Structuring the Deal

After you have gathered all the necessary information from the seller and developed a rapport with them, you now have to figure out how to make financial sense of this. Before you offer a deal, you better know what you intend to do with it if you get what you offer. Are you going to flip it to another investor? Then you need to make sure the deal makes sense to another investor. It has to be an even better deal than you would keep yourself because if you expect to make a flipping fee, that has to be built into your price. In today's credit crunchy market, I only take wholesale deals that are 60% of the fixed up market price minus the repairs. So if you were going to bring me a deal, there had better be room in the price or you don't make any money.

If it is a deal structured with terms, then the price is not as important as how much cash is required. If you intend to keep the deal, don't structure it so there is a lot of up-front money involved. How are you going to get that money out? You never want to keep deals that you have a lot of money into. If I have to put up a decent amount of cash, then I have no choice except to retail it and cash out or wholesale it to another investor who will do the same.

If you intend to keep it as a rental, then the monthly payment is important. You want the deal to at least break even monthly. You don't need more than a 20% discount from retail if you can get in light. If you are flipping this, the investor will also want those kind of terms. Again, leave room for your fee.

If someone is willing to hand over the deed, take it – always in a trust – and decide afterward what you will do. You don't have to record the deed until you know.

If there is no equity, but it is not terribly upside down, then you can sell it so a homeowner who doesn't have to qualify can put cash down. In this case, figure out what the new buyer thinks would be reasonable for a down payment under those terms and structure your deal with the owner with an amount less than that. Your profit is that difference.

If someone wants you to qualify for a loan, then there is no deal to be made. This is not what we do. If they want retail price and cash at the close, then this is not doable either. Most beginners waste their time on undoable deals. Explain the concept to the seller – the more money you have to give them at the close, the worse the price will be. So, which one is more important, Mr. Seller - the price you get or the cash at the close?

It is most important that you know what the house is really worth - not just what it will appraise for. If you don't do that right, you are guaranteed to lose money. Do the comps and go out to look at them all. Act like an appraiser.

They say you make your money going in and realize it going out.