TALES FROM THE TRENCHES™
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Plan B.

"It's all about the money baby!" Well, maybe not all about, but if you don't have money, you can't do deals. Having the money means you can write the cheque, big or small, or you have a fully approved mortgage.

We've all heard the expression, "you have to have a Plan B." That means if your original plan doesn't work out to get the money, whether it be the cash part of your deal or the mortgage, you need a second option, a second place where you can get the money you need to close the deal. If you can't write the cheque or find a satisfactory mortgage, then you need a Plan B. This becomes especially important where deals are unconditional and deposits are committed or where it's a sweet, under-market deal. Here are three circumstances where our investors now understand why you need a Plan B.

Our first investor found a beat up property where a $20,000 renovation would support a $50,000 after-repaired value. His mortgage broker found a mortgage with a second tier lender (i.e., Home Trust, Xceed, Kingsway Financial, etc). Shortly before closing, his mortgage broker found a first tier lender (i.e., the major banks or credit unions) that would do the deal at an interest rate that was 2.5% lower as long as his wife signed the mortgage too. No problem, his wife was glad to sign; 2.5%, that's substantial!

However, the new, first tier lender wanted to do their own appraisal and needed access to the property. The divorcing sellers who wanted a quick sale wouldn't cooperate with access. Our member had a brainwave. His brother had recently sold his house and had a big pile of cash sitting in the bank doing nothing (because that's what banks pay these days even on big piles of cash). After explaining the situation, his brother was delighted to get a nice bonus for a short-term loan plus double the interest that the bank was paying him. The deal closed for cash, renovations were done, the new, inexpensive first tier mortgage was put in place and a fully renovated, positive cash flow property was added to our member's portfolio.

Our next scenario involves a senior investor who already owned 80 doors. He had never done a joint venture but he had his eyes on a 48-suite apartment that was beyond his own resources. One of his good friends had been observing his success in building his 80-door portfolio and was bugging him to participate. This friend was well-off, with lots of cash available. They agreed on the classic 50/50 joint venture with the friend putting up all the cash and qualifying for the mortgage.

Our member then negotiated the real estate purchase contract and put up $50,000 deposit. The friend qualified for the mortgage and the deal went unconditional. Shortly before closing the friend decided that 50/50 wasn't fair after all because "I'm putting up all the money." He backed out of the deal and our member could not find a new JV partner. Our member lost the deal, his $50,000 deposit and, without a signed JV agreement, little chance or inclination to sue his 'friend.'

Our last scenario occurred where two investors had partnered up to find a fix and flip deal. Their credit was a bit tight, although they could've qualified for a higher interest rate mortgage. Then, at Thanksgiving dinner another family member was exclaiming about the great deal on at his bank. On an introductory basis he could get a line of credit (LOC) for more money than it would take to buy and renovate the fix and flip deal at an interest rate of prime -1%. The only condition was that the line of credit had to be activated immediately for the full amount and the loan had to be for at least three months. No problem, this renovation was estimated to take four months. Our members and the brother-in-law quickly struck a deal where the line of credit funded the complete purchase and renovation costs.

There are endless stories just like this around our world of real estate investment. What is your Plan B?

LESSONS LEARNED:

1. A line of credit (LOC) is a wonderful thing! Establish your own LOC reserved strictly for Plan B issues. Many other people have unused LOCs. Ask around; ask before you need the money.

2. Get your JV money before removing conditions. Have other JV partners waiting in the wings.

3. Establish relationships with more than one first or second tier lender. If your preferred lender declines your deal, you have to be ready with another lender. Don't forget about private money. There are lenders who operate outside normal banking rules. Yes, they charge big interest and bonuses and fees and … But they can move fast, and if it saves your sweet deal, then that is your Plan B. Ask your mortgage broker.

HAVE QUESTIONS? WE HAVE ANSWERS!
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