

## BONUS CHAPTER – A DEEP DIVE INTO CREATIVE FINANCING STRATEGIES

*Now, one thing I tell everyone is learn about real estate. Repeat after me: real estate provides the highest returns, the greatest values and the least risk.*

— ARMSTRONG WILLIAMS

**A**lthough I've talked a little about financing and, to a certain extent, creative financing, I believe creative financing topic deserves more consideration. Investors are placed in many different circumstances, so you might need to look for alternative financing to reach your goals.

You can look at creative financing as an alternative strategy for acquiring funding for your real estate investments, nothing that has to do with mortgages or cash transactions. So, this financing can include seller financing, lease options and rent-to-own, hard-money lending, private money lending, or even home-equity financing.

Let's get to it.

## CREATIVE FINANCING TECHNIQUES

Some of these techniques I've already mentioned briefly, but I'm adding them here so you can explore them a little more.

### *SELLER FINANCING*

Let's start with seller financing. Here, your lender is the seller of the property and usually provides a part of the financing of the property to the buyer.

This type of financing can be a great strategy if you can't get access to traditional financing or a mortgage. Here, the terms are not as strict as you'd have with traditional funding, nor are the repayment schedules, down payments, or interest rates.

However, this doesn't mean it's a good thing, and it all depends on the type of terms that you agree to with the seller. Sure, in some cases, all of these terms might be better than a traditional mortgage, but often, they are not. Now, when this happens, there might be higher risks, but it's up to you to manage those risks, given your current situation. Also, one of the benefits of choosing to go with seller finance is that closing times and closing costs are often reduced because there isn't a third party you have to negotiate with.

However, I must warn you that with seller financing, there's a tendency for disputes over title and property conditions because you are in a closer relationship with the seller and there's no third party to intermediate the negotiations.

### *LEASE OPTIONS AND RENT-TO-OWN AGREEMENTS*

You can also opt for lease options where you are a tenant and a buyer, and you draw up an agreement for the right to purchase the property at a certain price within a certain time—usually between one and three years but could be more or less. Now, for buyers, there are a couple of advantages, such

as testing out the property before acquiring it and understanding if it's indeed a good purchase. You can check out the neighborhood and the property before committing to it. Because you lock in the right to purchase at a certain price, it means that even if you agree to purchase in three years, the price of the property will remain the same, whereas if there were any other circumstances, the price of the property would increase. However, the seller also has benefits, such as the fact that it will have rental income while the buyer is a tenant.

That's why you have to create a rent-to-own agreement that thoroughly outlines any terms, such as rent credits, financial purchases, and any option fees. When all is in writing, you can be sure that you are protected. Creating this document is something that your attorney is tasked with, and you have to revise it.

#### *HELOCS AND CASH-OUT FINANCING*

Home equity lines of credit (HELOCs) and cash-out refinancing are the two main choices for homeowners wishing to access finance for investments. Although both approaches perform similarly, there are several major differences.

HELOCs give a line of credit based on the equity in your house, allowing you to draw cash, as needed, equal to the value of your property and the equity you have accumulated. Cash-out refinancing, on the other hand, involves replacing your existing mortgage with a new one at a greater amount, with the excess amount becoming accessible as cash.

However, it is crucial to understand that using your house as collateral has dangers, including the possibility of losing your primary home. As a result, an in-depth risk-reward analysis is needed. You must verify that your investment profits are sufficient to meet the higher mortgage payments. If you have thoroughly examined the risks and are confident in your

investment strategy, leveraging your home equity might be a smart way to obtain funding.

#### *LEASE PURCHASE AGREEMENTS*

I've previously covered leases in terms of lease choices and rent-to-own approaches, but I'd like to add another lease-related approach known as lease purchase agreements. The distinction between a lease purchase and a lease option is that with a lease purchase, the tenant and buyer are required to purchase the property at the end of the lease term, whereas a lease option merely grants the buyer the right, but not the obligation, to purchase the property. A lease purchase, from the buyer's perspective, provides a concrete route to ownership, but lacks the option to back out of the contract. It provides a guaranteed future sale for sellers while continuing to earn rental revenue until the set purchase date.

Buyers, on the other hand, may profit from more advantageous conditions because they are committed to purchasing the property. As usual, it is best to hire an attorney for a thorough review of the lease-purchase agreement.

#### *OWNER CARRYBACKS*

This strategy is similar to seller financing, but the truth is that owner carryback falls under the seller financing strategies, among many others. For instance, if we mention seller financing, we are not specifically talking about an owner carryback strategy because it can be a seller financing strategy, but it doesn't necessarily specify that the seller carries back a portion of the financing.

#### *NEGOTIATION SKILLS AND CREATIVE FINANCING*

Keep in mind that some of these financing strategies might not benefit all parties. There's a balance you need to find so that the

outcome of the negotiations is beneficial to everyone involved. You have to rely on your persuasion skills, especially when you are trying to implement some creative strategies. After all, you need to highlight the rewards for all parties and convince them that this is a good deal for them, too.

This doesn't mean you have to lie; in fact, you have to ensure that they take something positive from the deal. Otherwise, it's likely that you will never work with them again. You have to remember that burning bridges in this business can be a high price to pay.

The first thing you should be doing is establishing common ground with the other party, but to achieve this, you need to understand their motivations. If you're looking for distressed properties, it's likely that the seller's motivation is to get rid of the property quickly. But this is not always true when talking about private investors because they are likely looking for low-risk, high-reward types of investments.

When you find common ground with the seller or investor, you then have to find a way to build rapport and trust with them. As we've seen, active listening is crucial. Really listening to the other party and looking for meaning and reasons between the lines is important because they will not always tell you how you can build trust with them. Oftentimes, there is an underlying meaning to the words they say. Being transparent about your intentions is yet another way to build trust, which often leads to better cooperation later on.

When trust, rapport, and common ground are found, you can start really negotiating the deal. It's common that you won't find a suitable creative solution from the get-go, and here, you might have to start thinking outside the box. Looking at multiple options and working on your creative problem-solving can help you get to a solution faster. At the same time, honing your negotiation skills will go a long way to sell your ideas to the other party. Once again, looking for win-win outcomes should be your priority from the beginning.

You might come across objections to your ideas, and that's perfectly normal. But you have to be able to anticipate such objections. These strategies are unconventional ideas, after all, so be prepared to be rejected. However, you can always counter, especially if you are anticipating an initial rejection, but here, you should already be ready with another solution or another idea. At this point, you need to address any concerns effectively so as to increase your chances of reaching a positive outcome. This means that there will be risks, but often higher rewards as well. It all depends on your risk tolerance.

Either way, good communication with the other party can really go a long way. This communication should be clear at all times, especially when stating any risks and rewards, and finding a balance between them will likely land you a deal. Ideally, you would be introducing risk-mitigating strategies to make the other party, as well as yourself, more at ease if things don't go as planned.

Then comes the part where you have to close the deal. At this point, your negotiation skills will be your most important weapon. Ensuring that all parties are in agreement and satisfied with the outcome is crucial, as is confirming that all documentation is properly signed and sent. Though you might come across challenges at this stage, yet again, rely on your negotiation skills to overcome any of these challenges. At any point during all of these stages, it is critical to have an attorney with you to help you go through the process.

#### PITFALLS TO AVOID

Creative financing often has considerably higher risks than traditional funding. Because of this, it's important that you know the pitfalls and how to avoid them.

One of the most common pitfalls is a lack of due diligence, and this is true whether you are pursuing a traditional or more creative type of financing. Such creative deals might be hard to

legally comprehend, and the same is true for its regulations. Because of this, unexpected issues might arise. Therefore, it's vital that you consult an expert, such as a lawyer specializing in such types of financing, to guide you and ensure that you are regulatory and legally compliant.

Another pitfall when pursuing creative financing is misjudging the value of properties. It's likely that you'll overpay for a property by underestimating its potential return, and this is a problem. However, with proper due diligence, you can avoid this pitfall.

When you seek a creative financial strategy, it's often because you didn't get approved for traditional finance. So, when going this route, you might be inclined to stretch your financial resources, which is something you should avoid because it might cause financial instability. When creating your financial plan, try to always be on the conservative side and be sure that you have built a proper safety net to cover any unexpected expenses.

Stretching out your finances is often associated with liabilities that you might not be aware of, as well as unforeseeable expenses. By performing every single appropriate check before committing to a creative financial strategy, you will ensure that you invest in a property with less risk.

Unrealistic expectations can also be a pitfall, especially for inexperienced real estate investors who fail to understand how profitable the investment might be. Once again, you have to rely on your due diligence to mitigate any risks. Here, it's important to make sure all the documents are signed and sent because creative financing is often more complicated, making it easier to miss some of the documents, which might lead to misunderstandings and disputes later on. You and your attorney should always double-check every single document to make sure everything is right.

Yet another pitfall might be a lack of contingencies on your purchase agreement, which can really come back to haunt you. Without contingencies, you might not be properly protected, and unexpected issues arise all the time. While traditional finance might be quite easy to understand, creative financing might prove otherwise, and the nature of these deals can be quite unorthodox. Your attorney is someone who can guide you through this and ensure that the deal is well structured. Nonetheless, you still have to do your research here and know everything that is stated in the purchase agreement.

There's more to the complexity of creative financing, especially if we add in external issues. To give you an example of this, there are quite a few scams out there, and while they are usually easy to spot, you have to be aware of them. If you do your due diligence and follow all the necessary steps, you can spot them, but be wary of individuals posing as investors or sellers or fraudulent property listings. The best way to avoid them is to look for their credentials or the company listing the property and make sure it's all legit.

Intricate language and complex clauses are the bread and butter of creative finance deals, making it yet another pitfall you should try to avoid. Here, ignoring the fine print can put you in a lot of trouble. Ask your attorney to explain everything in the purchase agreement until you fully understand it. Additionally, if there's anything your attorney is unsure of, make sure you get back to the seller and ask them to explain. Asking all the questions and seeking clarification until you know everything there is to know is the way to go. Also, keeping all records of transactions regarding the agreement is important in case a dispute arises later on.

Don't just sign everything your attorney puts in front of you, even if you have complete trust in them. After all, they are only human and can also make mistakes. If you point out anything that you might not understand, this will help them spot mistakes or clauses that might be written wrong.

## THE FUTURE OF CREATIVE FINANCING

You can't think of creative financing as a static concept. It changes over the years, especially with the introduction of new regulations and new technologies. All of this makes for a very dynamic field where you have to stay up to date so you know what other forms of financing you might have as an option. Having this knowledge can really help you move forward with your career and find new opportunities.

You may find more opportunities by using current real estate market tools to identify these trends. The real estate business, like many others worldwide, is rapidly adopting technology to boost efficiency and discover new ways to achieve goals. The real estate sector has grown more friendly with the introduction of online platforms, financial technology solutions, and a variety of other technical improvements. By keeping an eye on the industry's technological integration, you'll be more prepared to capitalize on upcoming trends in creative finance.

I've pointed them out before, but crowd-funding and fractional ownership appear to be a growing trend. There is already an abundance of crowd-funding platforms, many of which cater exclusively to the real estate market. Individuals can use these platforms to make minor investments in real estate and gain a fractional ownership share in it. This is a good way to diversify your portfolio with minimum risk, and it also acts as a way to get into the sector for people who lack the funds to finance their first home.

Peer-to-peer lending, sometimes known as P2P lending, is another emerging technology. It makes lending and borrowing money easier without relying on traditional financial techniques. Such platforms bring together buyers, sellers, investors, and borrowers to find creative finance solutions that benefit all parties involved.

## *EVOLVING MARKET CONDITIONS*

You have to account for evolving market conditions, as these factors can change quickly. This is especially true if we add in new regulations being proposed and accepted, as we've seen with creative financing. Another factor that changes all the time is the interest rate, which, when it comes to creative financing, can shift the whole thing. This means that depending on the creative financing, some might become more attractive, and others might become less attractive for you. Following these changes can help you make better decisions.

Another aspect that you need to factor in is market cycles, which we discussed earlier. As you know, these cycles keep changing, so some of the strategies you use might become less effective. Economic uncertainty is one of the factors that affects everything. This may be because of inflation going up, the unemployment rate increasing, or many other issues. So, when you're thinking about creative financing strategies to pursue, understanding the underlying factors behind economic uncertainty might help you make better decisions.

With all of this, how can you prepare for the future when it comes to creative financing solutions? Well, continuous learning by staying informed about any trends that are coming up or the different financial options is a great start. Signing up for workshops, seminars, or any other gathering of professionals is a great way to gain knowledge. But don't just absorb; you have to diversify the knowledge you get. This is because, as your career grows, you might have the urge to branch out to different niches and deepen your knowledge in different areas.

Networking is just as important to acquire different knowledge as it is to build relationships. I've been mentioning networking throughout the book for the simple fact that it is one of the most important things you will have to do. Establishing long-term relationships with other professionals in and outside of real estate can really open up your options when it comes to

finding new opportunities. But don't forget to manage your risk, regardless of how good these new opportunities might seem, and be adaptable to whatever circumstance might come your way. This is the thing with the real estate industry: changes happen all the time, and they happen fast, so you might have to switch gears quickly if you want to survive in the industry.

There's no doubt the future of creative financing is promising, but always be alert to changes and be flexible with how things change. Staying informed, building long-term relationships, and being flexible are the only ways you can continue to grow in this industry.

#### THE POWER OF CREATIVE FINANCING

Creative financing is a powerhouse, but only when you mitigate your risks and do your diligence properly. Also, timing these strategies can have a massive impact on whether you are successful or not. Keep in mind that there's often more risk when pursuing these strategies, as well as more rewards.

There's more inclusivity and accessibility in creative financing; it allows you to go for opportunities that you might have never wondered about before, especially if traditional financing is out of the question. This type of financing doesn't rely on credit scores or having enough money for down payments. As we've seen, many of these creative strategies, such as private money lending, seller financing, or lease options, are ways you can overcome this lack of accessibility to traditional financing.

These financing strategies are far more flexible when compared to traditional financing, which might help you, but only if you get the right terms. The structure of these deals is far less constrictive, and you can come up with anything as long as you and the other party agree on it. This could be anything from payment schedules to down payments, interest rates, and many other things.

There will be times when traditional financing might be an option, and yet, it might make more sense for you to pursue a creative financing deal. However, I do not recommend pursuing creative financing at the start of your real estate investor career. It's better to go for creative financing deals if you are already established in the business and know how everything works.

There's also the benefit of faster transaction speeds because there's no bank or mortgage lender that you have to go through. Also, many of these strategies are two-party deals, so things work faster. As you know, traditional financing usually has lengthy approval processes, tons of paperwork, and due diligence from the bank's side.

Furthermore, there will be times when you come across an opportunity that banks will frown upon, even if it's a great opportunity for you. But just because the deal might be molded in a different way to satisfy all parties, banks might refuse it. This is where creative financing comes in. This financing could apply to unconventional commercial properties, such as specialized properties, niche markets, or anything else that doesn't follow the traditional way. This is because, more often than not, there will be more risk involved for traditional lenders, and they prefer less risky deals.

Creative financing also allows you to bring in other investor partners that might help you mitigate the risk of this financing. In other words, traditional financing has to follow strict rules, and creative financing is more open to different strategies and unconventional deals.

Whatever creative financing strategy you choose, you almost always end up with more control over the investment than you would if you were to choose traditional financing. This is mostly because of the flexibility inherent in these creative options and the ability to customize the terms, which you can change as the market changes. Looking at owner financing or lease options, you can generate passive income and cash flow

right away from your investments, which is something you can't do with traditional financing.

I like to think about creative financing as a way to accelerate your wealth building, which will eventually provide you with a shortcut to financial freedom. This is mostly due to the fact that you can leverage real estate assets and increase your returns much faster than you would with traditional financing. While there's more risk involved, the rewards are often higher, and if you apply all the strategies to mitigate risks, your chances of success increase exponentially.

#### KEY TAKEAWAYS

- Lease options and rent-to-own are two creative financing strategies where you lease the property with the option to buy it at a later date at a certain price.
- Seller financing happens when the seller is the one providing financing to you (the buyer). The terms can be quite more flexible than through traditional financing.
- Cash-out financing and HELOCs are creative financing strategies where you use leverage through your home equity to raise funds.
- Negotiating skills and proper due diligence are more important than ever with creative financing deals.
- Creative financing can be a great way to accelerate wealth building, mainly because you will be leveraging some of your assets. Doing so makes the risk higher, but also increases your wealth substantially.
- You can make just about any deal work with the right terms, numbers, and strategy!