

Diary of a No Equity Deal

By Bill Gatten

March 13, 2000: Received a call from my “I Buy Houses, Full Price, All Cash or Terms” sign. The caller, Mr. Brown, has house worth \$150,000 with a \$154,000 loan on it. He says he’s seeking someone to take over his payments. I asked how much work needed to be done. He says maybe \$10,000. I said I’d get some comps and call him in a day or so.

March 15: Comp value is maybe \$155K after fix-up (definitely no equity). I called and arranged to meet with Brown to see the place (nice: broken windows, rats, sagging porch cover, dry rot and a yard full of trash). I commented that I could see why he was in a pickle with that one. He agreed. I told him I’d take it if he could pay me \$2,500. He agreed. I kicked myself for not asking for more.

It appears that repairs (with good, but cheap, labor) could run \$5,000. By keeping the loan in place, I can do OK. I should be able to get \$8,000-\$10,000 up front from a marginal credit tenant/buyer on a 50:50 land trust equity share. I can advertise it at \$165,000 (creating “bumped equity”) and perhaps be able to start out at break-even with nothing ventured and with a couple thousand ending up in my wallet.

I got a 15-Day Purchase Option (“tried for 30, but Brown was gun shy). Upon presenting him with the (Non-Exclusive) Option with a \$10.00 bill stapled to it, I explained that the ten bucks was just “legal consideration (“stops them from asking for an option fee). I also gave him an unsigned Purchase Offer to ponder.

March 16: Recorded my Memorandum of Option at the courthouse and went to the newspaper office to run my ad:

*NO BANK QUAL, NO DOWN,
NO CRED. APP. 3 Pmts & Clos
Costs Moves you in. \$165K 3+2,
\$987/mo+tx & ins. Needs TLC.*

March 18: For a couple crisp hundies, my friend and handyman, “Bob,” put a coat of gray paint on the front of the house, and framed all the window and door openings with bright white 1 x 6 panels: just the front, not the sides or back. Bob then took the trash from the front yard...and threw it into the back yard. Next, he mowed the front yard weeds, re-sealed the driveway and planted some flowering shrubs across the front of the house.

I’m now out about six hundred dollars and the house looks “cute”...from the street (“curb appeal”). We’re starting work on the rest of it in hopes that someone might just drop by and offer to finish it for a reduction in price before we get too far.

March 19: Bob removed the doors from the kitchen cabinets. No real work, just creating the illusion of “work in process.”

[Note: I’ve spent about \$600 so far and still haven’t exercised the Option].

March 21: The ad hit today and the phone is ringing. I repeat the same mantra with every caller:

“Yes, I have this little place on Fig Street, and if you can afford about ten thousand to get in, and the \$1,100 payment, I’ll just GIVE it to you. (Pause) The only thing I want is for you to put it in your own name, or sell in a few years, and if there’s been any appreciation we can just split it.”

I tell each caller that the house is under repair.

March 23: A caller from yesterday called to ask if we could meet. He asked when I might be finished with the work...I said maybe in two months. I suggested that if he’d like to finish the work himself, I’d knock \$5,000 off the price, and reduce the up-front requirement by \$2,500.

I completed a Purchase Offer from resident to me and had him accompany it with \$3,750.

Could not reach seller to exercise Option.

March 24: Met with the Browns today and exercised my Option.

March 25: Drew up the “Joe and Sue Brown Land Trust” and had them sign it (as its only beneficiaries), appointing PAC Holdings, Inc. as their corporate trustees.

March 26: The Browns executed an Assignment of Beneficiary interest to my resident beneficiary and me. Respective percentages of interest are: 50% to my resident beneficiary; 40% to me; 10% remaining with the Browns to be forfeited to me at termination (I need them to hold the 10% in order to avoid property tax reassessment, transfer taxation, hazard insurance problems and the lender’s due-on-sale clause).

April 3rd: Resident beneficiary brought the rest of his money in today and signed all documents.

April 4th: Trust deed recorded; a triple-net lease is executed and all original documents forwarded to the trustee, collections and disbursements assigned to PAC Management. Keys given to resident beneficiary.

April 7th: Check received from Escrow — \$3,500.

2003: After three years, the resident refinanced at a value of \$250,000 less his \$50,000 share in profits; the equity I had carried (\$5,000) was returned to me; the resident received a refund of its non-recurring up front costs (\$3,900 of the \$6,500). All remaining proceeds were divided between us.

Moral: \$65,000 made on an over-encumbered Junker that no one else wanted.

Bill Gatten