THE 7 FINANCING SECRETS

ALL PROFESSIONAL REAL ESTATE INVESTORS SHOULD KNOW & USE

By Rob Bonahoom

Mortgages can be either a powerful wealth-building tool or the demise of an investor. Anyone interested in building wealth through real estate should understand key fundamental principles. Selecting the wrong mortgage product can cost you thousands and drastically change your retirement outlook. Unfortunately, the average person usually tends to focus solely on the lowest rates and fees. This often means they don't find the best lender or a strategic outlook on mortgage planning.

Allow me to share with you the 7 secrets essential to successfully invest in real estate:

1 ***Respect the power of leverage.*** Leverage is what makes real estate an incredible wealth-building tool. The power of leverage allows you to maximize your return on investment. For example, if you put 20% down or $50,000 on a $250,000 property that appreciates at 5% or $12,500 per year, your return on investment is 25%. If you put 5% down or $12,500 on the same piece of property, your return on investment is 100%. Leverage is huge, but it is also debt and needs to be respected. The more debt you have, the larger your monthly payments and greater the chance you have of losing the property to foreclosure. Be responsible when deciding how much you can comfortably leverage.

2 ***Begin with the end in mind.*** Many investors, when considering a new mortgage loan, focus primarily on the property they are purchasing. Often, to get lower rates and fees, they put a lot of money down. They win by getting a cheaper financing package, but they may also hinder their ability to purchase in the future by using all their equity. Like shooting pool, a good pool player is not focused on the ball he is currently shooting. He is looking at each ball (with the end in mind) so he can set himself up for the next shot. Investment requires the same mindset. First, determine how many properties you want to purchase, how much cash or equity you have, and what kind of negative cash flow you can safely carry. You can then clearly make your "next shot."

3 ***Don't get hung up on cash flow.*** Many rookie investors make cash flow the most important factor in the investment equation. While it is important, it shouldn't be the acid test. Poor cash flow is temporary. Rents will always increase. In the beginning, the higher quality of investment property you buy, the worse the cash flow. So why would you buy it? We believe that real estate investing successfully builds your wealth over time. During this time, you will receive tax benefits and appreciation that will far outweigh the negative cash flow. Specifically, the more negative cash flow you are comfortable with initially, the more real estate you can acquire. The faster you buy properties, the faster you start building equity and paying down the debt. Always keep in mind rule No. 1 – "Respect the power of leverage" – but continue to think about the big picture.

4 ***Understand the tax consequences of your mortgage options.*** Some people disregard the tax savings received from mortgages. The truth is, the more interest you pay, the bigger your tax write off becomes. Again, taking this concept to the extreme can be detrimental, but utilizing it appropriately could mean the difference of thousands of dollars in tax write offs. This is why I sometimes recommend putting funds allocated toward debt reduction into an investment vehicle like a whole-life policy instead of giving it directly to the bank. Paying off the mortgage will be the ultimate goal at retirement. In the meantime, if the extra money used to pay down the debt is instead put toward a whole-life policy, you gain liquidity, a death benefit, and can typically accumulate wealth at a faster pace, thus being able to pay off your debt sooner without giving up the tax benefits on the mortgages.

5 ***Love your liquidity.*** As soon as you give the bank your money, whether it's in the form of down payment or principal reduction payments, you can't get it back unless you refinance or sell the property. If you need cash for any reason down the road, this could be a problem. If you don't have enough liquidity, you could potentially lose everything or have to "fire-sale" your property. Another common mistake is using credit lines to put more money down on an investment just to lower payments. This is fine as long as you keep the following facts in mind. Often, the difference in payment between 0% down and 5% down is $200 per month. Logic tends to reason that in order to make the payment look more "attractive" per month, go with the 5% down option. From a liquidity standpoint however, you save $200 per month in "cash flow" but have to finance an extra $12,000 off your home equity line immediately. It will take you 60 months before you have the same investment into the transaction than if you go with the 0% down option. Love your liquidity and reconsider what is really positive cash flow.

6 ***The ultimate goal is to have NO debt.*** We leverage debt to allow us to acquire properties we don't have the cash to buy. The end goal however is to pay off the debt. That is the only way you will ever enjoy all the great positive cash flow from your investments. What you must realize is that this is the end goal and not the goal in the beginning. Your first goal will be to acquire as many properties as you can, as quickly as you can. The sooner you get in the game, the more wealth you will build.

7 ***Work with a qualified mortgage coach.*** It's important that you work with and get advice from a loan consultant who is also personally investing in real estate. Any lender can finance an investment property, but few understand what is truly important for an investor. Many loan officers steer clients toward programs that don't make any long-term sense. Whatever the case, a loan officer's experience and track record are key. Another factor to consider is the difference between a mortgage lender and a mortgage broker. Lenders offer great service and in-house underwriting and funding, but are limited to only the loan programs their company provides. Brokers can get access to any lender programs, but lack control because they can't underwrite or fund their own loans resulting in blown deals or delayed closings. Correspondent lenders have the best of both worlds. They have access to many lender programs and also retain control through in-house funding and underwriting. If you want to build this empire on a solid foundation, save yourself a lot of time and energy and hire a pro.

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