Fully Financed Fix-Flips

Hello,

My name is Tod Snodgrass, with Creative Transaction Funding (CTF). Welcome to CTF's Fully Financed Fix-Flips (4F) Program.

I. Are you an experienced Real Estate Investor Professional (REI Pro)?

II. Do you have a potential Fix-Flip or Fix-Hold buying opportunity…

A. that is equity rich, i.e. the purchase price is 50% of the ARV, and the total of all costs is no more than 70% of the ARV?

B. you are buying for less than the current Fair Market Value (FMV), from say a distressed seller?

C. is pretty much a cosmetic fix-up, i.e. a lipstick rehab or "wholetailing" opportunity?

D. there is the opportunity for good profit margins on the deal?

E. however, you lack the cash needed to pull it off, including one or more of the following :

1. purchase price, and/or other expenses, such as

a. rehab materials costs, normally up to 10% of the purchase price, including:

b. the rehabber's labor costs (his own and his subs, as needed).

c. other ongoing costs including insurance, utilities, taxes, etc.

2. interest payments that must be paid while the rehab is under way (debt service)

3. closing costs

4. reserve fund

5. miscellaneous expenses such as document preparation, etc.

III. CTF limits its funding to NOO (Non-Owner-Occupied) properties. We do not fund deals that include or involve OO (Owner-Occupied) properties.

IV. CTF's 4F Program is like hard money, but with one important distinction: CTF does not offer loans. Instead, CTF offers Joint Ventures (JVs), a form of equity.

A. REI Pro brings a deal that meets CTF's normal funding criteria (purchase price is about 50% of the eventual ARV), and CTF brings the funds to make it happen. Profits are split, after all expenses have been deducted 50/50 between the REI Pro and CTF.

B. Supposing a REI Pro has a good deal available, but it does not meet CTF's normal criteria? Usually, CTR requires that the ratio between the purchase price and the ARV equals 50%, and the total all-in costs cannot exceed 70% of the ARV. Potential alternatives, to make up the difference, include:

1. The seller is willing to carry owner financing, for the difference, until the rehab is complete.

2. REI Pro:

a. Brings sufficient money to make up the shortfall, out of their own pocket.

b. Can cross-collateralize off another property they own free and clear.

c. Is willing to take less than a 50/50 profit split.

d. Recruits an equity or debt partner, until the rehab is complete.

V. CTF's "sweet spot"

A. ARVs between $100,000 and $1,000,000. We are open to smaller and larger amounts, for deals that are really, really right.

B. The amounts we fund generally range from $50,000 to $500,000. Again, we are open to smaller and larger amounts, for deals that are really, really right.

C. Term: Six Months or less

D. Security: Two each, six-month notes (one each, first and second position) with no prepayment penalty, 9.9% simple interest

E. It usually works best if the REI Pro is dealing direct with the seller, as opposed to working through a wholesaler. This avoids daisy chains and should allow the REI Pro to be able to access the interior of the property for inspection purposes. If a wholesaler IS involved, the REI Pro needs to ensure that the seller will allow an inspection of the interior of the property via contact with the seller, as well as all outside areas, etc.

VI. Features & Benefits

A. CTF normally limits its funding to REI Pros, i.e. rehabbers who

1. Have experience with the standard

a. 70% ARV Rule for fix-flip deals

b. 70% LTV ratio for the notes themselves.

2. Specifically, we need deals that include a generous amount of equity at the outset, i.e. where the purchase price is approximately 20% less than the current FMV, confirmed by a recent appraisal.

3. The total cost (purchase price + all expenses) should not exceed 70% of the ARV.

4. Cosmetic ("lipstick") rehab costs should not exceed 10% of the purchase price.

B. Once the escrow has closed, the REI Pro owns the property, the JV agreement ends, and CTF leaves with two promissory notes (first and second position).

VII. Explanation, Details

A. CTF does not charge any upfront or origination fees.

B. CTF's funding is available nationwide.

C. CTF is happy to pay a 2% referral fee with full account protection on the purchase price of the property.

D. Deal-related expenses are subsequently deducted from the gross profit before the 50/50 profit split between the REI Pro and CTF. Deal-related expenses include title and related closing (escrow) expenses (including preparation of two promissory notes), recording all docs, initial document preparation by a Professional Document Preparer or PDP, the result being a full and complete package that meets all the requirements of CTF's underwriters and investors, prior to funding.

E. The cosmetic rehab upgrades to the property, i.e. the anticipated Scope of Work (SOW), needs to be limited to cosmetic fixups: no building permits required, no added square footage, no serious structural flaws etc. The SOW should include the rehabber's labor costs (his own and his subs, as needed).

The result is what most in the industry refer to as a "lipstick rehab": cleaning, painting, minor repairs, etc. Normally, the budget for most cosmetic rehabs we fund comes in at about 10% of the purchase price. In other words, the entire rehab is estimated to be completed, the property listed and sold (or refinanced), in six months maximum--sooner if possible.

F. Fund Administration. CTF requires that an experienced Fund Administrator (FA) oversee any funds (provided by CTF) to be distributed as draws, as different phases of the job are successfully completed, for the rehab work. The vast majority of experienced real estate investors usually have previous experience with FAs (specialized third-party service providers). The REI Pro is responsible for identifying which FA they wish to use. FAs are normally retained to oversee the following key functions:

1. Process funding disbursements; managing the release of funds to the rehabber in stages, known as "draws," based on the progress of renovation work; ensuring compliance; reviewing documentation, coordinating with all parties; keeping accurate financial records, etc.

2. Processing monthly interest payment disbursements to the appropriate note holders.

G. The REI Pro is responsible for any Earnest Money Deposit (EMD) funds that are needed. The EMD is to be refunded to the REI Pro, once all contingencies have been met, at close of escrow. The EMD is not to be used as part of the purchase price, i.e. it cannot be allowed to "go hard".

H. To reiterate, the 4F program functions as a Joint Venture Agreement (JVA) between CTF's LLC or designated trust account at CTF's sole discretion, and the REI Pro's business entity (LLC or Corp.). Closing Instructions, etc. are also provided by CTF that support the JVA as well.

I. Once escrow has closed on the property purchase, the JVA between the REI Pro and CTF is dissolved.

J. CTF's exit strategy at closing: CTF leaves with two separate, six-month, 9.9% simple (annual) interest, business-to-business, non-recourse, commercial promissory notes (one each first position and second position), with no prepayment penalty, interest is payable monthly. Simply put, CTF monetizes the (JV) equity into two commercial notes (debt).

K. The REI Pro must have an exit strategy already worked out: Once rehab work is complete, they can either refinance the current notes (fix and hold) or sell the property to a new owner (fix and flip).

L. At the initial close, an accounting is prepared detailing the anticipated:

1. Gross profit

2. All the expenses involved, which may include, but are not limited to:

a. Deal related expenses: closing costs (escrow and title fees), document preparation, etc.

b. Rehab costs

c. Interest only payments: 9.9% annual simple interest rate = 4.95% for 6 months for both the first and second position notes. CTF is willing to cover these costs as well, again assuming the deal meets our standard criteria.

d. Miscellaneous costs. See the Deal Work Up Form generic example below for more details.

e. An 8% discount off the face value of the two notes that CTF takes back. These modest discounts off face value are necessary for CTF to be able to sell the notes quickly in the secondary note marketplace, then subsequently recycle our investment capital to be able fund your next deal, for example.

3. Net profit is determined by deducting all expenses from the gross profit.

4.The net profit/equity that both parties agree to before closing, is split 50/50 between the REI Pro and CTF at closing.

M. Once the initial escrow closes:

1. CTF is not involved in, nor do we intend to interfere with, the rehab portion of the project; all of that is accomplished by the REI Pro after escrow closes.

2. Once CTF departs with two commercial notes (first and second position), that effectively ends CTF's direct involvement with the property and the JV Agreement.

N. It is strongly suggested that the REI Pro already have THEIR exit strategy worked out in advance, so that once the cosmetic rehab work on the property is completed, one of two outcomes can reasonably be expected:

1. A pre-qualified buyer (that the REI Pro previously secured and vetted) is ready to open escrow and buy the property, forthwith.

2. The REI Pro plans on keeping the property as a fix-and-hold investment, and has already lined up permanent, long-term (refi) funding to pay off both promissory notes.

O. REI Pro's responsibilities include: Provide a brief, monthly rehab progress report, to the holders of the promissory notes and the FA, summarizing the work completed to date towards completion of the cosmetic fixup.

P. CTF will supply the text for the JVA, closing instructions and promissory note, and other documents as required, etc. It is the job of a Professional Document Preparer (that CTF retains, and the Joint Venture pays for), to then oversee all the final documents that will eventually go to the closing agent.

Q. CTF normally assigns (sells) the notes we receive at closing, at a discount to the face value of note that secures the funding CTF provided to make the deal happen. As a result, CTF reserves the right, at any time and without restriction (for any notes they take possession of), to pre-sell, assign (sell), hypothecate (borrow against) or pledge the deed and note from this transaction to any other party of its choosing, and the note will be assigned without recourse.

R. There must be a minimum of $25,000 profit in any deal: $12,500/REI Pro, $12,500/CTF.

S. Funding and operational details

1. CTF normally runs the (wire transfer) funding for all deals through our LLC, however the final decision about whether we opt to fund via CTF's LLC or from CTF's funding arm, The Edith Capps Trust (TECT), is at CTF's sole discretion. CTF (again, at its sole discretion) may assign all responsibility for any funding project to TECT.

2. CTF/TECT wire transfers the funds needed by the REI Pro into escrow, when we are instructed to do so by the closing agent.

T. The REI Pro must have previously and successfully completed three or more real estate deals like the deal being contemplated now. For those who have NOT successfully finished three deals on their own, CTF strongly suggests that they partner up with a mentor, such as General Contractor (GC), who HAS the prerequisite experience…three or more completed deals). They can, for example, form a joint venture partnership where both parties benefit from the involvement of the other.

VIII. <u>Deal Work-Up Form</u>, generic example

A. What follows are details for a <u>generic</u> JV deal with a $500,000 ARV. It includes all the cost breakdowns, predicted profit, etc. that ultimately resulted in

1. After Repair Value (ARV): $500,000
(confirmed by a recent appraisal & this was
the eventual selling price after rehab for this fix-flip)

2. Fair Market Value (FMV) of the property to be
acquired (confirmed by the same recent appraisal): $300,000
(P<u>ercentage of ARV = 60.0%)</u>

3. Purchase Price: $250,000
(P<u>ercentage of ARV = 50.0%)</u>

4. Other expenses

a. Rehab costs, 10% of the purchase price $ 25,000
<u>(Percentage of ARV = 5.0%)</u>

b. Paperwork preparation, closing
costs, attorney's fees, etc. $ 5,000

(Percentage of ARV = 1.0%)

c. Fund Administrator fees (Percentage of ARV = 0.8%)	\$ 4,000		
d. utilities, taxes, insurance, misc., etc., for six months (Percentage of ARV = 1.335%)	\$ 6,675		
Subtotal, #4 a.-d. (\$25,000 + \$5,000 + \$4,000 + \$6,675) (Percentage of ARV = 8.135%)		\$ 40,675	
e. REI Pro interest to be paid over six months, first position note, 4.95% x \$350,000 (Percentage of ARV = 3.465%)	\$ 17,325		
f. REI Pro interest to be paid over six months, second position note, 4.95% x \$75,000 (Percentage of ARV = 0.742%)	\$ 3,710		
g. Note discount, 8% x \$350,000, CTF must pay to quickly sell the first position note (Percentage of ARV = 5.6%)	\$ 28,000		
h. Note discount, 8% x \$75,000, CTF must pay to quickly sell the second position note (Percentage of ARV = 1.2%)	\$ 6,000		
i. Reserve fund (Percentage of ARV = 0.858%)	\$ 4,290		
Subtotal, #4 e.-i: (\$17,325 + \$3,710 + \$28,000 + \$6,000 + \$4,290) (Percentage of ARV = 11.865%)		\$ 59,325	
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5. Total other costs paid by CTF, #1-#4 above (Percentage of ARV = 20.0%)			\$100,000
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6. Total, Purchase Price & Costs (\$250,000/PP + \$100,000/costs) (Percentage of ARV = 70.0%)			\$350,000
7. Grand total (\$250,000 + \$46,675 + \$59,325 + \$100,000)			
Dollars			\$500,000

Percentages: 100%

8. Gross profit
($500,000/ARV-$350,000) $150,000
<u>(Percentage of ARV = 30.0%)</u>

9. $150,000 gross profit breakdown

a. REI Pro = profit/equity in the property $ 75,000
(50% x $150,000)
<u>(Percentage of ARV = 15.0%)</u>

b. CTF profit = $ 75,000
(50% x $150,000)
<u>(Percentage of ARV = 15.0%)</u>

B. Here are the potential results based on the details above, at closing (of the initial escrow when the property is first acquired)

1. The seller receives $250,000
<u>Percentage of ARV = 50%</u>

2. The REI Pro is rewarded with:

a. ownership of the property

b. no out-of-pocket costs

c. $75,000 profit/equity
<u>Percentage of ARV = 15%</u>

d. A salary for himself and his subs, accounted for in the previously approved Scope of Work.

e. Even more potential equity via appreciation during the six-month rehab time frame.

3. CTF leaves with two notes, totaling $425,000
<u>Percentage of ARV = 85%</u>

a. First position note for $350,000
<u>Percentage of ARV = 70%</u>

a. Second position note for $75,000
<u>Percentage of ARV = 15%</u>

1. Return total investment capital: $350,000 ($250,000 + $100,000)
<u>Percentage of ARV = 70%</u>

2. CTF's 50% share of the $150,000 profit = $75,000
<u>Percentage of ARV = 15%</u>

IX. Creative Transaction Funding (CTF) offers:

A. Fully Financed Fix-Flips: This program is for investors who have a potential opportunity that is equity rich: you are buying for less than FMV, and you can also add a good amount of value via a "lipstick rehab" ARV. However, they lack the cash needed to pull it off. If their deal meets our standard criteria, we cover 100% of the following expenses: purchase price, rehab expenses, including the rehabber's labor costs--his own and his subs, as needed; ongoing costs during the rehab: insurance, utilities, taxes, interest payments; as well as closing costs, document preparation; reserve fund if needed, etc.

B. Bail Out Funding. You are experiencing a temporary financial problem, or perhaps you need quick cash to close on a very lucrative deal. If their deal meets our standard criteria, we can provide up to $500,000 and cover 100% of the following expenses: insurance, utilities, taxes, interest payments; as well as closing costs, document preparation; reserve fund if needed, etc.

C. We are happy to pay a 2% Referral Fee with full account protection

D. Free info pack. If you would like CTF to send you free, detailed information, instructions, etc. about our funding programs, Referral Program, etc. please send us an email and include your

1. Full name
2. Phone number
3. Email address

to creativetransactionfunding@gmail.com

Sincerely,

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