Five Short-Term Equity Financing Case Studies

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 five Short-Term Equity Financing (STEF) Case Studies about how such funding—for six months or less—can be used to "grease the financial skids" to make more deals happen successfully, and/or prevent financial losses from occurring in the first place.

CASE STUDY No 1: **97% Financing**

<u>Situation:</u> 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

<u>Solution:</u> Our firm, Creative Transaction Funding LLC (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.

CASE STUDY No 2: **Down Payment Assistance**

<u>Situation:</u> A REI Pro had secured a first position loan from a hard money lender for 80% of the purchase price and 100% of the rehab costs. The REI Pro brought 5% of the purchase price to the closing) to cover closing costs and a modest interest payment reserve.

Problem: The REI Pro only had 10% of the 20% down payment money required to close the deal.

<u>Solution:</u> CTF provided the missing 10% down payment funding, for this equity-rich deal, on a joint venture basis with the REI Pro, for a share of the profits. At closing CTF monetized the equity in the deal by accepting a six-month, second position note from the REI Pro.

CASE STUDY No 3: **Short Term Gap Financing Program**

<u>Situation:</u> A landlord owned two rental properties. The first property was owned free-and-clear, with an outstanding mortgage on the second property. During the COVID crisis several tenants stopped paying their rent. The landlord applied for COVID-related federal government assistance. However, he was still required to make his regular monthly payments (mortgage, taxes, insurance). In desperation, the landlord took out a short-term, first position loan to temporarily make up for the shortfall in rental income. He fully expected to either eventually collect the overdue rents from the non-paying tenants and/or to receive the promised federal government assistance.

Problem: The tenants who owed the back rent moved out without paying the arrears they owed, and trashed the units as they were exiting. To add to his woes, the federal government assistance never came through due to paperwork issues. As a result, the landlord was not able to keep up with the monthly payments on the short-term loan he took out during the pandemic. He was recently served with a NOD (Notice of Default) by the lender. The NOD in turn caused the landlord's FICO score to take a big hit. Further, he lacked the funds to fix up the trashed units, so they remained unrented. Owing to the hit on his credit score, no banks in the area were willing to loan him the money he needed to pay off the overdue first position loan and fix up the units that needed cosmetic help (cleaning out, paint, minor repairs, etc.).

Solution: A loan broker brought CTF into the picture. CTF fronted the gap money needed to pay off the overdue first position loan and fix up the trashed units, on a joint venture basis with the REI Pro, for a share of the profits. At closing, CTF monetized the equity in the deal by accepting a first position note from the REI Pro. After six months, with all the units rented out and with his FICO score rising, the landlord was able to secure a new, long-term loan. The proceeds from the new loan paid off the six-month, first position note to CTF and left the landlord in pretty good financial shape, overall.

CASE STUDY NO. 4: **Transactional Financing**

Situation: A homeowner had fallen way behind with his monthly mortgage payments because he lost his job. The bank recently sent him a NOD (Notice of Default) and the property wound up in pre-foreclosure status. The property had a lot of equity in it, however the owner realized he had insufficient time to fix up the place and subsequently sell it for top dollar. A wholesaler approached the homeowner with an offer to purchase the property—at a discounted price—via a double close (involving two separate escrows). The wholesaler planned to, in turn, sell the property to a cash buyer real estate investor.

Problem: Even though the wholesaler had the cash buyer lined up, he lacked the upfront cash needed to pay off the current property owner. In addition, the property was burdened with several clouded title issues: HOA lawsuit, property taxes were overdue, as well as a lawsuit, including a lis pendens filing. Neither the property owner nor the wholesaler possessed sufficient funds needed to clear up the title. Further, due to the high-risk factors potentially involved, everyone (including the cash buyer) was understandably reluctant to front the money to pay off the lines beforehand.

Solution: Seeking a way out of the property owner's deteriorating financial situation, the wholesaler reached out to a loan broker, who reached out to a Short-Term Equity Financing (STEF) source for help with paying off the liens which had created the clouded title logjam in the first place. Once all the pieces of the financial puzzle were properly in place (agreements and contracts signed, proper escrow instructions prepared, all monies needed for the deal had been sent into both escrows to clear up the clouded title issues once and for all), both closings were able to occur pretty quickly.

The property owner came out OK via a cash-for-keys/deed-in-lieu arrangement with the wholesaler; the wholesaler and subsequently the cash buyer got the property at a good discount from FMV; the STEF was amply rewarded for its involvement; and last but not least, the loan broker earned a 2% referral fee for their time, trouble and expertise.

CASE STUDY NO. 5: **Soft Cost Assistance**

Situation: A REI Pro desired to add value to a non-owner-occupied property they already owned by adding more rental units onto the available extra land they had. However, they lacked the cash needed to cover soft cost items such as: architectural plans, building permits and other ("junk") fees: city, county, school, utilities, etc. to take the project from "horizontal to vertical".

Problem: Their bank would not front the money for the soft costs. However, their bank WOULD fund all the construction costs, once the job was "shovel ready".

Solution: The REI Pro provided CTF with a six-month, second position note. CTF was paid back, six months later, from the proceeds of a refinancing loan that had been prearranged with the lender. In essence, the lender had previously agreed to overfund the refi loan in order to pay back CTF the funded amount plus CTF's markup.

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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