

Don DeRosa's

Real Estate Investing for The Real World



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“Subject-To” Purchases Generate Serious Income While Offering Relief to Homeowners in Trouble

If you're like me, you understand what it's like to swap hours for dollars and barely make a living. There was a time when I ran on the corporate treadmill, working longer and longer hours in exchange for a moderate paycheck. Meanwhile, I hardly ever saw my family and we still couldn't afford the things we wanted.

Then in 1991, I saw an infomercial claiming that I could buy houses with no money or credit. That was my first exposure to real estate, and to a whole new life. Within the first thirty days I purchased four properties for just four dollars – and I didn't use my credit.

But the infomercial didn't tell me everything I needed to know. Pretty soon I was up to my neck in properties, but I didn't have any cash to pay my bills. And I hated being a landlord!

My goal was—and is—to pocket at least \$20,000 a month, free and clear. But I needed a way to obtain and manage properties that didn't take money away from my family. Finally, I came upon an investment technique that allowed me to do just that: Purchasing homes “Subject-to” the existing financing.

What is a subject-to purchase? Well, the typical home owner has both a deed to the property and a mortgage. In a subject-to transaction, the homeowner conveys the property title to me “subject to” the existing mortgage.

In other words, the seller is still liable for the mortgage, but I now have the deed (ownership) to the property. In return, I agree to make the mortgage payments for the seller. Depending on the circumstances, I may (or may not) renovate the property, and then I sell or lease it at a substantial profit.

Although there are many variations, making a fortune buying properties “subject-to” boils down to five easy steps:

1. Finding the property
2. Working with the seller

3. Finding the money
4. Renovating the property
5. Selling and collecting your profit

I have a formula that enables me – or anyone – to make \$250,000 per year by buying only two houses per month. And what's even better, *I don't need any of my own money or credit.*

Best of all, my formula is duplicable. You can easily copy what I do. And if you follow my system, you'll get the same results: a lot of money and even more satisfaction!

No Money and No Credit Needed

"It takes money to make money." How many times have you heard that old saying? For some businesses, it's really true. Just try running an antique store without antiques!

Luckily, though, this isn't retail. With subject-to purchases, all you need up front is enough money to market your business. And while marketing can get expensive, it doesn't need to. You can have signs made for just a dollar apiece. The average word-processing software – something you probably already have – can generate great-looking postcards. And it doesn't cost a thing to answer "for sale by owner" ads in the newspaper.

So if I'm not using my own money, how do I make the payments on the mortgage and make repairs to the home? The answer: I find private investors. In exchange for a nice interest rate, these investors give me enough money to make the payments, renovate the property, and even give the seller some cash. And you can find the money too, without using your own credit!

Here's an example:

A seller contacted me and said that her home was going into foreclosure in a week. The home was worth \$235,000 after we repaired it. She owed \$146,021.76 and was \$12,452.54 behind on her mortgage plus she needed \$5000.00 to move, for a total of \$163,474.30. If you do the math, you can see that the property still had over \$70,000 worth of equity left in it. By taking the property over "Subject To" the existing loan balance, we did not have to bring \$163,474.30 to the table. All we had to do is borrow enough money to reinstate the loan, which was \$12,453, plus the money that we had to give the seller. By using a private lender I was able to borrow the necessary funds to reinstate the loan, pay the seller what she needed, renovate the property and put enough money in our account to hold and market the property for four months while we repair it and sell it. We expect to profit over \$40,000 on this property alone.

Now, that's just the basics of what I did. There's a lot more to it, of course. But there's no magic to it. Just faith, hard work, and a workable system that can be duplicated by anyone over and over.

And just look at the results:

- A great income
- More free time
- An interesting livelihood
- Almost no risk
- The satisfaction of helping others out of a jam

A Solution for Lenders

The great thing about my system is that everybody comes out ahead. Take lenders, for example.

I buy properties from owners who NEED to sell their homes, and oftentimes, the homes are in danger of foreclosure. Most lenders would much rather get paid on time than foreclose. Foreclosure is costly, and while the bank can attempt to collect legal fees and damages, there's always the risk that the mortgage balance and the fees will total more than the house is worth, especially if the house is in poor condition. And, too, foreclosure means a lot of extra work for the bank's employees. So there's a lot of incentive for the bank to work with you.

But what about the due-on-sale clause? Will the bank turn around and demand the entire balance of the loan? Not if the transaction is done right. By using the right documents and forms, the due-on-sale clause just won't be an issue.

Taking Advantage of Homeowners in Crisis? Just the Opposite!

A friend once told me that he won't do subject-to purchases because he doesn't believe in making money from someone else's misfortune. If that's what subject-to purchases were all about, I wouldn't do them either. After all, I've got to look myself in the mirror every day, just like you do.

Luckily, though, my friend has it wrong. While it's true that the best deals involve motivated sellers, you are not the seller's problem. You're his *solution*.

Let's imagine a family that's gotten into financial trouble. The parents are four months behind on the mortgage. If something doesn't happen – and fast! – the bank is going to foreclose. There are only two “somethings” that can prevent foreclosure: bankruptcy, or a quick sale. If you were head of this household, which would you prefer? By approaching them in a non-judgmental way, and by offering them immediate relief, you provide the family with some semblance of dignity, while at the same time you're removing a big financial obstacle.

A Windfall for Private Investors – and for You

As of this writing, the prime interest rate is around 8%. Thirty-year treasury bonds are about 5%. You can make a lot more in the stock market, but you can also lose your shirt. So imagine the reaction I get when I offer my investors 10%-15% simple interest if they'll provide money for a real-estate transaction! It's a great way for individuals, churches, and nonprofit corporations to increase their capital, and because I use thorough pre-screening techniques to find the properties, my investors face little risk.

Meanwhile, my system has allowed me to build up large amounts of cash to spend on my wife, my children, and myself. We take regular vacations now – something I could never do as a corporate drone – and I have all the free time I need. My children won't have to borrow a cent for their college educations, and my wife and I are already in good shape for retirement. And all with no money and no credit!

Subject-to purchases can bring you generous paydays with almost no risk. There's no magic involved – just winning solutions for everyone.

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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.