, the new homeowner. In your lawyer's office, on closing day, you'll definitely run into those famous last words: "subject to the usual adjustments".

Typically these adjustments include portions of municipal property and school taxes for the months you'll be resident, utility bills paid in advance, fuel oil that you will be using - that kind of thing. These expenses would have to be paid by you anyway, so they are fair.

Land Transfer Or Similar Taxes

Your province levies this tax whenever real estate changes hands. It's sometimes also called (ironically) a "welcome tax". They do literally get you coming and going! The amount of this tax is a percentage of the purchase price of your property, so the more expensive the property, the bigger the tax.

Ask about Transfer Taxes in your province or the province you are moving to for full details.

Home Insurance

This insurance, especially fire, must take effect from the moment you are the owner of the home. It's all about protecting the investment for the lender -- and in this case it works for you too. Mortgage Life and Disability insurance. This is an especially good idea for young parents or anyone else with dependents.

If anything should happen to either one of you, your home ownership won't be in jeopardy. The mortgage would be paid in full - immediately - on your behalf. You'll appreciate and need this peace of mind in a time of crisis, and you'll save your family the extra burden of wondering if they would need to sell their home (even while they're coping with a loss).

Your mortgage broker can often help you find a policy that works for your situation.

Home Inspection Fee

This is the fee you owe the inspector you hired to check out the physical structure and mechanicals of your home before you decided to buy it.

Home Appraisal Fee

Your lender requires this appraisal before they hand over any mortgage money. Naturally, they want to be assured that the property is worth an investment of their monies, and naturally, the cost of this appraisal is passed on to you, the customer.

This fee normally ranges between one and two hundred dollars - dependent upon location and complexity of the property.

The Survey

A legal survey of your land - its borders, perimeters, house placement, etc. -- is sometimes required by the lender, and will be performed by a professional surveyor. If you're lucky, a recent survey is already available; if not, a typical survey can cost you up to one thousand dollars. In the last few years, lenders have accepted title insurance (highly recommended anyway) in lieu of a survey document.

Title Insurance

This covers a myriad number of oddball situations that could threaten your title to the property. Title insurance is much less costly than a new survey, for example, and would cover most survey concerns anyway. Most homebuyers now look at title insurance as a great way to protect their biggest investment!

Don't Forget GST

This tax is charged on all professional fees. There is no GST on the purchase price of a resale home. Legal Fees and Disbursements. Speak to your lawyer about their fee schedule. Typically between $1,000 & $1500.

Closing Day!

Today is the day legal title to the property changes hands. You've been busy packing, cleaning, and organizing the moving procedure at either end. The last thing you need to do is traipse down to the lawyer's office... but that's exactly what you'll have to do. Your lawyer will sit down with you, carefully go through a pile of papers for signing, point out closing costs.

But a good mortgage broker can help you be well-prepared for all the things that happen before the new house keys are finally in your hand.

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About the Author :
The House Team is commited to providing quality information to help people like you make informed decisions about their mortgage financing needs. The source for your Ontario Mortgage. Looking for a free mortgage calculator? Click Here Mortgage Calculator Ontario

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Mortgage Plain-Talk: What's The Difference Between "Amortization" and "Term"?

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There are many stresses associated with home buying - both financial and emotional. And frankly speaking, it doesn't help that the process comes with its very own foreign language. While your mortgage broker can help de-mystify these terms, it helps to have a bit of a primer on what some of these terms mean. After all, it's your money and your home we're talking about; as a Mortgagor, you have a right to understand what you're reading. (You didn't know you were a mortgagor? Read on...)

We'll start with "Amortization" and "Term". Both refer to periods of time in the life of your mortgage, and you'll want to be sure that you understand the difference.

The "amortization" of your mortgage is the length of time that would be required to reduce your mortgage debt to zero, based on regular payments at a specified interest rate. The amortization period is typically 15, 20 or even 25 years, although it can be any number of years or part-years. You could establish that you are able to make a certain payment each month of say $950 for your $130,000 mortgage at 5.5%. In this case, your amortization period will be just under 18 years. Or you could tell your broker that you'd like to be mortgage-free in just 10 years. With an amortization period of 10 years at the same interest rate, your $130,000 mortgage will cost you about $1,407 per month. That's a tougher monthly payment, but you would save thousands of dollars in interest. (More than $35,000, in fact.) As you arrange your mortgage, then, keep in mind that your amortization period may be fairly long -- although the shorter you can make it, the less you'll wind up paying for your home in the long term.

The "term" of your mortgage will typically be shorter. The "term" is the duration of your mortgage agreement, at your agreed interest rate. This will be a very specific length of time, although you will have several choices. A 6-month mortgage is a very short-term mortgage. A 10-year mortgage will be one of the longest terms, generally with a higher rate of interest to represent the higher degree of uncertainty in the economic outlook. After your mortgage term expires, you will need to either pay off the balance of the mortgage principal, or negotiate a new ontario mortgage at whatever rates are available at that time.

Now, back to the term "Mortgagor". This is one of three very similar terms: "Mortgagee", "Mortgagor", and "Mortgage". A Mortgagee is the lender of the money: a bank, company, or individual. A Mortgagor is the borrower: the person or persons (or company) that is borrowing the money, and who will pay it back to the mortgagee. The Mortgage, of course, is the legal document that pledges the property as a security for the debt.

Still confused? Speak with a mortgage professional. Get the best mortgage suited to your needs and all your questions answered in plain talk.

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Increase Your Income by Offering Private Mortgage Financing

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Many consumers assume that “mortgage companies” are banks that lend their own money. In fact, a company that you deal with may be either a mortgage banker or a mortgage broker.

A mortgage banker is a direct lender; it lends you its own money, although it often sells the loan to the secondary market. Mortgage bankers (also known as “direct lenders”) sometimes retain servicing rights as well.

A mortgage broker is a middleman; he does the loan shopping and analysis for the borrower and puts the lender and borrower together. Many of the lenders through which the broker finds loans do not deal directly with the public (hence the expression, “wholesale lender”).

Using a mortgage banker can save the fees of a middleman and can make the loan process easier. A mortgage banker can give you direct loan approval, whereas a broker gives you information second-hand. However, many mortgage banks are limited in what they can offer, which is essentially their own product. In addition, if you present your loan application in a poor light, you've already made a bad impression. I am not suggesting you lie or mislead a lender, but understand that presenting a loan to a lender is like presenting your taxes to the IRS; there are many ways to do it, all of which are valid and legal. Using a mortgage broker allows you to present a loan application to a different lender in a different light (and you are a “fresh” face).

A mortgage broker charges a fee for his service, but has access to a wide variety of loan programs. He also may have knowledge of how to present your loan application to different lenders for approval. Some mortgage bankers also broker loans. As an investor it is wise to have both a mortgage broker and a mortgage banker on your team.

SIDE NOTE: MORTGAGE BROKERING. Keep in mind that mortgage brokering is an unlicensed profession in many states. If there is no licensing agency to complain to in your state, make sure you have personal references before you do business with a mortgage broker.

Choosing A Lender

Choosing a lender that you want to work with involves several factors, not the least of which is an open mind. You need a lender that can bend the rules a little when you need it and get the job done on a deadline. You need a lender that is large enough to have pull, but small enough to give you personal attention. And, most of all, you need a lender that can deliver what it promises.

1. Length of Time in Business

Since the mortgage brokering business is not highly regulated in most states, there are a lot of “fly-by-night” operations. Bad news travels faster than good news in business, so bad mortgage brokers don't last too long. Look for a company that has been in business for a few years. Check out the company's history with your local Better Business Bureau. If mortgage brokers are licensed with your state, check to see if any complaints or investigations were made against them. Also, ask for referrals from other investors and real estate agents.

2. Company Size

A company that is too big can be problematic because of high employee turnaround. Also, the proverbial “buck” gets passed around a lot. If you are dealing with a mortgage broker, it is often a one-person operation. Dealing with a one-man operation may be good in terms of communication if he or she is a “go-getter.” On the other hand, the individual may be hard to get a hold of, since he or she is answering the phone all day.

A small to mid-sized company is a good bet. You will be able to get the boss on the phone, but he or she will have a good support staff to handle the minor details. Also, a mid-sized company may have access to more wholesale lenders than a one-person company.

3. Experience in Investment Properties

It is important to deal with a mortgage broker or banker that has experience with investor loans. Owner-occupant loans are entirely different than investor loans. And, it is important that the broker or lender you are dealing with has a number of different programs. It is often the case that you find out a particular loan program won't work, in which case you need to switch lenders (or loan programs) in a heartbeat to meet a funding deadline.

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About the Author :
William Bronchick, CEO of Legalwiz Publications, is a Nationally-known attorney, author, entrepreneur and speaker. Mr. Bronchick has been practicing law and real estate since 1990, having been involved in over 600 transactions. Reprinted with permission from www.reiclub.com

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Online Credit and Mortgage Scams: Was Your Loan Sold to a New Bank?

Jeanette Joy Fisher

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If you check your email every morning like millions of other Americans, you probably already know that scammers have become even more aggressive in trying to steal information about unwary consumers than ever before. Recently, one of the most prevalent schemes has been to send scam emails about home mortgage information. There are five main approaches scammers use to try to dupe you out of your personal information.

Fix Your Credit in 24 Hours

The first is a new twist on an old scam: an offer to fix your credit in twenty-four hours. In this scam, scammers promise that all your credit problems will be resolved in one day. It's a ridiculous promise, and one that can't possibly be fulfilled, no matter how much you're willing to pay. Fixing your credit can only be done over time and with serious effort.

Mortgage Website: Apply for a No Interest Loan Today

The second scam is more sophisticated, and involves fake mortgage websites. These sites are often very slick-looking and meant to mimic those of genuine mortgage lenders, but their sole purpose is to steal your personal information. Since they look so real, these sites can be dangerous. Besides landing on one of these sites, you may get an email inviting you.

Email: Great Deal on Credit Cards

A third common strategy is called phishing, which is an even more sophisticated tactic, since the email itself is designed to look completely official, as if from a well-known lender, bank, credit card, or online auction company. These emails ask for sensitive financial information such as Social Security numbers, passwords, or account information. As with the other scams we've mentioned, the key is to remember that legitimate companies don't send emails asking for such personal information.

Eliminate Your Mortgage in Seven Months

Another scam offers to completely eliminate your mortgage in as little as seven months. The email promises that you can use certain loopholes in the law to rapidly eliminate your mortgage, but it's not possible. Although the concept is tempting, it's not real, so don't fall for this scam.

Your Mortgage Bought by New Bank

In the fifth tactic, scammers send out official-looking emails that tell consumers to begin sending their mortgage payments to a new lender. If you get such an email, don't respond. If you follow the directions in the email, you'll only find yourself sending your money to the scammer's bank account. If you have any questions about possible changes to your mortgage terms, call your lender directly and ask. Although loans are often sold to investors and lending institutions do sometimes change names, you'll never be notified of changes via email.

As a precautionary measure, you can further minimize your risk of becoming a victim of identity theft by ordering a free copy of your credit report from one of the three major credit bureaus once a year. However, your first line of defense will always be NOT responding to the various email scams you receive in the first place!

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About the Author :
If you believe that you've been victimized by an email consumer scam, you can file a complaint at www.ftc.gov. You can also visit www.consumer.gov/idtheft if you think your identity has been stolen or compromised.

Jeanette Fisher teaches how to get out from under credit card debt, how to use credit to make money, and six ways to build strong credit to finance your first home and multiple investment properties.

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Mortgage Brokers and Short Term Money

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The best place to get short-term money is through mortgage brokers, who know what will work and what won't. They know what they can get on the market today. Some will have access to private funds that require no qualifying by the borrower. Equity in the house is the only concern.

Brokers can be a valuable asset. Remember, when I started I had no credit. I had no choice but to use whatever funds where available, so I found a broker who would loan 50% of the appraised price regardless of my financial condition. The cost was high, but the rewards made it worth it.

He charged me 10% of every loan I made, and I paid 18% interest. I know this sounds high, but I soon learned it wasn't the cost of funds that count, but the availability of them. Because I had access to these funds, I simply bought up junkers with them and made thousands of dollars in profit on each house.

Let me ask you a question. Would you rather pay a mortgage broker 10% of your loan or pay a partner 50% of your deal? Tough choice, isn't it?

Mortgage brokers work on a commission. They do not get paid unless you get paid. If you use private money, get used to the idea of paying high points and consider it a cost of doing business. We can get a high interest loan and still make money. Remember, it's not the cost of the money that matters. It's the availability that counts.

When I first started, I borrowed on 76 loans at 18% interest, 50% loan-to-value ratio (LTV), 6 months interest prepayment penalty, 7 year balloon payment and 10 points up front to the broker. And I still made money on every single one of them!

How It Works

If the house needs repairs, you may not get all the money at once. Some of it may be escrowed for repairs. For example, suppose you get an offer accepted for $15,000 cash on a property whose value after repairs is $45,000, and the "as is" value is $35,000, and the estimated repair costs are $4,000.

We know we can get a loan from a private investor for 50% the fixed up value of the property.

Value After Fix Up
$45,000

As Is Value
$35,000

Repair Estimate
$ 4,000

Maximum Loan Amount
$22,500

Cost of the Loan
$ 3,000

Net From Loan
$19,500

The problem is that the loan is based on the after repaired value. The broker will write the loan for $22,500. You'll pay the cost on $22,500, and you'll start paying interest on $22,500 as of that day. But the broker will escrow 50% of the difference between the "as is" value ($35,000) and the "repaired" value ($45,000).

The escrow amount would be 50% of the $10,000 difference because it is a 50% LTV loan. So $5,000 will be held in escrow until the work is completed. After the work is done, the mortgage broker will send an appraiser out to look at the finished house and, if all the work is completed, he will give you the $5,000 held in escrow.

In the above example, we needed $15,000 cash to buy the house and $4,000 to repair it, for a total of $19,000. But we are only going to get $14,500 from the loan at closing, so we would construct our offer this way:

Q: "Mr. Seller, I'm going to give you $15,000 for this house. I'll give you $10,000 at closing and $5,000 within 60 days. Will that be alright?"

A: "Yes. That would be OK."

To ma ke this work, the seller will hold a second mortgage for 60 days because we obtained the first mortgage from a private investor through the mortgage broker. This is known as "subordination" and is a useful tool for any investor.

This way, we are fully protected. We would get $14,500 from the loan proceeds, give the seller $10,000 of it, and still have $4,500 left over for repairs. Since we only need $4,000 for the repairs, we get to keep the extra $500.

Generally, the money mortgage brokers find comes through private individuals. A private investor is very different from a bank. There is none of the usual verification ordeal. The only verification is the value of the property.

You do not need good credit, these loans are not reported on your credit report, and there is usually no qualifying. They don't care about your personality or personal history. Their only consideration for the loan is the loan-to-value ratio. The length of the loan may vary but, generally, they will amortize the loan for 15 years and call it due in a balloon payment in 5 years or less. Private short term money like this is very valuable to us as investors. This is the kind of money that can make you rich!

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About the Author :
Ron LeGrand is a principal contributor to a nationally distributed newsletter for real estate entrepreneurs. His web site is ronlegrand.com. Reprinted with permission from www.reiclub.com

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Q: I am a new investor (I bought my first rental 18 months ago and now have 5 houses) and I am having a “cash crunch” due to some vacancies and some rehabs I need to do. Is it smart for me to refinance some of my houses with interest-only loans to reduce my payments, then refinance again in a year or so to get the payoffs back on track?

I have major concerns about this plan, especially for you as a “new investor.” There's nothing wrong with interest-only mortgages; in fact, I've gotten a few of these myself, when the numbers made sense and the lender was willing. The problem with refinancing and doing it twice, is the expense involved. A typical refinance with a mortgage broker (and I assume you plan to use a broker, since “traditional” lenders usually don't tend to offer this kind of product) costs $2,000-$4,000 in closing costs, application fees, points to the broker, and so on. These costs are not recoverable by you in terms of a higher property value or increased rents, the way money spent upgrading the property would be. They are pure expense and lower the overall return on and profit from your deal.

What you are proposing is to refinance not once but twice in the upcoming year, meaning that you could be looking at up to $8,000 in additional expense for the privilege of making lower payments for awhile—maybe. When you begin to look at the rates charged by lenders for interest-only loans, you'll find that they are sometimes higher than for loans that will eventually amortize themselves. I've recently seen rates on interest-only loans as high as 13%, which makes no sense for you if your goal is to have higher cash flow. If you do the math, you may find that the interest-only loans you're being offered actually have higher payments than your existing, fully amortized loan!

But the thing that concerns me most about your question is that, in my experience, continually refinancing properties to pull cash out or to improve the terms of a loan is a big mistake. In fact, when I see investors go belly-up, it's always because of one of 2 things: overspending on renovations or over-financing their properties to the point where there's no equity (or cash flow) in the property. In fact, over-financing isn't just a problem for beginners-it's has been responsible for the downfall of many experienced investors, as well.

My suggestion? Either sell one or more of your non-performing properties, or—better yet—wholesale a few deals for a $4,000-$7,000 profit to meet your immediate cash needs. And in the future, try to keep some of those rents in reserve for occasions like this: they will occur again and again, and the best way to weather them is to be prepared for that.

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About the Author :
Vena Jones-Cox is a past president of the Real Estate Investor's Association of Cincinnati, the Ohio Real Estate Investor's Association, and the National Real Estate Investor's Association. Vena Jones-Cox has been featured in publications such as The Cincinnati Enquirer, Smart Money Magazine, Money Magazine and Reader's Digest in articles about successful real estate entrepreneurs. Reprinted with permission from www.reiclub.com

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Phony Financing Fetches Fat Fines

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In recent years, the number of mortgage brokers vying to make loans in the small residential property market has exploded. With this increased competition has come some advantages for the real estate investor: increased availability of fixed rate loans, more willingness on the part of brokers and lenders to work with marginal credit, 10% down investment property loans, and other decided improvements in the ease of borrowing money. Lately, though, in an attempt to increase profits in the face of ever harsher competition, some mortgage brokers have crossed the line between "creative" and "illegal" - and you may be subject to fines and jail time as a result.

In order to understand the nature of the problem, it's important to first understand the role of a mortgage broker in the lending process. A mortgage broker does not lend money. Instead, he works with several lenders who make mortgage loans, serving as a "go between" who finds, qualifies, and "sells" borrowers on a lender's products. The broker gets paid a fee - from 1% to 10% of the loan amount - for putting the transaction together and guiding it to a successful closing. No closing, no paycheck for the broker. Because many borrowers don't make the distinction between the mortgage broker and the lender, they are not at all alarmed when the broker suggests "doctoring" a deal in order to get 100% financing for the buyer. They assume that if the mortgage broker says it's OK, the lender must be in on it. The truth is, the lender is usually in the dark.

Here's the kicker: according to federal law, if you knowingly participate in one of these loan schemes by falsifying documents or signing a settlement statement that you know to be fraudulent, you could pay a fine of $1 million and spend the next 20 years at Club Fed. The loan schemes that you are most likely to run across as a real estate investor will take one of two general forms.

#1). Your lease/optionee wants to exercise his option to buy, but with his substandard credit, no lender will touch him with less than a 20% down payment. The mortgage broker suggests that you write up a land contract backdated at least one year, so that the loan can be treated as a refinance rather than a new purchase. The broker then gets an appraisal on the property for 20% more than the tenant/buyer's purchase price, gets the bank to loan 80% of the appraisal, and viola'! 100% financing.

The problems here are twofold: you have provided and signed a fake land contract, possibly dated before the tenant/buyer even moved in. The mortgage broker has procured an appraisal for significantly more than the property is worth. Thus, the lender has made a loan to a high-risk borrower on a property that now has no equity on your word that the nonexistent land contract account was faithfully paid. It's important to note that some mortgage brokers actually do work with lenders who will refinance 1-day old land contracts. If this is the case, you won't be asked to falsify dates on your land contract. No fraud, no future problems for you.

#2). You want to buy the nice rental house up the street, but the owner wants $40,000 and you don't have the 20% down payment the bank wants. The owner suggests that you write a contract with a $50,000 price, and an owner-held second mortgage for $10,000. The bank will loan you 80% of the purchase price, or $40,000. After the closing, the seller will tear up the second mortgage, leaving you with a total purchase price of $40,000. Viola'! 100% financing.

This little scam has been going on for decades, and in most cases, no one is ever caught or punished. However, the practice has become so widespread that, in some states, the departments of commerce have formed investigative committees to look into these fraudulent transactions. More and more stories about Realtors, mortgage brokers, investors, and home buyers facing stiff fines and jail time are appearing in the paper. And beware the next economic downturn: these loans will go bad, they'll be investigated, and heads will roll. Think about this next time you're tempted to sign a closing statement that doesn't reflect what's really happened. With all the ways to do deals creatively and legally, why put yourself at risk?

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About the Author :
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Real Estate Investment Club

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Is your real estate bringing you enough monthly cash flow? Is landlording draining you of energy? Is property maintenance depleting your bank accounts? Are you open to new and safe methods of bringing huge annual returns on your cash? If you answered "Yes" to any of these questions, please read on . . .

The Dirty Little "Secret" of How Bankers Make Money

Actually, it's not really a secret at all. In fact, bankers have been doing this for over a hundred years. Bankers make money by borrowing at low interest rates, then lending at higher interest rates. You deposit money in a saving account and they pay you 3% interest. They lend the same money back to you for home loans at 7% or more. The "spread" between the interest rate they pay and the interest rate they collect amounts to incredible profit!

Consider this simple example: You are shopping for rates to refinance your home loan. A lender quotes you 7% interest. On a $100,000 loan, the monthly payment (amortized over 30 years) is about $665 per month. However, at the last minute someone at the bank decides that the color of you underwear isn't right, so your interest rate changes to 7.25%. Your monthly payment will now be $682. You aren't terribly upset, since, after all, what's $17 per month? What you don't realize is that the extra ¼ percent amounts to over $6,000 in additional interest! An Incredible Opportunity in Today's Market We are in a unique time in history in that real estate prices are rising, yet interest rates are dropping. This means that those who can borrow at low interest rates and loan at higher interest rates are making a bundle! Combine the interest rate "spread" and the "buy low, sell high" principle and your profit grows exponentially.

Enter Wraparound Mortgages

Consider this example: Susie Seller buys a $90,000 house for a 10% discount ($81,000). She borrows $81,000 from First Federal Financial on a favorable 8% thirty-year loan. Her principal and interest payments are roughly $594 per month. She sells the property to Barney Buyer on an installment land contract for $100,000 (about 10% above market), taking $10,000 down and carrying the balance of $90,000 at 11% for thirty years. She does not pay off the underlying loan, but rather collects payments ($952/month) from Barney on a monthly basis and continues to make payments on the underlying loan. She collects $358/month cash flow on the "spread" for 30 years!

This is a basic example of a "wraparound". The existing loan remains in place, and a new loan is created which wraps around the existing loan. Susie makes a profit on both an interest rate spread and a markup on the purchase price. People with poor credit rarely question the price of the property (especially since they do not have to qualify for the loan). When the new buyer pays off the remaining balance, Susie pays off the underlying loan. In the meantime, she makes monthly cash flow on the spread between the interest she pays and the interest she collects. This cash flow is not offset by property management, maintenance and the aggravation of tenants. There are no vacancies, calls from tenants, city code violations or other headaches to deal with. You can collect your monthly checks for thirty years, or you can sell your "wrap" note for cash!

You Don't Need Good Credit or Huge Sums of Cash

If you don't have the ability to qualify for low interest rate loans, not to worry! You can use partners who have good credit and income. You can take over existing loans with low interest rates, then re-sell the properties on a "wrap." There are multiple ways to make a profit on "wraps," and you don't need credit, provable income or bundles of cash! If you are looking for an alternative to landlording or a new way to create more cash flow, this is the ticket!

Article Source :
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About the Author :
William Bronchick, CEO of Legalwiz Publications, is a Nationally-known attorney, author, entrepreneur and speaker. Mr. Bronchick has been practicing law and real estate since 1990, having been involved in over 600 transactions. Reprinted with permission from www.reiclub.com

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