

# Commercial Earnest Money Deposit Option Funding Program

Hello,

My name is Tod Snodgrass, with Creative Transaction Funding (CTF).

We offer Commercial Earnest Money Deposit (CEMD) funding on a nationwide basis to experienced Commercial Property Wholesalers (CPWs). Are you working on any deals in need of CMED? We are happy to pay for referrals!

Do you (or one of your clients) have a potential, high quality, commercial double close deal that is ready to go, however you lack the cash needed for the CEMD?

We may be able to help. For deals that meet our standard criteria, we can fund the CEMD via a Joint Venture (JV)--a form of equity.

## I. Overview

A. We can fund 100% of the CEMD--assuming it is facilitated via a separate **Termination Option (TO)**.

1. TOs are also known as cancellation or rescission clauses.
2. CEMDs are normally for 1% of the purchase price.
3. TO clauses are a legal provision in a real estate contract that allows either party to end the agreement before it is scheduled to be completed.
4. To receive a TO, the CPW pays a fee (out of their own pocket) to the seller during the TO period. The buyer can then terminate the contract for any reason and get their CEMD returned during the option period.
5. The option period is a negotiated time frame that gives the buyer time to:
  - a. Conduct due diligence on the property
  - b. Get inspections completed
  - c. Negotiate for repairs
  - d. Confirm that the CPW has all the money they will eventually need to buy the property.
6. The length of the option period and the option fee are negotiable between the buyer and the seller. For example, in Texas, a typical option period for a residential property is around 10 days, and 30 days for a commercial property. Typical option fee is about \$10.00 to \$30.00 per day. However, the exact amount charged for the TO can vary due to different variables.
7. We specialize in financing CEMDs from \$25,000 to \$250,000, though we are open to higher amounts if the deal is right.

B. We do not charge any upfront or origination fees.

C. CEMD Fees = 50% markup, based on the CEMD amount provided; this fee structure is pretty much the norm for firms that offer CEMD funding of this variety. Example: \$100,000 CEMD + \$50,000 markup = \$150,000 total payback to CTF.

## **II. Case Study: Commercial Earnest Money Deposit Option Funding Program**

A wholesaler (CPW) was seeking to flip a commercial property via a double close. He was buying the property for \$10,000,000 and selling it to another party for \$11,000,000.

The CPW (“B”) had the seller (“A”) under contract that included a 30-day option period. The CPW had the buyer (“C”) under contract and had already lined up the \$10,000,000 purchase money he needed from a Transactional Funding Money Source (TFMS). To review: With a double close, there are two separate escrows: A to B and B to C.

The CPW was required to come up with two different funding amounts to kick start the process: Option money and the CEMD funding. The Option fee (for 30 days) was \$20 per day = \$600, paid out-of-pocket by the wholesaler (CPW).

The CEMD was 0.01% (one percent) x \$10,000,000 = \$100,000. Since all the CPW’s cash was tied up in other deals, they came to our firm (CTF) for the CEMD. Once CTF confirmed that the wholesaler’s deal met our standard criteria, we agreed to fund the \$100,000 CEMD funding amount.

Two escrows were opened, A to B: seller to CPW for \$10,000,000 and B to C: CPW to buyer for \$11,000,000. Next, the CPW wrote a check to the seller for \$600 to cover the option. CTF then wired \$100,000 into escrow for the CEMD funding.

After a few days, the option was exercised, and the deal went forward. The buyer was instructed to wire \$11,000,000 into the BC (second) escrow. Once the Escrow officer confirmed that the BC funds (\$11,000,000) had been received, then the Escrow officer wired \$100,000 to CTF since the CEMD funding was no longer needed in the deal. CEMD funds are always fully refundable because, by mutual agreement of all parties, they can never be allowed to become part of the purchase price (go hard).

Next the TFMS wired \$10,000,000 into the AB (first) escrow. The AB escrow closed, and the deed was recorded; then the BC escrow closed, and documents were recorded. Last, the Escrow officer distributed funds and documents to the different parties as follows: the buyer received a recorded deed to the property; the seller received \$10,000,000; CTF received \$50,000 as their 50% markup for the \$100,000 they had previously provided; the CPW received \$950,000 (\$10,000,000-\$50,000), less closing costs for both transactions, etc.

## **III. Explanation, Details**

A. CEMD is NOT a loan.

B. The CEMD functions as a Joint Venture (equity) Partnership (JVP), starting when CTF provides funds for CEMD.

C. We form a Joint Venture Agreement (JVA) with the CPW’s business entity (LLC or Corp.) and CTF’s LLC.

D. Once the option period and eventual escrow both have closed, the JVA between the CPW and CTF is dissolved. CTF is no longer involved with the transaction.

E. If you believe you have a deal that meets our standard criteria, please send an email to [creativetransactionfunding@gmail.com](mailto:creativetransactionfunding@gmail.com) and request a Deal Work Up Form.

Looking forward to hearing from you soon.

Sincerely,

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