Ultimate Wholesaling System Guide

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READ THIS BEFORE YOU START

First off I would like to thank you for allowing me the opportunity to help you along your path to real estate investing success. Before you get into reading the course material I would like to mention a few things:

1. **I keep things simple**- On a few occasions I have had students call and ask me why my real estate course was not longer or filled with more material. To be honest, I have only included the material that is necessary for you to find success in the quickest manner possible. Great teachers take difficult things and make it easy, that is what I have tried to do with this course material.

2. **I am not a grammatical wiz kid**- If you can't tell already, I am no good at grammar. Having said that, I hope you did not buy this course with the thought of learning about punctuation or spelling. Instead my only goal is to see you succeed as a real estate wholesaler.
Here is what I want you to do:

“Learn Enough to Get Going, Then Get Going”

Once you have finished going through all of the materials please contact me at incomehomes@comcast.net if you have any questions. My only goal is your success.

Eric Medemar
What is real estate wholesaling?

Real estate wholesaling is the process of putting buyers and sellers together for profit. Just like many businesses have a middleman that they buy their products from, real estate wholesalers find the products (houses) for the end user (buyers) and make a profit for doing so.

To keep it easy, I am going to compare real estate wholesaling to selling a bike when you have no money to buy it.

In order to make money on any product you need to find the product for less money than what you intend to sell it for. For conversation sake, let's say you found a bicycle that you knew you could sell for $200 if you put the pedals back on. Without the pedals you could sell the bike for $150. If you had the money you could buy the bike for $100. The problem is you have no money to buy the bike or the pedals. You are flat broke.

In the old days you would have had to walk away from this deal.

Not with wholesaling, with wholesaling you don't need money or credit. Instead you talk to the owner of the bike and make him an offer to buy the bike for $100. Then you tell the owner that you don't need to take the bike. You would just like him to hold the bike for 3 days, and you will work on finding the money to buy it. If after 3 days you don't have the money, he can go ahead and sell it to someone else.
Once the owner agrees you call up Fred who you know is looking for a great deal on a bike. You tell Fred, "Hey Fred, I found a great deal on a bike, this bike will sell for $200 when you put the pedals on, you could buy some pedals for $10 at the hardware". You go on to say "You are not going to believe this Fred but I am selling this bike for $130". Fred says "Awesome, when can I pick it up".

You call the owner of the bike and let him know that you will be buying the bike as long as your friend says it has no problems. Then you ask him if you could pick up the bike and have a friend look it over. Then you pick up the bike from the owner and call Fred. Fred gives you $130 for the bike. You go and pay the bike owner $100. The bikes owner is happy. Fred got a great deal on a bike. **You made $30 for not spending a penny, all you had to do was make a couple of phone calls.**

**Why is real estate wholesaling so great?**

1. **You do not need to have good credit**-With traditional real estate investing not having credit can end up being a major problem. Without credit you cannot get a loan, and without a loan you cannot buy a home. There are ways to buy without credit such as lease options, land contracts, and “subject to” financing. The problem with these methods is in many cases the profits are not immediate like they are when you wholesale real estate.
2. **Immediate earning potential** - Real estate wholesaling will give you the power to be earning profits in as little as 2 weeks. From my experience there is no other job or opportunity out there that can have you earning $3,000-$10,000 in the next couple of weeks.

3. **Limited risk** - Real estate wholesaling is by far the lowest risk way to get involved in real estate investing. If you set up your deals correctly, real estate wholesaling is a NO RISK way to do real estate investing. The worst case scenario from a risk perspective is that you may lose your deposit money which typically ranges from $100-$1,000. If you follow my methods for real estate wholesaling you won’t even need to worry about losing your deposit money.

4. **No money needed (Truly $0 down)** - I know it may sound too good to be true, but you really don’t need a penny to get going wholesaling real estate. You may end up passing on some deals that require deposit money but I will offer you some great ways to get around that.
Getting Started

There really is nothing that is required to get you started as a real estate wholesaler. Some equipment that will definitely help your wholesaling business includes:

**Cell phone-** Having a cell phone will allow both buyers and sellers to get a hold of you when they need something. It would be a shame to lose a huge assignment fee because the sellers or buyers were unable to get a hold of you.

**Computer-** Like I said earlier, having a computer is not a must for your business, but it will certainly make things easier. Online tools, like email, will make getting to your buyers list a much more efficient task. If you do have a computer then the following things will be useful:

- **Digital camera-** A good digital camera and a computer with internet capability will allow you to get pictures of properties to buyers without ever having to leave your home.

- **Scanner-** A scanner hooks up to your computer and allows you to scan images that can be saved on your computer. If you do not have a fax machine, the scanned images can be emailed or e-faxed.
• **Printer**- A printer will come in very handy for just about anything that you will be doing on your computer including printing maps, documents, and pictures. You can even design and print your own business cards.

• **Website**- I have had a tremendous amount of success attracting both buyers and sellers using my website.

**Fax machine**- A fax machine is very nice to have around for getting contracts and other documents out to both buyers and sellers. If you don’t have access to a fax machine then you may want to look into getting a scanner and printer.

**Do I need to have a LLC before I start?**

It all depends, if you are buying and flipping immediately afterward using a back to back closing, or just assigning deals then a LLC may not be necessary. On the other hand if you are buying and holding for even a short term flip then I would recommend getting an LLC started. An LLC is a Limited Liability Corporation. LLC's are designed to protect your personal assets from being involved in the event of a lawsuit or other happening in your business life.

The only other reason to have an LLC set up in advance is if you intend on working with any non assignable contracts. In which case you would you my pocket LLC sale strategy, that I explain later in the course.
How much time will it take to see my first paycheck?

From my experience you can be getting paid in as little as two weeks depending on how effectively that you get your buyers list done. Once you have a good buyers list in place then you are ready to start making some serious money.

Here is a list of the seven variables that will affect how fast you will be paid. There are some other things that can affect your pay time but these are the primary determiners.

1. **Type of financing your buyers are using**- The type of financing that your buyers are using will often dictate the speed of closing the deal.

2. **Cash buyers**- I have seen cash buyers close in as little as one week, but typically expect them to close in two to three weeks.

3. **Bank financing**- I usually plan on deals that will be financed through the bank to take around 30-45 days to get to the closing table.

4. **Seller financing**- I have seen seller financed deals close in as little as one week, but often times closings will occur in two to three weeks.
5. **Time to get a clear title**- If a home has a paper trail that is free of liens, encumbrances, and other title issues, then title policies can be issued to your buyer in as little as three days. On the other hand, I have seen homes that took over 30 days to get the title cleared. In a case like that, patience is a must.

6. **The seller’s time line**- Some sellers will want to close as soon as possible and others may want to take their time. Typical closing times are three to five weeks from the day that the contract is signed. The main reason for sellers taking extra long to close is that they do not have another home lined up to move into.

7. **The buyer’s time line**- Many investors will try to close as late as the seller will allow. This is especially true of other wholesalers because they want as much time as possible to line up another buyer for the property.

**Is wholesaling real estate illegal?**

Absolutely not! Real estate wholesaling is far from an illegal activity. Many people mistakenly believe that the scams they hear about property flipping is somehow related to real estate wholesaling, this is not the case. Property flipping is not really an illegal activity either. Property flipping only becomes illegal when “straw buyers” (buyer’s willing to sacrifice their credit for cash) purchase homes for far more than what they are worth.
(appraised value is far more than market value) and receive either cash back at closing, or a payment from the seller for overpaying for the house.

**What type of profits can you expect?**

From my experience profits are typically between $4,000 and $20,000. There truly is no minimum or maximum profit that can be expected because of the amount of factors involved. I have had clients that have made over $100,000 in one wholesale deal. Typically the more expensive the house, the greater the potential will be for profit.

**What factors determine profits?**

There are many aspects to determining how much profit can be made on each deal. In one way or another your profit will be determined by one of the 3 items listed below.

- **The price of the home**- Typically higher priced homes will have more room for profit then lower priced homes. Example: if you can find a home for 50% FMV (Fair market value) and sell the home for 70% FMV then you would have a 20% spread. 20% of $100k is far more than 20% of 20k.

- **The motivation of the seller**- With all things being held equal, the lower the price that you can put the home under contract for, the greater your profit potential will be. Example: If you can buy the home for 50% FMV and you have buyers that are willing to buy
homes at 70% FMV, your profit will be far greater than if you put the home under contract at 60% FMV.

- **The motivation of the buyer**- If you happen to be selling to a retail buyer rather than an investor the potential for profit can be escalated considerably.

*If wholesaling is so easy why doesn’t everyone do it?*

Sure wholesaling real estate is easy, but it is even easier not to wholesale real estate. There are many wonderful things in life that are easy to do, but most are even easier not to do. The three main objectives of human existence are to avoid pain, seek pleasure, and conserve energy. Essentially most people avoid pain by doing nothing, and conserve energy by doing nothing. Meanwhile the things that produce the most pleasure often take a little bit more time to achieve, which forces the people who solely want to avoid pain to stand by the wayside.

For many people real estate investing gets much easier after they have done just one deal. In reality nothing really gets any easier, the fear just becomes less because completing a deal makes the unknown (which causes fear) into a known.
Why would other investors want to buy from me?

Successful investors know that they cannot possibly get to every good deal out there. Many investors spend their time meeting with Realtors, other wholesalers, and keeping their projects on track. Some investors who don’t do real estate full time simply can’t get away from their jobs enough to find the great deals.

Real estate wholesaling is very much a necessity for many time constrained investors. You will be assured success if you can find the best deals in your market, before other investors do.

One example is to look at other investors like a store. Walmart does not make most of the products that they sell, instead they buy from other companies who make or have access to particular products. If Walmart were to try to make all of the products that they sell, they would not be able to do what they are best at. Walmart is best at selling lots of products at a low price, not making lots of products to sell at a low price. Just like big investors are best at selling lots of homes or purchasing lots of homes at a decent price, rather than searching for a couple of homes at really low prices (That is your job).
Why would sellers agree to sell at such a low price?

Property owners are willing to sell their home below market value because something about their home is causing them more pain than the pain that they will feel for selling their home for less than its worth. You are providing a service to them, with the benefit being an immediate sale. Most motivated property owners are willing to sell for less because they want out, and they want out as quickly as possible. You are offering them a way out, a way to get away from the pain that their home is bringing in one form or another.

Never get caught in the trap of thinking that you are somehow doing property owners a disservice by offering them less than the current market value for their home. This is far from true, you are offering them the benefit of an immediate sale, in exchange for them giving you the benefit of a lower price on their home.

Typical seller motivations include:

- Divorce
- Death in the family
- Downsizing
- Drugs (Addiction to drugs)
- Can’t afford the payments
- Relocation
- No patience
✓ Bank is going to foreclose on the home
✓ Bought another home and couldn’t sell their old home
✓ Can’t pay the taxes
✓ Violations from the city
✓ Don’t like the neighbors
✓ Banks will sell because they are in the business of loaning money not selling real estate
✓ Landlords will sell because they are tired of bad tenants, tired of property violations, or ready to retire

**Do you need a real estate license?**

No you do not need a real estate license in order to wholesale real estate. Realtors are typically paid by the seller for bringing a buyer and seller together. Real estate wholesalers are paid by bring a contract to a buyer and then getting paid the difference between contract with the seller and the contract with the buyer. Some real estate wholesalers make their money by buying the home themselves and then using a back to back closing. When using a back to back closing a real estate wholesaler will be paid the difference between the amount that the property is purchased for and the amount that the property is sold for.
Should you get your real estate license?

In some cases having a real estate license could be helpful, in other cases it may not be the best choice.

The pros of having a real estate license:

- **Access to the MLS for pulling comparables** - Access to the MLS will allow you to be able to pull data of recently sold homes, as well as homes that are currently on the market.

- **Get to keep your buyer side commissions** - If you are a licensed agent and you are purchasing other listed homes then you will be able to keep the buyer's side commission. The buyer's side commission will be given to your office and then split with you, or you may be able to keep 100% of it depending on your office fee schedule.

- **May have access to home before they hit the MLS** - If you work at a larger office there is a good chance that other agents within your office will let you know about listings that they have coming up before they hit the MLS.

- **Access to the MLS for pulling expired listings** - Pulling expired listings is a great strategy for locating motivated sellers. Expired listings are listings that have ended prior to the home getting sold.
The cons of getting your real estate license:

- **Sellers could think that since you’re a Realtor that you must be taking advantage of them** - I have run into many situations where sellers think that because I am a Realtor that I am going to have an unfair advantage and somehow try to rip them off.

- **Buyers could think that since you’re a Realtor that you must be taking advantage of them** - I have had situations where buyers think that because I am a Realtor that I must have an unfair advantage and will somehow pull the wool over their eyes. Other buyers have thoughts that Realtors take the good properties for themselves and then try to pass on the mediocre deals to them.

- **Association Dues** - These fees include MLS fees, National Association of Realtors fees, State Realtor associations fees, as well as local Realtor fees which vary by location.

- **Realtors may not be quite as willing to help you out** - If you are getting your Realtor license to save on commissions then it is likely that you will want to keep the commissions on the homes that you buy. The problem is that if you want to keep your commission then other Realtors have no reason to bring you great deals. Even though I am a licensed Realtor, I often let other agents keep the full commission if they bring me a great deal.

- **Expensive office fees** - Most real estate offices work on a split commission system where you keep a certain percentage of the commission and you pay the office the other part. Splits that I have seen vary from 50/50 splits all the way to 80/20 splits where
you keep 80% of the commission and pay the office 20%. Other versions of the split system are graduated scales. Graduated scales allow you to keep a greater percentage of your commission as you generate more sales.

The other type of office split allows you to keep 100% of your commission in exchange for paying a monthly fee. I have seen these monthly fees start anywhere from $395 for a home office all the way up to $2000/mo for a space at the main office.

The other fees that are normally associated with doing business are your signs, closing fees (vary by area), and business cards.

✔ More paper work to disclose everything- In many areas it may not be required by law to disclose that you are a Realtor, but it is still a good idea to let either the buyer or seller know that you are a licensed Realtor.

✔ You may not be able to keep your commission anyway-Many of the REO’s (Real Estate Owned) that are listed in my area will not pay a commission to the buyers side if the buyer is a licensed Realtor.
WHOLESALING TRANSACTION QUESTIONS

What are the basic steps to completing a deal?

This is a very basic outline of the steps to wholesaling a home. We will go into much more detail about how best to achieve each step later in the manual.

1st Build a buyer’s list- A strong buyers list will one of the most important aspects of your success as a real estate wholesaler. Be sure to build your buyers list before tying up any home under contract.

2nd Find Homes that meet your buyers needs- Once you have your buyers list in place it is time to start looking for great deals on homes that fit your buyers criteria.

3rd Put the home under contract with an easy out clause- Once you have located a home that meets the criteria for your buyers, you will need to put the home under contract. Include an easy out clause in the contract in case your buyers decide that they do not like the home.

4th Get your buyers through the home- Bring all of your buyers through the home to see if it meets their needs.
5th Assign the contract to you buyers or sell them the home- If the home meets their needs then you will need to establish a price that you are willing to sell them the contract for, or a price that you are willing to sell them the home for. If you are unable to assign the home then you could use a back-back closing instead. If do put the home under contract with your buyer’s then be sure to get a deposit from your buyers that is at least equal to the amount that you could lose if your buyers decide to back out of the deal.

6th Use your easy out clause- If your buyers do not like the home for one reason or another use your easy out escape clause to terminate the contract. The process ends here if your buyers do not like the home.

7th Set up a closing and get paid- If you are assigning the contract you may have already sold your position to your buyer, in this case you may have gotten paid already. If you did not get paid for selling your position already then you will be waiting for your buyer to set up a closing, and at the closing you will be collecting your fee.
Why do you need to have my buyers list first?

From my experience having a buyers list is the most important part of real estate wholesaling. A great deal on a home will not make you a dime if you do not have any buyers for it. I have seen other real estate programs that teach you to find good deals on homes and then look for buyers. The problem with finding homes and then finding buyers is that once you have a home under contract you will have a limited amount of time to locate buyers for the property.

If you are unable to find a buyer for a property then you will need to use your *easy out clause* to get out of the real estate contract. By not having buyers ready you stand a greater chance of letting sellers and Realtors down because you will not be able to follow through on your contracts. If you have a buyers list in place, then you will know what type of homes that your buyers are looking for. Then you go to work finding homes that meet your buyer’s needs.
What is an easy out clause (escape clause)?

Easy outs (AKA weasel clauses) are ways to get out of a contract legally. Some investors get confused and use too many easy outs on a contract when in reality you only need one. Even if you write 10 easy outs into the contract, the only one that matters is the one that expires last. Writing too many easy outs into a contract may create a weak looking offer in a seller’s eyes. I try to limit my easy outs to a 10-day inspection period that allows me to back out of the offer any time within the 10-day period if I am not satisfied with the outcome of an inspection. If you decide not to use the inspection easy out, be sure that the alternative you choose is based on a subjective outcome and not something that the seller can verify as false. Here is a sample easy out clause involving inspections:

Sample of my easy out:

“Buyer has the right to inspect the property anytime within the next 10 days. If the seller fails to allow the buyer access to the property during the 10-day period, the buyer may at anytime cancel this agreement by written notice to the seller. If the buyer feels that the inspections do not meet a satisfactory level as judged solely by the buyer, this agreement can be terminated by written or verbal notice to the seller. Any and all deposits will be refunded to the buyer within 5 days of notice”.
If you are nervous about losing your deposit money you can also tie the deposit money in with the inspection clause using the following wording: “Earnest money to be deposited upon the release of the inspection contingency of this contract”. This technique can come in very handy in wholesale deals where perhaps you don’t have the money for a deposit. In this case you could simply use the non-refundable deposit that your buyer has provided you.

**How do you get your buyers through the home?**

It will depend on what you have told the seller when you put their home under contract. If you did not tell the seller that you intend on selling the contract to someone else then you can use the *contractor showing*. I have done this on many of my deals both as a buyer and as a seller of contracts. You just tell the seller that you are having a couple of contractors come through the home to get some estimates or to inspect the property (works great with the inspection contingency). If your seller is fully aware that you are going to be selling the contract on their home then you will just need to set up an appointment and have your buyers come through the home at that time.
Exit Strategies

What exit strategies should I use?

There are several different strategies that you could use when setting up your wholesaling deals. I am going to cover the three most common exit strategies that you will want to be using. It should be noted that each exit strategy has the major benefit of being able to make thousands of dollars without spending a penny of your own money. Having said that, each of the three exit strategies has a time and place that it should be used. I will go into more detail in this section.

Here is a list of the exit strategies that I most often use:

Back to Back closing (Double closing)

The back to back closing is essentially like any other real estate closing (you buy a home from the seller, then sell the home to a buyer). The only difference is that instead of buying a home and then selling it 6 months from now, you are buying the home and selling it 10 minutes from now. Like all of the exit strategies that I cover in this report, back to back closings don't require you to have cash or credit to make a whole lot of money.
The pro's of back to back closings:

1. **Great for Greedy buyers**-Great for doing deals with buyers that are greedy and don't want to see you make any money. Back-back closings don't involve disclosing to your buyer what you paid for a home so if you have a buyer who seems overly concerned that you might make too much money on the deal then it might be your best strategy.

2. **Non-assignable contracts**-Works great if you are dealing with a non-assignable contract. Many banks and some private sellers won't allow you to do an assignment on their contract. To get around this you can simply do a back-back closing.

The cons of back to back closings:

1. **You end up paying 2 rounds of closing costs**- Even though your closings will be happening within 10 minutes of each other you will still have to pay closing costs twice.

   a) **Typical closing costs include:**

      - **Transfer Taxes**- Paid based on a percentage of sales price for when you sell.

      - **Closing fees to title company**-Paid on both the first closing and the second closing. Charges range from $150.00-$300.00 per sale.

      - **Title Insurance**- Paid as a buyers policy for the first closing and as a seller policy on the second closing. Fees are dependent on the sales price. The cost for doing double closings just in title insurance can be between $1,000-$3,000.
2. **Limited availability**- Not all title companies will allow you to do double closings.

3. **Very Dependant on financing**- Many lenders have tightened up restrictions on the amount of time that a property must be owned by the seller. I have run into deals where lenders would not close on a property until it had been owned by the seller for 90-180 days.

**Purchase options**

A purchase option is very similar to a lease option except you aren't intending on leasing the property. Purchase options are one of my favorite strategies to use because they avoid the need for paying 2 rounds of closings costs or any closing costs for that matter. The set up for a purchase option is that you put a home under a option with the seller. A purchase option allows you to purchase the sellers house for a particular price, during a particular time. For instance a purchase option could allow you to purchase a sellers home for $60,000 anytime within the next 6 months. Once you have the home under contract with the seller then you have the option period to find a buyer to purchase the home for a given amount of money.

**A sample transaction would be:**

1. You put the home a under a purchase option with the seller for $60,000 for 6 months. This means that anytime over the next 6 months you have the option to buy the sellers home for $60,000.
2. You find a buyer who is willing to purchase the home from the seller for $75,000.

3. Your buyer closes with the seller for $75,000 and the title company gives you a check for about $15,000.

One of the other aspects of the purchase option is that in many cases the seller won't allow you to have their home under contract for 3-6 months without a contingency built in. If I were a seller I would not be comfortable giving someone the exclusive right to buy my home for 6 months without a firm financial commitment.

When I put together a purchase option I allow the seller to continue to market their home as they normally would. I also include in the contract that I have the right of first refusal. The right of first refusal means that if another buyer offers to purchase the sellers home (a buyer other than my own) during my option period that I have the chance to exercise my option (close the deal) or to refuse to close the deal in which case the seller would move forward with the new buyer.

I like to set up my contracts this way because 95% of sellers don't mind letting me lock in a option price with them, as long as they can continue to market their home as they normally would. It creates a win-win situation for both of us.
In the past I have had sellers get so confused by the whole assigning process that they seemingly refuse to do the deal simply because they don't understand it. The purchase option on the other hand is very easy for me to sell because I am essentially not changing anything that is going on with the sellers right to market their home. All I am doing is asking them to allow me to lock in a price that I can purchase their home for.

**Advantages of using a purchase option:**

1. **More time**- Allows you much more time to find a buyer vs your standard assignment set up. Standard assignments generally allow you to try to find a buyer with your given escape clause period.

2. **No closing fees**- Since you aren't the buyer or the seller you avoid having to pay closing fees all together.

3. **Paid from title company**- In most cases you can include the lease option payoff (amount of your contract with the seller) on the HUD-1 form. That means that the title company will cut you a check after closing.

4. **More versatility for your buyers financing**- In most cases the sellers will have owned the property for longer than 6 months so you don't need to worry about what type of financing your buyer is using.
Cons of using purchase options

1. **Longer pay time**- Your pay will not come until your option is exercised by the end buyer.

2. **Won't work with most foreclosures**- Since 99% of foreclosures are held by banks and 99% of banks won't mess with purchase options this strategy kind of stinks to use with them.

Assigning Contracts

Assigning contracts is what most people think of when they are talking about wholesaling homes. Basically assigning a contract is exactly as it sounds, you assign your position in the contract to someone else. When they take over your position in the contract they take over all of the obligations, responsibilities, and timeliness that are included in the contract that you assign them.

The basics of assigning contracts is that you do a standard purchase agreement between you and the seller. On the signature line of the purchase agreement instead of simply writing your own name you write “**your name and/or assignees**” or “**your business name and/or assigns**”.

Once you have the home under contract with the seller then your job is to assign the contract to another buyer. To do this you simply have them sign a contract assignment form (included in your course material). In many cases I will also have the seller sign the form as well just to avoid any confusion later down the road.
Be sure to get a NON-REFUNDABLE deposit from your buyer at the time that you assign him/her the contract. Make sure that the deposit amount is at least equal to or greater than the amount that you could lose if your buyer decides not to follow through with his/her contractual obligation.

**Getting Paid**

In 90% of cases you will not be paid your assignment fee by your buyer until the time of closing. If possible have the title company include your assignment fee on the HUD statement so that you get paid by the title company rather than relying on the buyer to cut you a check. Having said that, I have never been ripped off by any buyers before. Most buyers realize that not only will they have a lawsuit on their hands, but they will also lose all credibility with the investing community in my area because I will make sure that word travels quickly about their shadiness.

**Pro's of assigning contracts:**

1. **No closing costs**- Once again since you are not buying or selling the home you are not responsible for any of the closing costs.

2. **Quickly paid**- In most cases where I have assigned the contract, I am payed in less than 30 days. If the assignee decides to pay you at the time that you assign the contract then payment time can be even quicker.
Con's of assigning contracts:

1. **Confuses many sellers** - Many sellers don't understand the concept of assigning contracts so they just refuse to do it.

2. **Won't work with foreclosures** - Many banks have a non-assign ability clause written into their contracts. To get around the non-assignability clause you can use the pocket llc method.

3. **Won't work with some types of financing** - Some mortgage companies won't do mortgages on assigned contracts, they will only work with the original contract between the two parties. If this is the case then you could set up a purchase option with the seller.

4. **Limited fee's** - Assignment fees cannot be built into the purchase price because they are above and beyond the contract price. This means that your buyers need to pay you outside of closing with their own money. Because they are paying you off with their own cash rather than financed bank cash, you are somewhat limited as to the amount of money that you can make on a particular deal. The amount you can make is heavily influenced by the amount your buyers can afford to pay.

**Pocket LLC Sale**

The last exit strategy is the least frequently used of the exit strategies. The main reason that you would use this strategy is if you are dealing with a non-assignable contract. Since a vast majority of the banks won't allow you to assign their contracts, you can use the pocket llc instead.
I call it a pocket LLC sale because essentially you will set up a few LLC's to keep on hand in case you use this tactic. Those LLC's I call pocket LLC's. The way this tactic works is that if you find a great deal on a home with a non-assignable contract you will buy the home in the name of one of your LLC's. Since the contract is non-assignable, instead of assigning it you will sell the LLC that the home was purchased in. Everything works similar to a standard assigned but instead of being paid for assigning the contract, you are paid for selling your LLC that the contact was signed with.

Please note: If you intend to use this strategy you will want to have your LLC's set up in advance rather than trying to throw one together after you have already put the home under contract.

What role do you play in closings?
Depending on which of the exit strategies that you elect to use your roles will vary. The most involved strategy from a closing standpoint is the back to back closing.

If you are using the back to back closing they you will be responsible for having a title company pull up title work as well as any other services that you elect to have done such as inspections, surveys, etc.

If you are using a assignment or a purchase option then you are not held to following through on any part of closing. However I would recommend having good communication with both the buyer and the seller as well as the
title company just to be sure that things flow along smoothly. Keep in mind that in most cases you won't make your money if the deal does not make it to closing, so you will want to do your best to ensure that a closing does happen.

**Getting around Deposits**

First off I would do my best to have at least $1000.00 handy for deposit money. From my experience most REO’s (Real Estate Owned) require a deposit of $1000.00 with no ways around it. As long as you use your easy out clauses there should be no fear of losing your deposit money.

If you are unable to locate money for deposits then use the *“Earnest money will be deposited upon the release of the inspection contingency”*. I like using this because if my buyers want the home then I can take their non refundable deposit and put it towards the earnest money required by the seller. If my buyers do not want the home then I can use my easy out inspection clause and no money will have ever changed hands.

Explain to the seller that you are a investor and that because you write so many offers you don’t want to be writing checks all over the place. Let them know that the minute the inspection’s are done and approved you will be more than happy to write them a check.
**Checking out Your Buyers**

Anytime that you take on a new buyer you should obtain a pre-approval letter or a verification of cash funds. A pre-approval is a letter from a lender that tells you that the buyer has had a credit check, and has proven his/her income through provision of W2’s, or previous tax records. If possible, get the buyer to meet with a lender who you know and trust so that you can be sure that the buyer is truly capable of purchasing properties. A verification of cash funds is a bank statement or a letter from the buyer’s bank stating that there is either money in an account or the money is available on a credit line.

Watch out for buyers who offer you a pre-qualification letter. The letter is often not worth the paper that it’s printed on. A pre-qualification letter is based on information that has not actually been verified -- usually just on the buyer’s word. A pre-qualification letter is typically provided by a lender prior to actually sitting down with a buyer, so there’s no way of actually knowing whether the buyer is capable of purchasing properties.

Buyers are only as good as their ability to buy. A buyer can have the best intentions, but without substantiated funds, they are of no use to you.
Marketing Your Deals

Getting the Word Out

As you are building your real estate wholesaling business one of the most important aspects will be lead distribution to your investors. You will need to start out your buyers list in an extremely organized fashion if you plan on staying in the business for a while.

Tips for distributing leads to your buyers:

a. **Build an email database with all of your investors email addresses.** This will allow you to easily and inexpensively reach all of your investors at once if the property meets all of your investors needs.

b. **Know what each investor is looking for.** By knowing the specific type of property that each of your investors is looking for you will be able to hand pick certain investors for certain properties when leads need to be distributed.

c. **Know what type of financing each investor is doing.** If you come across a deal that meets several investor criteria and you know that one of them has cash and the other is doing financing, then I would recommend letting the investor with cash have the first crack at the property. By letting the easiest to finance people have first dibs on a property you can lessen the chance of a deal not making it to closing.
d. **Keep your investors phone numbers close by.** I would recommend carrying a phone list with you at all times in case you happen to come across a deal that will need a quick response from your investors. On the phone list include the type of financing and general criteria that those investors may be looking for. *(I have included a copy of the system on use on the contracts disc)*

Whenever you go to look at houses be sure to bring your camera with you. If the home looks like a winner then start taking pictures. When you get back to your office upload the pictures onto your computer and send them out in an email to your database of investors.

Be sure to include the specifics about the home in the email some specifics might include:

- Square footage
- Number of bedrooms
- Number of baths
- Condition of the home
- Repairs needed
- Rough estimate on the “as is” value
- The times that are best for showing the property
- Requests by the seller such as no walking around yard or do not contact.

- The age of the home

- The price you are asking for the contract
Networking

Your Network

One of the least expensive, most effective, and quickest ways to get both buyer and seller leads, is networking. I have heard it said, “Your network is your net worth.” Your network describes all of the people that know you, trust you, and would do business with you. Many of the people that are in your network are also in your sphere of influence.

Sphere of influence

Your sphere of influence could be described as all of the people in your life that you directly or indirectly influence. This includes all of your family, friends, coworkers, hairdressers, attorneys, florists, doctors, and dentist. Essentially your sphere of influence is made up of people that you come in contact with on a regular (at least once a year) basis. Most people have about 170-240 people in their direct sphere of influence. Think about the number of people at an average wedding reception, more than likely the number that comes to mind is 170-240 people.

One of your goals as a real estate bird wholesaler is to figure out who all of the people are in your sphere of influence, and let them know how you can help.
Who is in your sphere of influence?

You may be thinking that there is no way that you know 170-240 people. After this exercise I hope to prove you wrong. Here are the steps that I took to develop my sphere of influence:

Step #1  Ask your family members (mom, dad, grandma, grandpa, aunts and uncles, brothers, sisters) if you can see their address book, Christmas card list, old wedding invitation list, or any other list of addresses.

Step #2 Write down all of the people who you do business with or know in the following categories:

Doctors

Dentists

Lawyers

Insurance (Car, life, health)

Financial planners

Realtors
Mortgage People

Bankers

Car salesman

Mechanics

Police officers that you know

Firemen that you know

Armed service people

Carpet cleaners

Landscapers

Shop owners in your community

Restaurant owners

Waitresses

Carpet installers
Contacting your sphere of influence

There are several ways to get in touch with the people in your sphere of influence. I would recommend sending a letter to the people that you do not see on a regular basis. If money is an issue, you could probably just talk with the rest of the people in your sphere. Be sure to use your benefit statement when contacting your sphere, whether you are sending a letter or talking to them.

*Your benefit statement*

Your benefit statement could be considered your five-second sales presentation. To develop your benefit statement you simply need to ask yourself, “What is the result that I achieve when I do my job?” You will
want to use your benefit statement when people ask you what you do for a living, or if they ask what you have been doing. Most people do not know what a real estate wholesaler is, so save your breath. Instead tell people something like, “I locate undervalued properties for real estate investors in our county,” or better yet, “I help real estate investors achieve profits of $8,000 to $20,000 per transaction by finding them discount properties.” Do you see what the benefit statement does? A benefit statement is designed to pull others into your world, to spark their curiosity.

Imagine yourself at the next Real Estate Investor meeting talking to potential buyers. What do you think they want to hear when they ask about you? “Well I have been doing some real estate wholesaling,” or “I have been helping investors pocket $8,000 to $12,000 per real estate transaction.”

For real estate wholesaling, not only will you need a benefit statement for getting buyers, but you will need one for sellers as well. A good benefit statement for letting people know that you have buyers for property might be something like, “I help bring buyers and sellers together to make win-win real estate transactions.”

**Exercise:** Write down what the end result will be when you successfully do your job as a real estate wholesaler. This will be your benefit statement.

_____________________________________________________
_____________________________________________________
_____________________________________________________
Networking opportunities at real estate functions

Each and every person who you come in contact with has the ability to positively affect your wholesaling business. One of the best ways to meet buyers and sellers is attending your local real estate investment club meetings. Here are some things to keep in mind when attending these events:

1. **Ask questions outside of real estate investing**- Get people talking about themselves and really listen to what they have to say.

2. **Keep in mind, “People don’t care how much you know, until they know how much you care”**- Don’t run around the meeting acting like a “know it all.” Instead make the meeting a place to know it all about other people.

3. **Use your evidence of success**- If you have done any transactions that were extremely successful, then subtlety let other people know about how much you have helped other people.

4. **Know your prospects**- If you get the opportunity, be sure to let others know the type of prospects that you are looking for. *As a real estate wholesaler you are primarily looking for investors who would like to buy discounted real estate, as well as sellers who would like a quick, hassle free sale.*
Key points to getting more referrals:

**Give referrals to get referrals**- One of the best ways to get people to send you business is to send them business. Get business cards from people that you come in contact with. Ask them how you can identify customers that would be good prospects for their business.

**Send new contacts a note**- When you meet someone new who could potentially send you some business, take five minutes and send them a written note. Let them know that it was a pleasure meeting them and that you look forward to doing business with them in the future.

**If someone sends you a referral be sure to thank them**- One of the strongest desires that people have is to be appreciated. By letting others know that you appreciate the referral you will set the stage for many more in the future.
Building Your Team

The people who you surround yourself with, and have on your real estate investing team, will have a significant impact on your success as a real estate wholesaler. Here are a few of the most important team members:

Attorney: Attorney’s have easy access to people that are involved in 3 of the largest seller motivations. Divorce, Death, and Bankruptcies all involve attorneys so be sure to have at least one on your team. Later on when you get into investing outside of real estate bird wholesaling, having a good attorney on your team can benefit you from a personal asset protection standpoint as well.

Mortgage officers: Mortgage officers can be a great help for locating buyers for you to wholesale homes to. Mortgage officers are happy to send buyer to wholesales because the sooner the buyer finds a home, the sooner the loan officer gets paid. Later down the road the relationship may also benefit you from a financing standpoint.

Home Inspectors: Home inspectors can be a valuable source for leads and assistance with inspecting property. Home inspectors usually work for home buyers that need to have property inspected. They can supply leads from knowing buyers that may have contacted them and decided not to go with a particular home so they are back to looking. They can also supply
leads from sellers that may have had a bad inspection and lost there buyers but still need to sell.

**Contractors:** Having a contractor on your team will come in very handy if you are evaluating a property that you suspect has some issues, and you don’t know how much it will be to fix those issues. Plus, they are handy to have on speed dial if you run into a property repair problem.
**Separating the Good from the Bad**

There are several pricing options available to the real estate wholesaler:

**Option 1** You would need to factor in all estimated expenses (cost of rehab, buying costs, holding costs, and selling costs), then estimate the after rehab sales price. Subtract the after rehab sales price from all expenses including the cost of the home. Everything left is projected profit for you or your buyer.

**Option 2** You would take the current market value of the home and multiply it times 70% in most cases. That is the wholesale price. We will go into more detail on that later. There are four main costs that you need to be concerned with when determining if a property will be a good value to you or your buyers.

**Costs of rehab**- The costs of rehab will include all of the costs associated with getting the home market ready. The best way to describe the costs of rehab is any expense associated with the physical repair of the home. Typical costs of rehab comes from fixing or replacing items such as:

1. Windows
2. Drywall
3. Paint
4. Roof
5. Foundation
6. Plumbing
7. Electrical
8. Heating and Cooling
9. Landscaping
10. Siding

**Buying costs** - Buying costs are the costs associated with buying the home. These are costs include:

- ✔ Homeowners Insurance
- ✔ Taxes
- ✔ Title Insurance
- ✔ Closing fees
- ✔ Costs to borrow money
- ✔ Appraisal
- ✔ Surveys
- ✔ Inspections

**Holding Costs** - Holding costs are the costs associated with owning the home until it sells. The items included in the holding costs are:

1. Homeowners Insurance
2. Gas Bills
3. Electric Bills
4. Water Bills
5. Lawn Maintenance
6. Property Taxes
7. Interest Paid on Borrowed Money
8. Condo Dues (if the home is a condo)
9. Association Dues (if the home is in an association)

**Costs of Selling**- These are the costs associated with selling the property.

Typical costs of selling include:

- Title Insurance
- Closing Fees
- Realtor Commission (if you use one)
- Advertising (if you don’t use a Realtor)
- Transfer Taxes (if applicable in your state)
- Survey (unless you bought one during the purchase)

Once you have determined the total costs associated with the deal, add them to the current market value to determine the break-even point for the property.

**After Rehab Sales Price**
- Costs of Rehab
- Costs of Buying
- Costs of Holding
- Costs of Selling

Everything left is projected profit
Determining the After Rehab Sales Price

Another way to describe the after rehab sales price would be the market value of the home after repairs have been made.

To find the after rehab sales price you will want to pay attention to three key things:

1. **Recently sold homes**- Recently sold homes are homes that have been bought or sold within the past year. The best ones are homes that have sold within the past four months. If the market trends in your area are showing that real estate prices have been dropping, pay very close attention to the sold comparables. I have seen areas where it would be treading on thin ice to go back any further than two months because prices were dropping so quickly. In areas with rapidly declining prices you may need to talk to a professional to get an overall perspective on how much prices have dropped.

2. **How far away**- Try to locate homes that are in close proximity of the property that you are evaluating. Pull up a mapping program and write down the street names that are surrounding the home that you are looking at. Once you have found some recently sold homes to compare your property to, drive to the area to be sure that there is no major neighborhood or housing shifts.
Reasons for neighborhood and housing shifts include:

- **Change in school system**- Be sure that all of the comparable homes that you are looking at are in the same school system. You can always knock on people’s doors to find out what schools their kids go to if you are having trouble.

- **Changes in types of housing**- Many areas have single-family homes on one street and then one street over is rental housing. Typically, rental-housing areas are not nearly as desirable as areas of single family owned homes.

- **Poor Maintenance areas**- These are the areas of town where people do own their homes, but they also own six dogs and have two broken down cars in the front yard. Poor maintenance areas can pop up anywhere and property prices will be drastically reduced in the immediate vicinity.

3. **House specific items**- House specific items relate to size, age, lot size, and the floor plan of a property. Try to match the home that you are evaluating, as closely as possible, to the homes that you are comparing it to.

   A. **Size of the home**- You can check with county assessors to get information on the size of the home. Their records typically include two different size measurements.
a. **ANSI**- This refers to the amount of square feet above grade (above the basement).

b. **TFLA**- This refers to the Total Feet of Living Area. This measurement includes all spaces that are finished in the home including the basement.

- **Floor plan**- The floor plan of the home refers to the amount of bedrooms and bathrooms that the home has. Try to find homes that have comparable bed/bath combos.

- **Lot Size**- Try to find comparable sold homes that have a lot size similar to the home that you are evaluating.

- **Age**- Age is typically the least important of the all the house specific items, unless you are dealing with a HUGE age gap, such as a leftover farmhouse in an area of new development.

**Just to recap the perfect comparable property would be:**

1. **Very close to the property that you are evaluating**

2. **Sold within the past 3 months**

3. **In the same condition as the property that you are evaluating**
4. In the same school system as the property that you are evaluating

5. Very similar in size and number of bedrooms and baths

**Would I use the same 3 factors to determine the current market value (AS IS)?**

Yes, you could use the exact same factors to come up with a current market value. You would want to use comparables that are in similar condition to the home as it is right now.

**Is the current market value of a home the same as the appraised value?**

It can be, but usually isn’t. Do not make the mistake of recommending a home to one of your investors just because of a high appraised value. Appraised values can vary by as much as 20% of other appraised values. An appraisal is essentially an opinion of a homes worth by an appraiser, and opinions often vary.

Outside of the fact that appraisals can vary from appraiser to appraiser, more often than not the appraised value is quite a bit higher than the actual market value. This is because appraised values are based on homes that have sold recently, where as market values are based on current listings, market conditions, and average marketing times.
Is there an easy way to determine the wholesale value of a property?

There are several factors that go into coming up with a wholesale value of a property, but many investors use 70% of the current market value as a way to determine the wholesale price of a property.

Some factors that change the 70% rule include:

- **Easy rehabs**- If a home only needs some carpet and paint, then the buyers holding time and workload will not be a big factor. You may be able to safely offer between 77-81% of the current market value.

- **Difficult rehabs**- If a home is a complete disaster the buyers will spend a lot more time and effort into rehabbing the home. In instances like that, the wholesale value will be closer to 62-64% of the current market value.

- **HOT areas**- If a property is in an area where homes are selling quickly, then you may be able to safely offer between 77-81% of the current market value. The change in the percentage is a result of your buyers having less holding costs. Since the market is good there is a greater supply of buyers, which should lead to higher pricing.

- **DEAD areas**- If the property that you are looking at is in an area where home sales are extremely slow, then the wholesale value could be figured at 55-63% of the current market value. That figure may seem low, but your buyers may end up sitting on the home for a very long time before they are able to sell it. If your buyers pay less for the home, then they can sell for less, and increase the chance of the home selling in a reasonable amount of time.
● **Expensive homes**- Expensive homes will have a wholesale value with figures closer to 75-85% of the current market value. The reason for the percentage increase is that your buyer’s profits do not reflect a perfect ratio between the sales price and purchase price. As homes get more expensive your buyers will expect less of a percentage of the sales price as profit.

● **Cheap homes**- Homes under $60,000 will need to be purchased at a considerable reduction from the 70% rule. From my experience, the percentage offered could be as low as 40-50% of the current market value. This huge reduction is the result of investors generally not wanting to make less than $15,000 on a property rehab.

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**Big Profit Tip**

If you have an investor that just wants to buy homes at wholesale prices and you find him an even better deal, try to negotiate a larger fee for yourself. Suggest to them that you would like to split the difference between the wholesale value of the home and the price that he/she actually pays.
**Miscellaneous Contractor Tip**

Let me start by saying I am no expert at rehabbing and flipping homes but I do have a bit of experience doing them. Last year I rehabbed 11 units (two 2 units, and 7 single families). Currently I am in the process of rehabbing 11 more units (one 3 unit, two 2 units, and 4 single families).

**Hiring and paying contractors**  Contractors can be located by running ads on a website such as [www.Craigslist.com](http://www.Craigslist.com). I offer $15/hr, which is low in my marketplace, but I have picked up some awesome contractors from there. Many of my contractors would typically get $30-$45/hr from anyone else, but since the economy is slow many contractors need work.

Keep in mind every penny saved on contractors is another penny in your pocket. Typical contractors might say, “I usually get $30/hr” then launch into a lengthy explanation of their skill sets (electrical, roofing, etc). I tell them I am sure they are worth every penny that they are asking for but the rest of my $15/hr guys have the same skills. I do offer to call them when I run out of $15/hr contractors. Many contractors will say “sorry can’t help you” but in a day or two they will call back.

Ask contractors what they are good at. I found out early on in rehabbing that many contractors would claim that they could do anything. I quickly learned that perhaps they can do anything, but not
always with the same degree of expertise. So now when I am hiring a new contractor I ask them “What projects are you the most comfortable with and proficient at?” This enables me to place them into the job that I can get the most value for my money.

Be aware that when you pay by the hour your pockets could get drained. Save yourself from getting robbed by having each contractor fill out a time card. On that time card have them include everything that they have done that day including the task, the room, and whether they started it, or finished it that day. Then when payday comes around you can scan through what they did and identify any potential “soft” spots. If you think that they have been milking the project say something like, “So it took you two days to set a vanity in the bathroom” then after a bit of conversation go on to say “Well I have two options; if you are indeed that slow then I have to give you a pay cut, or maybe you just weren’t on that day and in that case we will take a few hours off, -- your choice”.

Wholesaling Mindset

I would like to close this section of the Ultimate Wholesaling System with a few thoughts to keep in mind. These are just a few of the ideas that I tried to keep at the front of my mind as I was starting on my path to wholesaling success. These thoughts also carry over to your everyday life as well.

- **They need you more than you need them** - Remember this whenever you are on the phone with somebody trying to get them to either buy from you or sell to you.

- **Fake it till you make it** - When you are talking to potential investors, be sure to present with confidence. People want to deal with successful people, but they don’t know the difference between someone who is successful and someone who acts successful. Imagine in your mind how you will feel when you have done 10-20 deals, how will you talk to people, how will you carry yourself (posture, facial expressions, tonality of voice). Once you can vividly picture in your mind how you will act with many deals under your belt, then work to “be” that picture.

- **Reading is not the same as learning, learning is not the same as doing, and doing is not the same as doing right.** Neil Strauss
• **Put a price on their heads**- When I take down someone’s name, phone number and email address, I also jot down how much money I stand to make from them. You can do this by taking the price of the home or homes that they are looking for and calculating the commission or profit that is possible if they buy from you. This shift in thoughts can help propel you from seeing them as an interruption in a busy day, to seeing them as a trip to Jamaica, a new car, or (fill in the blank). Sometimes when I pick up the phone I say to myself, “This could be Cancun right here”. Keeping the end result in mind helps motivate me to do my best with every customer.

• **Keep them until they buy, die or cry**- I know this sounds a little harsh but once you add a new customer to your buyer or seller list don’t stop mailing, calling, and emailing until they buy from you, die, or cry for you to stop. Almost every person who calls you will eventually buy or sell some form of real estate; if they don’t buy from you it is totally your fault. Take the time to put all customers into some sort of a “keep in touch” system.

• **Be a super model**- If you want to be a successful investor do what other successful investors do. If you want to fail in the real estate business, then do what the failures do. Many times the time commitments involved are exactly the same, but what it comes to is what you decide to do with your time. When I was just doing real estate sales, I was grossing $100,000+ in about 15 hours of work a week. Many other agents in the office were making 1/4 of what I
was; yet they were working up to 50 hrs a week. They had essentially become experts at looking and feeling busy rather than being experts at making money in real estate.

- **Work hard at working smart**- Don’t fall into the trap of being an expert at looking busy. Many investors feel that they need to be busy in order to justify to themselves and others that they are working. Looking busy starts out innocently enough, but can eventually lead to your downfall. New investors often times don’t know what to do, or have enough to do, so they start coming up with things to fool others into thinking that they are very busy. The problem is, these people begin to believe that what they are doing is actually productive, and then instead of fooling others, they begin to fool themselves. Start day one with good habits and the good habits will follow you through the rest of your career.

**Remember:**

“Learn enough to get going, then get going”