How To Use My Strategy For Bank Loan

Here is how the loan works. I buy the property with cash. The bank (typically a small local bank) will then give me a personal line of credit with the property as collateral. It is important to use this terminology because it seems to be common among small banks. The banks that I work with give either 75% or 80% of the appraised value. Because I buy them at a great discount, the 80% of appraised value is usually enough to pay me back and pay for most of the repairs. They charge me for an appraisal, a title search, and recording fees. The closing costs are typically $400-$500. The loans are either 6 month or 12 month notes with one extension option. This is usually more than enough time to buy and sell the property.

If I rent or sell the property on a land contract that requires additional time, I either opt for the extension or refinance. There is no prepayment penalty, and usually I don't have to make any monthly payments. Instead, I pay off the loan plus interest after 6 months. Because of my business plan and professionalism, my interest rate is usually prime minus .75. However, only one bank has offered me this rate. The other banks have offered prime. Thus I do the majority of my loans with the first bank.

I do just enough loans with the other banks to maintain a healthy relationship. I.E. I actually pay a higher rate with the other two banks even though I could do them all with the one bank for a lower rate. I don't know if this is the right strategy, but I recognize that the rules could change with my favorite bank at any time, and I would rather have established relationships with multiple banks than save the extra couple of hundred dollars per year.

This strategy of asking for a personal line of credit with larger banks, or with mortgage brokers has not worked for me. Typically they have been unwilling to lend money to me in my L.L.C.'s name and they have been unable to lend on the appraised value until I have owned the property for more than 6 months.

Note that this strategy only works if you have the cash to pay for the property up front. The good news is that if you find the right lender, and the right property, you will receive most of the money back fairly quickly.

I like to do this method because I do not have to pay the typical closing costs of a mortgage. It saves an upfront cost of about $1,000 to $2,000 per property. Additionally, if I get the loan for 7.5% and pay closing costs that represent .5% of the loan; I essentially have an APR of 8.5% if sold after 6 months. This rate is less than I have gotten from most private investors, it is much better than the typical 12% APR that is calculated if I have normal closing costs on a 6 month loan, and it is easier than doing either of the above.

While this is the method I use, I know that it will change in the future. Rates will change, and programs will change. At that time, I will have to reassess. If rates go too high, I will look for private investors who have money in CD's or in other investments that they are not happy with. Who knows, maybe another product will come along that is even better.

The only way to know what works best in your area is to exhaust all possibilities. Talk to all the banks. Talk to other investors, and talk to private lenders. Once you have exhausted all your resources, you can make the most intelligent decision.

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