

Don DeRosa's

Real Estate Investing for The Real World



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Running out of Money? Look Again!

Lack of money is no obstacle. Lack of an idea is an obstacle. Ken Hakuta

Remember your introduction to real-estate investing? Maybe it was on late-night television. Maybe you were up with the baby, and on came an infomercial for a course in real-estate investment. It sounded pretty good, too: You can become rich, almost overnight, by investing in real estate! Just buy houses! Buy with no money down! Rent them out or sell them, but either way create a stream of income that will lead you into an early and comfortable retirement! Well, what's not to like about that?

If you're lucky, that's exactly how it has turned out. But an awful lot of investors find themselves working harder than ever. They've got a bunch of houses, and a bunch of mortgages to go with them. It's not fun. These folks may be building wealth for "someday," but right now they're being sucked dry of money and energy. Even if they have the wherewithal to manage more houses, they're so debt-heavy now that no bank will touch them.

Or maybe they didn't want to borrow as much, so they used their nest eggs to buy houses. It didn't take long for the money to run out. Now their business is at a standstill because they can't buy any more houses. And they're nowhere near their goal of retirement.

What went wrong with these American dreams?

What went wrong is that these folks don't have all the tools they need to make real-estate investing work for them instead of the other way around.

You see, I attribute our success to three basic real-estate tools. First, I learned how to buy houses "subject-to" an existing mortgage. Second, I learned how to do short sales. Finally, I learned how to use other people's money to buy real estate. Together, these tools provide a system for making big money in real estate with very little risk. It's a system I believe in, and that's why I teach it to others.

In this article, I'll introduce you to the third tool: using other people's money to buy real estate.

Let's take an example. Let's say Mary has a house to sell for \$100,000, but it's really worth \$150,000. I'd like to buy this house!

But what if I don't have \$100,000 cash? Well, I might go to a bank to get a loan. But that means I'm going to have to make the payments on that loan until I sell the house. That could be months or years!

Fortunately, there's another way to do it. Let's say instead I go to Jeff. I say, "Jeff, I'd like to borrow \$100,000." I'll pay you 10% and I'll guarantee you four months' interest even if I sell the house tomorrow.

Who wouldn't go for that? So Jeff says, "Okay, great. But I want a promissory note and some collateral." Well, that's fair, so I agree.

At closing, I use Jeff's money instead of the bank's. I give Jeff a security deed on the house. I sell the house for \$150,000. I pay Jeff his 10% interest, and I get to keep the rest. He's happy. I'm *really* happy.

What was missing from this transaction? Lot's of things! *Banks. Risk. My own money.*

Of course, my example is oversimplified. There may be other loans in place so you don't have to borrow the whole \$100,000. There may be repairs to be made, and you've got to account for those expenses. You may have to make payments to Jeff while you're waiting for the house to sell. Then again, you may not. There's a lot to figure in.

But here's the bottom line: by using private lenders instead of banks, you can borrow money easier. You can nearly eliminate risk not only for you but for your lender. You can buy more houses and, therefore, you can make more money.

But who are you going to borrow the money from? Just who are private lenders?

Private lenders are individuals who have money to invest, but are not in the business of lending money. A private lender can be anybody.

Let me ask you: Do you have an old 401k sitting in the bank earning absolutely nothing? Why not roll that money over into an IRA, and then invest it in real estate?

There are lots of people with old 401k accounts. The secret to finding these people is, *simply ask*. There's no magic pill. It takes effort, it takes education, and it takes a lot of hard work.

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Don DeRosa was recognized as one of the nation's top 21 real estate investors in the New York Times bestseller *The Millionaire Real Estate Investor*. Don, who is a full-time investor, trainer, and mentor, offers a complete system to build and run a thriving real estate business. For more information on *Building Wealth with Real Estate*, visit www.donderosa.com.

Summary: Many real-estate investors soon find themselves overwhelmed by the financial burden of borrowing money from banks, or they run out of money after buying just a few homes. By using private lenders, investors can increase their income by increasing their buying power.