

## Foreword

Don't do what I did.

Two years ago I was having coffee with a good friend and a successful investor. My first real estate investment was the topic of conversation.

“You're better off waiting,” he said. “This housing crisis isn't over. Not by a long shot. Wait about 18 months. Then great deals will be laying all over the ground.”

I didn't listen. I went ahead and purchased that property and invested the last of my reserves into fixing the place up. Then I was stuck with a property I couldn't sell and had me over a barrel.

Dead weight.

My investing had ground to a halt. Patiently he listened to my story and how I had managed to get myself into this situation.

“Your problem is your model.” he stated. “‘Buy low, sell high’ isn't going to cut it. If your investment career is going to thrive in any environment, whether talking about real estate, businesses or stocks you have to have a solid business model.”

I listed all my mistakes. And the list was extensive. My friend and I went over everything and then added all the rules one would ever need for investing successfully. Most of these new concepts I had never heard of before. Gross Rent Multiplier, Cap Rate, Vacancy Rates . . . When it was completed and tested, my first thought was to share it with the world. I thought this was the information any investor should have at their finger tips to launch their investing career.

## *Perseverance*

Even if, and especially if, you are starting out with very few resources, you'll have to make sacrifices. If you insist on instant gratification by buying whenever your whim dictates, then maybe real estate is not the right venture for you. When you begin investing, you need to start out with a sense of delayed gratification. That means thinking of ways to save.

Real estate is a matter of time and patience. But giving up is not an option!

## ***Flexibility***

So, lose this notion that you have to time the market perfectly, to jump in at just the right moment. Opportunities are presented every single day. Those who are open to them, take advantage of them... whether markets are up or down. Real estate investors prepare for boom times when the market is tanking, and they prepare for bust times when the market is booming. Think “game plans” in the plural!

## ***How to Use This Book***

This book guides you through the entire process of finding and buying an owner-occupied duplex. Also, each chapter provides definitions for the real estate terminology contained in each particular chapter or section. You don't need to be an expert to begin.

In addition, worst-case scenarios are sprinkled throughout. Bumps and bruises everywhere!

My recommendation is that you read this entire book, front to back. When finished, return to the first page and follow the steps carefully when you decide to purchase your first duplex, remembering that you must decide when to call and when to fold.

Use all the tools available to you online. BuyThatDuplex.com has many tools, many resources available. Check out the site and make use of all the tools.

Finally...

If you ask seasoned investors, “What is your biggest regret? What is one thing you wish you could go back and change?”

Without a doubt, every single investor, including me, will respond with: “I wish I had started sooner!”

Now, it's your chance to play. Let's get started.

## Chapter 1: Starting Out

As in everything else in life, you have to know where you are before you move forward. This is especially true when it comes to your investing career.

Sure, you could start day one being completely unprepared and not knowing anything.

Or you could start day one knowing exactly what you bring to the table and what everyone is going to expect from you. This not only gives you the advantage of knowing the answers you'll be asked, but it also brings an air of professionalism and experience, which all professionals like to see in their business dealings.

Before picking up the phone and calling any real estate agents or lenders, make sure you know and understand what will be required of you.

### ***Reality Check***

The first two questions you need answered are:

What is your credit history?

What is your credit score?

Your credit history simply refers to the record of how well you have managed your debt in the past. If you have paid your bills on time and acted responsibly with your debt obligations, it will be reflected in your credit score.

Your credit score is vital in getting you into your first property. We're going to start out by determining what your credit score is, how it impacts your purchasing power, and what you can do immediately to improve it.

Because lenders base every decision they make on your credit score, you need an excellent grasp of it before you can apply for a loan. The best place to start: your credit report.

### ***Your Credit Report***

You've probably heard of the three credit reporting agencies: Experian, Transunion, and Equifax. They each have a report on anyone who has ever purchased anything using credit.

Credit reports list any debts you have...or had...not backed with an asset (non-collateral). They record exactly:

How much each debt is for

What it is used for: credit card, car, student loan, etc.

How long the term of each debt is

The report also notes how well you have been repaying each debt:

All payments made on time?

Any payments made 30 days, 60 days, or 90 days late?

Any agency, institution or company you had debt with

Debt collections? (I hope you have none!)

Bankruptcies?

These credit agencies represent your credit history by using a number. The range of credit scores falls between 520 and 810. But no one, outside of the credit reporting agencies, really knows what the highest limit is. Some say it is 810 and others insist it is 840, but all you need to know is that higher is better!

**Our objective is to improve your credit score, not perfect it.**

Think of your credit score and your credit report as your report card from high school. The higher the grades, the higher the Grade Point Average (GPA). That being said, your GPA is not a measure of your intelligence, it is only a numerical representation of your overall academic career to that point. If the GPA is high, this means the student has done well consistently. As we all learned from high school, the higher the GPA, the more opportunities you'll have.

The same applies with your credit score.

If you are paying your bills late, or not at all, then your credit score will begin to fall. Even if you decide to pay off your debt after the late payments have already occurred, your credit score will still remain low! Why? Because when you do something wrong with your credit, the score remains low for a period of time. After months or years have elapsed, your credit score will gradually return to its previous level.

Just like in high school. If you fail one class, your GPA will drop and remain low until you either repeat the class or take enough other classes to compensate for the bad class.

Having no debt and no credit history won't do you any good either. Without credit history, how are lenders supposed to know how you handle debt? They'd rather to lend to someone with a stable history of debt repayment than to someone with no history at all.

To use the school analogy again, if you approach a college and want admission, how is the college supposed to know how you will perform if you don't have a GPA? How do they know if you meet the basic requirements to attend the university? On the other hand, a student with a good GPA will always be accepted, because that student has a solid, consistent history of maintaining high academic levels.

Fortunately, just as you can improve your GPA, you can improve your credit score.

Do you know your credit score? This number should be front and center in your head. If not, you need to find out what it is and memorize it. It's just as important as your phone or social security number.

## ***Find Out Your Credit Score***

Assuming that you don't know your credit score, how do you go about finding it?

I will tell you what not to do: Do NOT apply for a credit card that you know will be denied. It is true that those denied a credit card are entitled to a free copy of their credit report, but the credit card company must RUN your credit to determine if you deserve an account or not. Every time your credit is run, your score drops.

Remember, you can receive a free copy of your credit report once a year from those credit report agencies.

Experian ([www.experian.com](http://www.experian.com))

Transunion ([www.transunion.com](http://www.transunion.com))

Equifax ([www.equifax.com](http://www.equifax.com))

Some credit card agencies even offer to display your credit score right on their website. Do any of your credit card companies offer this service?

If you use credit monitoring services to protect your credit, you can find your credit score with a few clicks of a button.

To be honest: you should have this service anyway. We live in a digital world. Every two or three months, a news article announces that hackers stole millions of credit card numbers or social security numbers. With the monitoring service, you receive a nice short email every time:

Someone runs your credit  
You open a new account  
You make changes to your address.

## ***Impacts of Your Credit Score***

Banks use your credit score to determine what your interest rate will be. The higher the credit score, the lower the interest rate. Banks and lenders publish a scale which correlates your credit score with an interest rate.

Unless of course you have more than 30% to put down on a property. If you have 30% to put down, you're demonstrating that you have enough of a stake in the property that lenders will consider you a good risk. If you don't, then your credit score will impact your interest rate.

Who decides this? The Fannie Mae Corporation.

What exactly is the Fannie Mae Corporation? Fannie Mae is one of the largest companies in the housing finance market. While it does not make home loans itself, it does provide cash to other lenders to insure mortgages. Fannie Mae was one of the many programs started under President Franklin D Roosevelt's administration, and it continues to this day.

He who has the money makes the rules – The Golden Rule

If you wander over to the Fannie Mae website (<http://www.fanniemae.com/>), you'll see the guidelines, effective March 8, 2008, for interest rates versus credit score laid out in Figure 1.

<b>Credit Score</b>	<b>Interest Rate Adjustment</b>
679-660	0.75%
659-640	1.25%
639-620	1.75%
Below 620	2%

**Figure 1: Credit Score/Interest Rates**

## ***What Do These Percentages Mean?***

Let's pretend your credit score is 655. If the interest rate is currently at 6%, the lender will add an additional 1.25% to your interest rate, thereby making your interest rate 7.25%. This may not sound like much, but on a \$300,000 mortgage, this increases the monthly payment by \$200/month, or \$2400/year. On the other hand, if your credit score is higher than 679, nothing is added to your interest rate.

So why do lenders add these adjustments to the interest rate?

Remember that your credit score is a "grade" of how you handle debt. Someone with a low credit score does not handle debt very well. This adds to the "risk" involved for the lender. If the lenders are going to extend a loan to a risky person, they compensate for it by charging a higher interest rate.

At another level, the credit score also impacts how large a down payment is required. If your credit score is 620 or below, lenders will not loan you more than 95% of the value of the property (Loan to Value). This means, at a minimum, you would have to come up with 5% down. And that's a minimum – sometimes it's much more.

If you plan to go after a loan program which is 5% or 3% down, then you have to get your credit score up past the 620 mark.

## ***Summary***

Ideally, your credit score should be above 680. This range offers the best interest rates, provides a higher loan value, and gives you many more options.

But is getting to 680 feasible?

Not only is it feasible, but it is obtainable. But only if you know what to attack first.