Three Short-Term Equity Financing Programs

Available capital is the lifeblood of the real estate industry in general, and for Real Estate Investor Professionals (REI Pros) in particular. Finding the right funding at the right time is often the difference between making a deal happen and a deal not coming to fruition—or perhaps preventing a foreclosure action which might cause you to lose the property. What follows are three examples of the type of Short-Term Equity Financing (STEF) offered by Creative Transaction Funding (CTF). Our funding is available for six months or less and is used to “grease the financial skids” to make more deals happen successfully, and/or prevent financial losses from occurring in the first place.

No 1: Down Payment Assistance

A. Current Situation, A REI Pro:

1. Is seeking to acquire a rental property with 30% or more net equity in it, say via ARV.

a. Has already lined up a first position financing.

b. There are no (other) encumbrances (liens, loans, etc.) against the property.

2. Needs funds for the down payment.

B. Explanation, Details

1. For new investment property acquisitions: CTF normally funds deals where the property purchase includes a minimum 10% equity position when it is first acquired: the REI Pro was able to buy the property for 90% of the current appraised Fair Market Value (FMV), or better, say from a DMF (Distressed, Motivated & Flexible) seller.

2. The REI Pro has already come up with an exit strategy to pay off the second position note, i.e. fix then flip, or refi, the rental property.

C. Fix-Flip Funding Scenario

A. For the sake of discussion, assume a REI Pro needs $100,000 for the down payment. The amount of time that the REI Pro needs to use CTF's funds is estimated to be a matter of weeks or months, but in any case, not to exceed six months, total time.

B. The second position note is due and payable in six months or less and includes a 14% annual simple interest rate with no prepayment penalty. Math Example:

1. Amount of funding required	$100,000
2. 100% markup equals	$100,000
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3. Face Value, 2nd position/6 month note provided to CTF at closing:	$200,000

No 2: 97% Financing

Situation: A REI Pro had a property under contract, with a lot of potential equity, however his hard money/private lender recently went out of business.

Problem: The REI Pro needed first position funding, and soon

Solution: CTF) provided the needed funding, on a joint venture (JV) basis with the REI Pro. CTF provided 97% of the purchase price, in the form of an equity/JV deal, in trade for a share of the profits. The REI Pro covered the other 3% pf the purchase price as well as closing costs and a modest interest reserve fund. The fixup costs, paid for by the REI Pro, were very low since this was what is known in the industry as a "lipstick rehab"—essentially paint and minor repairs. At closing, CTF monetized its equity in the deal by accepting a six-month, first position note from the REI Pro.

No 3: Gap Funding

A. Current Situation, A REI Pro:

1. Owns a NOO property with 30% equity already in it, or they are seeking to acquire a rental property and their plan is to add 30% or more new net equity, via ARV, raising rents, etc.

a. Has a first position loan now for a property they currently own or has a first position loan already lined up for an acquisition.

b. There are no (other) encumbrances (liens, loans, etc.) against the property.

2. Needs gap funding.

B. Explanation, Details

1. For new investment property acquisitions, i.e. investors who already own a rental property, CTF normally funds deals where the property currently includes a 10% equity position, confirmed by a current appraisal showing the Fair Market Value (FMV). Further, an additional 30% (or more) in new equity will soon be added via the rehab work about to be undertaken, and the higher rents that should result, thereby increasing the CAP rate.

2. The REI Pro has already come up with an exit strategy to pay off the second position note, i.e. fix then flip, or refi, the rental property.

C. Fix-Flip Funding Scenario

A. For the sake of discussion, assume a REI Pro needs $200,000 gap funding. The amount of time that the REI Pro needs to use CTF's funds is estimated to be a matter of weeks or months, but in any case, not to exceed six months, total time. Based on the 10% upfront equity, coupled with 30% (new) ARV equity, the result is that the REI Pro has built in a good amount of profit (equity) into the deal.

B. CTF's markup = 40% of the profit in the deal, the REI Pro keeps the other 60% of the profit.

B. The second position note is due and payable in six months or less and includes a 14% annual simple interest rate with no prepayment penalty. Math Example:

1. Amount of gap funding required		$200,000
2. Profit in the deal:	$500,000	
3. 60% profit x $500,000 to the REI Pro	-$300,000	
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4. 40% profit to CTF		$200,000
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3. Face Value, 2nd position/6 month note provided to CTF at closing:		$400,000

For more detailed information about all five of our Short-Term Equity Financing (STEF) programs, please email your contact information:

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Sincerely,

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2% Referral Fee: We are happy to pay a perpetual referral fee to those who refer business leads to us. Once the closing (with the closing agent) is complete, you are paid 2% of the amount that we funded. If we fund $500,000, you earn $10,000.

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