## An Exercise for You: Running the Numbers

Figuring out whether you can do a Subject To deal on a particular property is actually much simpler than doing the math for a seller-held finance deal, because the rate, terms, and balance of the loan are already set. You just have to figure out if you can work with what’s already there.

As always, you’ll need some information to begin with, including:

* The after-repair value of the property
* The repair costs
* The estimated holding costs
* If the property is to be a ‘keeper’, the estimated monthly income you can expect to receive
* The monthly taxes and insurance once the property is occupied
* The percentage of gross rents you’ll set aside for vacancy, maintenance, and replacement reserves
* Any management fees
* Any other operating expenses you’ll pay monthly once the property is in service—HOA fees, utilities, etc.
* The details of the loan you’re proposing to take over, including:
	+ The balance
	+ The rate of interest (I assume you already know it’s a fixed rate loan, or you wouldn’t be at this stage of the evaluation)
	+ The monthly payment
	+ What the monthly payment includes: Principal? Taxes? Insurance? Mortgage insurance?
	+ The number of months remaining in the loan[[1]](#footnote-1)

Once you’ve gathered these numbers, you’ll need to ask yourself some questions about your exit strategy, including:

* What is my primary exit strategy?
* What is my secondary strategy if the primary strategy doesn’t work out?
* Looking at the two (or more) exit strategies, what is the longest period of time for which I will need to be making payments on this loan?
* What is my equity goal, as a hard dollar figure?
* What is my minimum monthly cash flow goal, if applicable?
* Will I need additional financing for repair costs, and if so, how will I get it and at what rate and terms?

The answers to these questions will allow you to calculate all the terms of the seller-held loan, like this:

After Repair Value of the Property

* Repair costs
* Closing costs to be paid by you
* Financing costs (this will typically only come into play if you have additional financing)
* Holding costs until property is ‘in service’ (or sold, if you’re retailing it)
* Balance of the loan you’re assuming
* Sales costs (if retailing)

**Equity in the Property**

Equity you’ll be buying-your equity goal, if a negative number, is the amount of money the seller would have to bring to the table for you buy his property.

Gross Expected Monthly Income

* Monthly taxes (remember not to subtract this twice—it may be included in the payment)
* Monthly insurance
* Monthly reserve
* Other expenses
* Monthly payment on any secondary financing
* Monthly payment on the loan you’re on which you’re taking over the payments

**Your Cash Flow**

If this cash flow is lower than your goal, you’ll have to decide whether to accept it or ask the seller to refinance, if possible, to get a better loan for you to take over.

Once you and the seller have agreed to the terms of the purchase, it’s time to put them on paper to tie the deal up.

**Subject To Purchase Worksheet**

|  |  |
| --- | --- |
| Property Address |  |
| After repaired value |  |
| Repair costs |  |
| Monthly taxes |  |
| Monthly insurance |  |
| Other monthly holding costs |  |
| Estimated gross monthly rent |  |

Loan Details

|  |  |
| --- | --- |
| Lender name |  |
| Loan balance |  |
| Interest rate |  | Fixed rate? |  | Interest only? |  |
| Payment |  |
| Does Payment include taxes? |  | Insurance? |  | Mortgage ins? |  |
| Original loan term | Years remaining |
| Estimated gross monthly rent |  |

What is the exit strategy or strategies?

|  |  |
| --- | --- |
| **Exit** | **Income goal** |
| Wholesale | $ |
| Retail | $ |
| Rent | $ /mo. + $ equity |
| Lease/option | $ down + /mo. + $ at cash out |
| Sell with owner financing | $ down + /mo. + $ at cash out |

If you will need to secure **additional financing** for down payment or repairs:

|  |  |
| --- | --- |
| Amount of additional financing | $ |
| Financing costs (points) | $ |
| Interest rate |  % |
| Amortization period |  months |
| Monthly payment | $ |
| Term |  months |
| Balloon payment at end of term | $ |
|  |  |

1. You will only run across this rarely, so I’ll stick it in a footnote rather than discuss it in the text of the manual. Occasionally, you’ll find a seller with a loan that, because he’s had it a long time or because it was a 15-year amortization to start with, is well into the ‘principal payoff’ stage of the amortization. If you’ve ever looked at an amortization graph, you know that at the beginning of a fully amortized loan, almost all the payment is interest and at the end it’s nearly all principal, *even though the size of the payment is exactly the same*.

So what? Well, if you encounter a loan that is more than about 9 years old (assuming a 30-year mortgage at a rate under 7%), you may want to take a look at an amortization chart and see if it’s worth taking over EVEN IF IT RESULTS IN LOWER CASH FLOW THAN YOU’D USUALLY ACCEPT. Why? Because such a significant part of your monthly payment is buying you equity—in other words, adding to your bottom line despite not adding to your spendable cash—that you might very well decide it’s worth it to take the lower cash flow but higher monthly wealth-building. [↑](#footnote-ref-1)