Marketing Terms

Marketing - The action of generating leads for your business
Absentee Owner - A landlord. A non-owner occupant
Pre-foreclosure list - Property that is delinquent on mortgage or tax payments and headed to foreclosure auction
Notice of Substitute Trustee list - A notice given by the lender to announce a new Trustee (Foreclosing Attorney) at the auction
30-60-90 Day Late list - A list that shows people who are behind 30, 60, or 90 days on their mortgage
Probate list - A probate sale occurs when the death of a homeowner occurs before writing a will or giving the property to someone. Consequently, the probate court authorizes an estate attorney or representative to hire a real estate agent to sell the home. You can get a list of properties that fall into this category and market to them.
CAD - Central Appraisal District - this is where you can go and enter a property address and see who owns the property or where you can look up an owner and see how many properties they own.
MLS - Multiple Listing Service - this is the service that Realtors use to get access to property and comps/comparables to do CMA's

Value Terms

ARV - After Repair Value. What a property will reasonable sell for after repairs are made
CMA - Comparative/Competitive Market Analysis. The Comps. Comparable properties that are similar in size, age, square footage, location to the subject property
MAO - Maximum Allowable Offer. Usually stated as 70% of ARV minus repairs
Cap(italization) Rate - the rate of return on a real estate investment property based on the income that the property is expected to generate
Cap Rate = Net Operating Income / Current Market Value (Sales Price)
Net Operating Income - all revenue from the property minus all reasonably necessary operating expenses. NOI is a before-tax figure which excludes principal and interest payments on loans, capital expenditures, depreciation and amortization.
Due Diligence - the research you do to determine if you have a good deal and if you'll go through with a sale. It typically includes the full analysis of the property including ARV, Repairs, time frame, funding, etc. If you are in your option period and you find out it's not a good deal, then you can terminate the contract without penalty.
Deal - We define a "deal" as an accepted offer where the price is 70% of ARV minus repairs. This is the price you must get a property under if you are using the buy/fix/flip strategy

Contract and Title Terms

Title - The Title company. At Title. In Escrow.
Title Search - an examination of public records to determine and confirm a property's legal ownership, and find out what claims are on the property.
Title Insurance - Typically required as a part of the closing process, title insurance protects buyers in case there are any outstanding liens on a property. The cost is ~1% of the sales price. If the title company misses something in their due diligence the title insurance can protect your down payment.

Closing Costs - Money paid at closing to purchase a property. Typically consisting of Title Insurance Policy, Escrow Fees, Legal Fees, Property Taxes, Insurance, Brokerage Fees, Insurance, HOA fees, etc.
Closing - When the buyer and seller sign the purchase documents. The buyer brings money to the closing to pay the seller and the seller signs the deed over to the buyer. The date is noted on the contract.
TREC Contract - The state contract in Texas, TREC is an acronym for Texas Real Estate Commission
Option Contract - A (TREC) Contract where a buyer gets the unrestricted right to terminate the contract during a specific time period (usually 7-10 days).
Option Money - The amount of money you put down on a contract to get an option period - this money goes to the seller (usually $10-100)
Option Period - The number of days that you 'bought' with your option money to do your due diligence, find funding, find a buyer and make sure you have a good deal. Usually 3-30 days (depending on foreclosure date, competition, etc.). If you terminate the contract during your option period you'll be able to exit the deal/contract with no penalty.
Earnest Money - The amount of money you put down on a contract to have a valid contract - this money goes to the title company (usually $10- 1%of the sales price). You can have a valid contract with $0.00 Earnest Money. We typically put down $0.00 Earnest Money when we are buying from a motivated seller. But when we re-sell on the MLS, we ask for 1% of the sales price.
Double Closing/Back-toBack Closing - You buy from the seller (in the morning) and you resell the same property to your end buyer (in the afternoon). Usually part of a wholesale transactions where the buyer/wholesaler doesn't want the seller to know that he/she is immediately reselling it and at what price and doesn't want the end buyer to know how much he/she is making on the transaction. If you just do an Assignment, one side, typically the end buyer, knows how much the wholesaler is making. If you are making more than $10-20K and you don't know your end buyer well, we recommend a double closing. It'll cost a bit more but it's an insurance policy to protect the whole deal and your profit.
Blind HUD/Closing Disclosure Statement - The seller does not see the buyer's side and the buyer does not see the seller's side of the closing statement
Memorandum of Contract - a notarized form that says a buyer and seller have a contract. Unlike the TREC contract that is not notarized. The MOC is notarized and as such can be filed with the county to block the seller from trying to sell it to another investor.
Heirship Affidavit - When there is no will, you can navigate around the Probate process and close much quicker by using Heirship Affidavits to prove who the heirs (/new owners) are. The heirs will sign the contract and direct you to non-interested relatives, neighbors, friends, teachers, etc. who can verify/corroborate that the person is an heir.
Offer - When a buyer send a (buyer only) signed offer to the seller but it has not get been accepted and signed by the seller.
Contract/Executed Contract- When all parties have initialed and signed the contract and entered an execution date on the contract
Execution Date - the date entered on the contract after all parties have agreed to the contract and initialed and signed.
Receipted Contract - When the executed contract and the earnest money (optional) and option money (if applicable) reach the title company.
Enforceable Contract - When the contract was done correctly and the action items have been completed per the contract by each party. IE - all sellers on deed (or with an interest in the property have signed, when earnest money, option money and the contract are receipted by the title company within the time prescribed in the contract, etc.
Unenforceable Contract - When the contract was not done correctly and/or the action items have not been completed per the contract by each party. IE - not all sellers on deed (or with an

interest in the property have signed (maybe only 1 of 2 sellers signed), when earnest money, option money and/or the contract do not get receipted by the title company within the time prescribed in the contract, etc.
Title Commitment - The title commitment comes before closing; the title policy/title insurance is issued at the time of closing. It lists the various requirements, exclusions, and exceptions behind issuing title insurance on the property. It's also a promise to issue title insurance as long as all stipulations in Section B & Section C are met. It details what is covered and not covered in the title insurance policy The commitment says that a title company is willing to issue title insurance under certain conditions (if everything in Schedule C is cleared - paying off liens, judgements, etc.) and if the seller fixes certain problems (ex: provides death certificates, affidavit of heirship, pays off property taxes, provides ownership documentation, etc.). The policy provides coverage for the property in case something is missed in the original title search and title policy.
Survey - A real property survey is a report that indicates the location of improvements relative to the boundaries of a property. It also determines other restrictions or easements included in the property. Lenders typically require a survey in order to fund a transaction. Surveys can run from $450-several thousands of dollars depending on the size of the property.
FEMA - The Federal Emergency Management Agency (FEMA) is the federal agency responsible for leading the Nation's efforts to prepare for, protect and mitigate against, respond to, and recover from the impacts of natural disasters and man-made incidents or terrorist events. The do surveys of areas and rate their likelihood of flooding.
Flood Plain - Zone X - Zone X is the area determined to be outside the 500-year flood and protected by levee from 100- year flood. Typically lenders do not require flood insurance if it is in Zone X.

Deeds

General Warranty Deed - the highest form of ownership
Special Warranty Deed - usually when there's a foreclosure in the line of title
Transfer upon Death Deed (TODD) - a deed that will automatically transfer to someone upon the death of the current owner
Life Estate - Where you buy the house from a home owner but allow them to stay in the property until they pass away
Quitclaim Deed - Do not use this type of deed - Title companies don't honor them in Texas. If they were filed after 2022, and they have been in the public record for 4 or more years, title companies will honor them and issue a title policy to a new buyer (as of the 2021 law update)
To find more information about types of deeds, check out this article: https://lonestarlandlaw.com/deeds-in-texas/

Foreclosure Info

Tax Foreclosure Redemption Period - Homestead - 24 months
Tax Foreclosure Redemption Period - Non-Homestead - 6 months
HOA Foreclosure Redemption Period - 6 months
Bank Foreclosure Redemption Period - There is no redemption period for bank foreclosures however they can be rescinded at the discretion of the lender.
First Tuesday - The first Tuesday of the month is when properties are foreclosed at the country courthouses in Texas. Also known as Super Tuesday. The only exception is if the 1st Tuesday

of the month is a holiday and in that case, the auction is the following Wednesday (the day after the 1st Tuesday)

Title insurance on Tax Foreclosures - this is different than on Bank (Mortgage) Foreclosures. Experience shows that most title companies will not issue a title policy on a property until after 24 months (even when it's not a homestead).

Reinstatement - The amount of money needed to bring the loan current and pay back any missed payments

Payoff Statement - The amount of money owed on a property as of a certain future (close) date

Short Sale - When a homeowner's outstanding mortgage exceeds the home's current value, they can obtain approval from their lender to sell the property at a lower price. The bank takes a 'short' or reduced payment/payoff at the time of sale. This can be a lengthy process taking 2-6 months for approval.

Deed in Lieu of Foreclosure (DIL) - An arrangement where you voluntarily turn over ownership of your home to the lender to avoid the foreclosure process. A deed-in-lieu of foreclosure may help you avoid being personally liable for any amount remaining on the mortgage. If you are a lender and are considering taking a DIL, you should do a title search to see if the borrower got any other debt on the property that the lender would inherit if they accept a DIL.

Lending

First Lien Position - The first lien that is put on the property. It has priority over the other liens. If you are lending, this is the best position to be in.

Cross-collateralization - putting a lien against multiple properties to secure a debt. For example if you wanted to double secure your lien as a lender or reduce your risk, you could put a lien against 2 properties that the borrower owns instead of just one.

Non-Recourse Loan - a loan where the lender's only recourse is to foreclose on the property - i.e. they cannot later go back and sue the seller

LTV - Loan-to-value - is a ratio utilized by lenders to measure the amount of the loan relative to the value of a property. Lenders often show preference to properties with lower LTVs ratios by offering lower interest rates. Buyers can lower the ratio by making a larger down payment or cross-collateralizing the loan with other properties.

Proof Of Funds - A statement from a financial institution (including hard and private money lenders) verifying that the buyer has enough funds available to proceed with a purchase offer and fund the deal at closing.

Hard Money Loan - Hard money loans are a method to borrow money for a property without utilizing traditional lenders. Hard money lenders finance the loan based on the asset/property not your credit score (usually). Hard money loans typically require that you have the property at 70% of ARV minus repairs. They also have a short repayment time frame (6-9 months), although you can typically extend for 3 months for additional points. Hard money lenders typically charge 2-4 points and 12-15% interest. So if you are borrowing $100K, you'd pay $2-4K in points to get the loan and monthly interest only payments ($100K x 12%/12 months - $100K x 15%/ 12 months)

Private Money Loan - Private (Individuals) money loans are a method to borrow money for a property without utilizing traditional lenders. Private money lenders finance the loan based on the asset/property not your credit score (usually). Hard money loans typically require that you have the property at 70% of ARV minus repairs. They also have a short repayment time frame (6-9 months), although you can typically extend for 3 months for additional points. Private money lenders typically charge 0-2 points and 10-12% interest. So if you are borrowing

$100K, you'd pay $0-2K in points to get the loan and monthly interest only payments ($100K x 10%/12 months - $100K x 12%/ 12 months). Private money is usually not as sophisticated as a hard money lender/company. Which means you'll have to walk them through the process and explain it more. They are often not as reliable as a hard money lender and don't have endless funds.

Carrying Costs - the amount of money the investor pays their lender to borrow funds from the initial closing until the resale of the property.

Non-Homestead Affidavit - This affidavit and designation is made to induce Lender to make a mortgage loan to Borrower on the Non-Homestead Property. As a lender this will make foreclosing easier than if it were a homestead

Business Purpose Affidavit - An affidavit that claims the property is for investment purposes and business purposes only where the borrower declares that they have no intention of making the Property their principal residence

Promissory Note - a legal lending document that says the borrower promises to repay to the lender a certain amount of money in a certain time frame. This document should be accompanied by a deed of trust which allows for a non-judicial foreclosure in Texas.

Deed of Trust - A Deed of Trust creates a lien on property to secure a Promissory Note. These are two documents needed for real estate loans and seller financing. It is a security instrument that authorizes a foreclosure sale outside the judicial system in case of default

Recording/Recorded - Taking a notarized document, like a Promissory Note, Deed of Trust, or (General Warranty or other type of) Deed and filing it with the county to prove the existence of debt and ownership.

Builder's Risk Insurance Policy - a specialized type of property insurance that helps protect buildings under construction. This is the type of insurance policy most investor get when they are buying to fix and flip.

A builders risk coverage form provides protection against losses on the building, equipment, and supplies, but not to accidents on the job, the land, scaffolding, and theft.

Declaration Page - The front page (or pages) of a policy that specifies the named insured, address, policy period, location of premises, policy limits, mortgagee's clause, additional insured, and other key information that varies from insured to insured

Mortgagee's clause in the borrower's insurance - A clause in a property insurance policy that ensures that the insurance company will pay the mortgagee (lender) in the event that loss or damage occurs to a mortgagor's (borrowers) property. The clause is an important measure that mortgagees take to protect their investment in a mortgagor's property

Loan to Value Ration (LTV) - The loan-to-value (LTV) ratio is a measure comparing the amount of your mortgage with the appraised value of the property. The higher your down payment, the lower your LTV ratio which is beneficial to the lender because it reduces their risk that the borrower will default.

Cross-Collateralize - A borrower can allow a lender to give one loan that covers multiple properties. Lenders will consider this option if the LTV is not low enough to reduce the lender's risk. If the borrower defaults, the lender can foreclose on multiple properties to secure and pay back their loan amount.

Homestead - the house and adjoining land where the owner primarily resides. It is harder for a lender to foreclose on a property that is the primary residence/homestead of a borrower because the borrower can use bankruptcy as a tactic to delay the foreclosure.

Draw Schedule - In a construction project, the draw schedule outlines when the builder will receive payments—also known as draws—throughout the building process. When a bank is financing a project, the draw schedule is an agreement between the bank and the builder/borrower.

Personal Guarantee - An individual's legal promise to repay credit or a loan that is issued to their business (Ex: LLC). It's good practice to for a lender to request this form be signed at the time the other loan documents are signed and the money is sent to title.
Loan Modification - A mortgage loan modification is a change in the loan terms. The modification is a type of loss mitigation for when the borrower is behind on payments but wants to stay in the home. It typically modifies monthly payments, interest rates, or total amount due (in many cases putting arrearage on the back end of the loan).
Term Sheet - It includes a summary of key loan terms like amount of loan, interest rate, monthly payment, term (length) of loan, points paid to get loan and other covenants

Stopping a Foreclosure

Bankruptcy (BK) - Many sellers will declare bankruptcy in order to stop a foreclosure on their homestead and extinguish other debts. This can last 90-360 days depending on the situation.
Temporary Restraining Order (**TRO)** - This tactic stops the foreclosure of a home, temporarily. This can last 30-60 days depending on the situation.

Tax

1031 Exchange/Like and Kind Exchange- selling one property and having the proceeds go directly to purchase another property and deferring the taxes until the last property is sold. By deferring taxes, the investor has more money to invest in the subsequent property. A qualified 1031 Exchange Intermediary should be involved in the transaction to make sure it's tax deferred. Please follow the 45 day rule to identify the replacement property(/ies) and the 180 day rule to close/buy the replacement property(/ies).
Self-directed IRA - A type of IRA that you control where the investment goes - ie you can invest in real estate
Cash Flow - What is left after you get monthly tenant income and subtract out your expenses (mortgage payment, taxes, property management, insurance, repairs, etc.).
Depreciation - A Non-Tax Expense - meaning you get to take depreciation as an expense to reduce your income on your yearly taxes. There is a depreciation recapture at the time you sell your (rental, commercial, etc.) property.

Strategy and Offer Summary

Real Estate Investor Maximum Allowable Offer (MAO) Formula for a Fix and Flip = 70% of the ARV (After Repair Value) - Repairs
"Obviously we want every deal to be purchased at or below that MAO Formula. When the seller owes more than that OR will not accept that offer, here are some other strategies we can move into place:"
Fix & Flip - Maximum Allowable Offer Formula = 70% of ARV (After Repair Value) **-** Repairs
Note: Take into account: Financing Terms (you can pay more if you are using your own cash or buying subject-to), Difficulty of Repairs needed (ie: easy projects, ie low risk projects you can typically pay more), ease of sale (less than 60 days on market will have fewer holding costs), costs of sale (if you've negotiated a reduced Realtor commission), types of buyers (FHA & VA buyers typically ask you to pay for closing costs up to 3% of the sales price). etc. Also note on lower priced homes (under $100K) you can not stray from this formula (even though the

profit % is the same, the profit $ are really small and an error on budgeted vs. actual repairs, ie going over budget will hurt you badly). On higher priced homes (above $300-400K and up) where the profit margin % and the profit margin $'s are so high, even a surprise repair will still yield you a profit, so many investors will automatically go to 75% of ARV minus repairs in those higher priced homes.

Buy & Hold - Maximum Allowable Offer Formula = 70-90% of ARV (After Repair Value) - Repairs

Note: Take into account: Cash Flow, Appreciation (location), Financing Terms, Repairs needed to rent (ie: total cash out of pocket), etc.

BRRRR - An investing acronym that stands for buy, rehab, rent, refinance and repeat, BRRR describes a framework where investors build passive income over time using rental properties. Note that you might be limited to 4-10 rental loans.

Wholesale - Maximum Allowable Offer Formula = 70-90% of ARV (After Repair Value) - Repairs

Note: Take into account who your end buyer is.... Fix and Flip investors typically only pay 70-75% of ARV minus repairs, Buy & Hold investors typically pay 80-90% of ARV minus repairs and owner occupants pay up to 100% of ARV minus repairs

A **wholesale** is a deal where the initial buyer (wholesaler) puts a property under contract (typically using their LLC, and/or Assigns as the buyer), finds an end buyer/investor and assigns the contract to that end buyer. The Wholesaler never takes title and seeks out an end buyer who will be the new owner and provide funding. In a wholesale the first investor (wholesaler) will put his/her/LLC name on the contract and sign either another contract or sign an Assignment Agreement with the end buyer. Typically wholesalers make $5-10K and sometimes more.

Equity Partnering - Maximum Allowable Offer Formula = 70% of ARV (After Repair Value) - Repairs

Note: Use then when there's competition and/or when the seller believes it's worth more than your ARV or it'll cost less than your repairs

Homestead - Maximum Allowable Offer Formula = 70-90% of ARV (After Repair Value) - Repairs

Note: Use then when there's competition and/or when the seller believes it's worth more than your ARV or it'll cost less than your repairs

Listing Referrals ("Marketing Fees") - Maximum Allowable Offer Formula = 70-90% of ARV (After Repair Value) - Repairs

Note: Use this when the seller is not motivated (... yet) and therefore won't accept your investor offer but they have enough equity to not have to bring money to the closing table.

Novation - Often called the “new way to wholesale” or “wholesaling with benefits”. This strategy can give you all the benefits of wholesaling without the risks. You are effectively replacing your original contract to purchase with a new contract to purchase. All parties - seller, investor and end buyer - must agree to the terms of the new contract. Once all parties accept the new contract, the novation facilitates the nullification of the original contract and the replacement of the new contract.

Lease Options - Maximum Allowable Offer Formula = 70-110% of ARV (After Repair Value) - Repairs

Note: If you are in Texas, use this ONLY if you can complete the final sale (to the tenant buyer) in less than 180 days - otherwise you are in violation of all sorts of laws.

Pre-habbing / Wholetailing - Maximum Allowable Offer Formula = 70-75% of ARV (After Repair Value) - Repairs

Note: Use this when a minor rehab will be sufficient to resell the property.

House Swapping - Maximum Allowable Offer Formula = 70-100% of ARV (After Repair Value) - Repairs

Note: Use this strategy when you are possibly making more money on the 2nd house than the 1st house or your combined profits make up for the overpayment on the initial house.

Short-Sale - Maximum Allowable Offer Formula = 70-100% of ARV (After Repair Value) - Repairs

Note: Use this strategy when the owner is behind on payments and they OWE more than the property is worth (or when what they owe PLUS repairs and closing costs is more than the property is worth). You'll still offer the bank a low price and you'll have to adjust your strategy based on the banks feedback. So if the bank agrees to a 70% of ARV minus repairs offer, you'll use a combo strategy of Short-Sale to Buy/Fix/Flip. If the bank agrees to a 80% of ARV minus repairs offer, you'll use a combo strategy of Short-Sale to Buy & Hold.

Mortgage Assignment - Maximum Allowable Offer Formula = 70-100% of ARV (After Repair Value) - Repairs

Note: Use this strategy when they OWE more than the property is worth (or when what they owe PLUS repairs and closing costs is more than the property is worth). Use this strategy when you have an end buyer who is an owner occupant and willing to pay full price or above full price. It works best with property that is not too far behind on their mortgage and houses in livable condition. Sometimes we'll start a combo-strategy of Mortgage Assignment and Short-Sale at the same time - to give us alternatives if our main strategy doesn't work out.