



Five Things To Consider When Using Your Own Money

I've read over and over not to use your own money in real estate deals. I don't understand this advice. Here is my take on that advice. Deciding whether to put your own money into real estate deals depends on a five things.

1. Do you have money to put into the real estate deals?
2. How much money do you have to put in?
3. Where is your money currently invested?
4. What rate of return do you get on your money?
5. How much liquid cash do you need?

If you earn a higher rate putting your money in investments other than your own deals, then I do not see much reason to put your own money in the deals. Especially if the investment is earning more in a lower taxed investment. However, if you earn a lower rate by putting your money in other investments then you might want to put your own money into your deals.

Here is another way to look at this. Let's say you have more money than you need and you are looking for places to invest. Let's say that you own a \$100,000 rental property. You can either invest your \$100,000 somewhere else or take out a mortgage, or you can invest your \$100,000 in the property and not take a mortgage. Let's say in this case the APR on your loan is 8% and it is an interest only loan. In this case, deciding whether to use your own cash depends on what your money will earn in other investments.

If you typically earn 10% in other investments, you may be better to get a mortgage and invest your funds. However, if you invest your money in CD's that return 6% interest; you should not get a mortgage on the property.

Typically, however, it is not this easy to decide. Specifically, it is difficult to know what you will earn in other investments. If you found an investment that guaranteed a 10% return with absolutely no risk, the banks probably wouldn't lend you the money at 8%, but rather they would lend their money at 10% to the investment vehicle that you have found.

A third option, and I'll talk about it later is to leave your \$100,000 in your stocks and mutual funds and open an equity line for 75% of the value of your stocks with your local branch.

The more common reason to get a mortgage is that you do not have more money than you need. In order to buy the property that you want, you are required to get a mortgage. If this is the case, there are dozens of options. If you are in the business of buying and selling properties, you may want to read about our method for financing.

Some people will tell you that you should never use your own money. Others will tell you that you should never use banks. Others tell you that you should use private lenders and never partner 50/50 with a financial backer. I typically disagree with people who tell you never to do these things. There are situations in my opinion where each of these things makes the most sense.

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