7 Steps to Profitable Real Estate Options

Buying and Selling with Lease Options

THE Lee Arnold SYSTEM OF REAL ESTATE INVESTING

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7 Steps to Profitable Real Estate: Buying and Selling with Lease Options

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> Introduction: What is a Lease Option?

Lease options are one of those things that people have heard of over and over again. They have become kind of a buzz word over the years, but I still, to this day, know very few people who have done them. Even fewer who have done them the right way. There are a lot of misnomers related to lease with options. The way you used to do them pre-crash is significantly different now, post-crash. I'm going to be covering some of those finer nuances as we're going along here.

What is a Lease Option? The old definition was:
"An agreement between an owner and tenant stating that for a specific period of time, the tenant has the option to purchase the property. The landlord and the tenant agree upon the sales price and how long the contract will last. The tenant pays the landlord a consideration fee of between 3-7% (sometimes higher) of the sales price in exchange for keeping the home off the market. They decide how much of the monthly rental will be credited toward an eventual purchase, with the average amount being from 30-50%."

"Start by doing what's necessary, then what's possible; and suddenly you are doing the impossible."

– St. Francis of Assisi

That is language you are familiar with. That's how lease options have been structured in the past, but today, we're going to change the way that you accomplish lease options.

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> Why Buy with Lease Options

1. Cash flow: A lease entitles you to possession, which allows you to make cash flow. Now understand, there are two uses of the terminology lease option, ok. These are often used by rehabbers or real estate investors where we have gone out, we've purchased a property, we fix it up. We have financed, we have long term financing against the property and we are now selling it via a lease with an option to buy to a tenant occupant. That is a lease with an option to buy.

Now, when I talk about cash flow, I'm going to be specifically referring to what is called a sandwich lease option. I want you to write down "sandwich lease option." That is nothing other than finding somebody who wants to sell a property, creating a lease option environment with them and then releasing the property to an end user occupant that eventually wants to buy the property. We need to make sure that we are clear on the vocabulary, because if you don't have the terms right, it's going to mess up everything else.

2. Appreciation: an option gives you the right to buy at a set price, which allows you to benefit from future appreciation. Depending on how well you negotiate on the front side.

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1. Determine if a lease option is right for you.

Can you afford the option money? Do you want a home in this particular area? Can you secure financing later on? Can you sublease, assign, or sell it to someone else in 1-3 years (common lease option period of time)?

Let me show you what this looks like. Let's say that we find a three bedroom, two bath property where the asking price is $90,000. (For those of you in southern California, obviously this is not going to work for you. Just add a zero and we'll be fine!)

We do a title search and determine that they owe $85,000. They've had a loan for 5 years and they have an interest or a PITI payment (PITI stands for principle, interest, tax, and insurance) of 5.5%. Their PITI payment is going to be about $600/month. Typically in this setting, they're asking for $90,000 and they owe $85,000. All they're looking to do is simply sell the property. If they've hired a realtor, there's no marginal spread here, and they're not going to leave closing with any cash.

This is a great situation for a sandwich lease with an option to buy. We call them and we offer to lease the property for 36 months where we will give them $1000 down and pay their mortgage monthly. At the end of 36 months, we will give them $95,000. If they sell it today, they're going to get nothing. If they sell it in 3 years, they're going to get

$95,000. So they get $5,000 in the end, just for waiting and allowing us to take over their mortgage. They also get the $1000 down.

You may have heard me talk before about a sandwich wrap. This can be accomplished when you take over the underlying loan and you assume title to the property. There's nothing wrong with that strategy other than it's much more challenging to sell to a would-be seller because they are putting you on title to the property. You could circumvent by doing a contract for deed, which is very similar to a sandwich lease option, but even a contract for deed has the word "contract" in it. That freaks homeowners out. The lease with an option, the sandwich lease option to buy, is in my experience by far one of the easiest transactions that you can do.

One of my first deals almost 20 years ago in real estate was a sandwich lease option. I literally called every single “for sale by owner” in a 500,000 area populous, and I can't tell you the number of times I was rejected. The reason? I did not know how to explain this in a way that it proved to be a positive to the homeowner. So, I'm going to make this easy for you so you can explain it much better than I ever did.

Now doing deals this way can be a great profit center without you ever having to worry about your credit or about having to use any of your own money at all.

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Once they've agreed to these terms you say, "Great, I need 90 days. And make sure your agreement (notice it's not a contract, it's an agreement) allows you to sublet. That's the whole key.

The way that this is structured, is it’s a:

- 3 year lease
- $1000 down payment
- $600 per month
- With a $95K purchase in 36 months
- And the ability to sublease

Now make sure you have 90 days before you activate this agreement. To do this, you need to put down what is called “consideration,” but it

can be $25 or $10, or whatever the legal consideration is in your state. The homeowner might want a $100, so you'll say, "I'm going to give you $100 now to hold it, and I'll give you $900 in the next 90 days."

The next thing we do is advertise this property “for sale as a lease with option to buy”. The lease amount is $5,000 down, it's $1050 per month, and it's for 12 months. Notice that I negotiated for 36 months but I'm only going to lease it for 12. The reason for that is if my tenant can't get financing in 12 months, then I'm going to move them out and I'm going to get a new tenant in and I'm going to do it all over again

So, here's what I've got: I've got a $1000 I need to give to the tenant, when I get $5,000, that's when I give them a $1000. So right there I'm getting $4,000 just for putting this deal together. They're going to pay me $1,050 per month, and I'm paying $600 per month, which means I'm cash-flowing on this deal $450 per month.

Who pays for utilities? The new occupant pays for those. Taxes and insurance are paid out of your $600.

How to Do This Without Creating the Challenge of ‘Equitable Interest’

Now, we talked about this in the first slide, about giving them a reduction. This is what every guru on the planet is teaching you to do and if you do it, you're going to end up in big trouble because you're giving equitable interest in title. When you charge an extremely high rental rate and you withhold a portion of it to be applied to the principle or the pay-down of the purchase price, you are giving them equitable interest in title. Below is **not** what I want you to do, but I need you to see it so it's illustrated.

Let's say I'm collecting $1050 per month, and each month I will give you a $200 credit towards the purchase price of $115,000 (the appraised value). At the end of 12 months you have a $2400 credit towards the $115,000 which means your purchase price to the tenant buyer is now $112,600.

A tenant back in 1994 sued the landlord stating that during the duration of time he occupied the property, he paid down the mortgage through the credit given on the rent and the property had appreciated $100,000. As a result, the landlord owed him $115,000. And the landlord was like, "I don't think so, Jack." The guy goes to the court and the court awards the tenant the $115,000 judgment owed to him by the landlord. Why? Because he gave him equitable interest in title. This happens when you set up a lease with an option to buy, and you in essence create a mortgage where you give them a buy-down on their interest rate.

A mortgage needs 4 things. It needs a purchase price or a loan amount. It needs an interest rate. It needs a monthly payment, or a debt service. It needs a term. These are the four building blocks of a mortgage. Now when you do a lease with an option, here's what happens. The purchase price we already said was $95,000, the interest rate we didn't lock in, but we gave them a monthly payment of $1050, and we gave them a term of 12 months, but it's an interest only loan so to figure out the interest rate, all you need to do is take $1050 x 12, that's $12,600, divided by $115,000, that's an interest rate of 10.9% assuming an interest only loan. When you take a portion of this monthly payment and buy down the purchase price, or the principle, you have in essence created a mortgage and that's how the court will view it. You have given equitable interest in title just from the way you have structured the lease with the option to buy.

How can we accomplish the same thing without creating a debt instrument and possibly violating RESPA?

Here's how we do it. Rent is still $1050. You tell the renter/buyer that if they pay all their payments on time, their purchase price will be $110,000. If they miss a single payment, the purchase price will be $115,000. We've accomplished the same thing.

The whole reason for this “credit of a portion of the monthly payment” was that investor were trying to entice their tenants to make their payments on time, not realizing that at the moment they did that, they were creating a debt instrument. What I've done here is accomplish the same thing, I've still given the tenant reason to pay me on time, but I didn't create a debt instrument or violate usury or RESPA in the process. And there is no credit to the principle amount.

2. Find the Lease Option Deal

So how do we find one of these lease option deals? How do we find a seller who is possibly in a desperate state and can't sell to a qualified buyer. As the Federal Reserve continues to pull back their bond buying program, and interest rates continue to go up, buyers are going to become more scarce. They are leaving and fleeing the marketplace, so we are beginning to now see in the month of July a decrease in housing sales where we had previously seen an increase over the last 14 months.

You've got to understand that there are very few that can even qualify for traditional housing loans. You've got to have 20% down, squeak when you walk, and have strong financial statements. Or you have to be a first time homebuyer where you can qualify for some

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of these home-buying perks. However, as interest rates go up, even a first-time home buyer's ability to buy diminishes greatly. If you figure that when rates were at 3.25% and you could buy a $100,000 house for $500 a month. Now you've got to have $600, or $650 to afford the same house. We're going to be seeing less buyers in the marketplace which is going to make sellers much more anxious to do something. You as a professional real estate practitioner, or an investor, can come in and take advantage of this low hanging fruit. These become the easiest deals out there, in my opinion.

So, we're going to find the lease option deal by posting an ad, "Buyer looking for seller willing to do a lease with an option to buy." Here's another ad, "Can't sell? I'll lease your house for 36 months and cover your mortgage payment." These types of ads are going to attract sellers and fast.

To write your own ad, imagine yourself in the position of a homeowner that needs to sell their property. They've been job transferred and the renters in their rental property just moved out. They don't want to paint it and re-rent it and they don't want to pay for it. So, write an ad that would attract you. "Desperately trying to sell a house, struggling to cover multiple mortgage payments on a vacant property? I can help." It's important to understand that we are not pursuing homeowners that are behind on their payments. We are pursuing homeowners that are current on their payments, and we're going to present them with this option. Now, somebody's going to ask this question, "Can we pursue homeowners who are behind on their payments?" And the answer is yes, unless you're in the state of Florida, where you have to be licensed to pursue these types of clients.

We're also looking for owners seeking renters, so if you drive by a property and you see a for rent sign, and the property that their trying to rent is clearly in disrepair, the grass hasn't been mowed or is dead, or it just looks run-down, then that is a property that the tenant or the homeowner does not particularly care for, which makes it an easier target for a lease option.

Also, buying that out of state owner list. If you have worked that list at all from the standpoint of attempting to buy, try working that same list from the standpoint of looking to lease, with the ability to sell the lease.

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Number 3: Educate the homeowner about the benefits of a lease option

One of the many benefits is that you are increasing their equity by making the mortgage payments on a 36 month lease. If they have a $600 payment and they have been paying on it for 10 years, you taking on that $600 a month for the next 36 months means that you may buy-down their principal. They owe $85,000 now, but at the end of 36 months, they are going to owe $82,000 and you've agreed to pay $95,000, they just made an extra 3 or 4 grand during that 36 month term where you were buying down their principal. That's another great way to explain the benefits to a homeowner on this strategy.

Number 4: Get a home inspection.

You've got to know what you're getting. Have an independent home inspector do a full inspection, and become aware of any problems that the house may have. These are typically $175 to $350, and it's a fee that you can require that the owner pay. You could say, "OK, before we do this deal, I need you to pay for a home inspection" Now if they refuse and you like the deal, and you think it's worth you taking on the risk of that investment, you can certainly pony up the $350, but you've got to get an independent inspection.

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When I write an offer on a piece of property, and I buy it in its “as-is condition” without representation as to condition, title, or warranty. I still order a full property inspection on it. Why? I want to know what I'm getting myself into. I don't want to be the guy climbing around in the rafters looking for problems. If I can pay somebody $175 to spend 4 hours combing through that property, taking a photo of every issue, putting it in a nice little binder and dropping it off at my office, that's money well spent. I'm not going to go do that. I just don't have the time and quite honestly, I don't really want to do it. I always get a home inspection on any properties.

In some jurisdictions the seller is also required to give you a seller's property disclosure attesting to the condition of the home.

Number 5: Negotiate the terms.

The purchase price, the term of the lease. Is it going to be 6 months, is it going to be 48 months, is it going to be 120 months? There are no limits, and that's what I love about this strategy. Whatever you can get them to agree to, is what you can do. On the amount of the initial option money, you already know this but I'll say it anyway, negotiate to pay as little down as you possibly can. Also, negotiate the amount of the monthly payments that will go towards the purchase price. Now again, we're not going to be putting that in, that's something that you will negotiate with your new tenant-buyer in the form of a reduction in the purchase price, but not as a credit to the principal buy-down.

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Number 6: Get all paperwork drafted by a real estate attorney.

Laws concerning lease options vary from state to state, and there may even be local regulations. Now, I will tell you, if you have never done one of these, go get it drafted by an attorney on your first one. I would encourage that you use an attorney on every one of these, but if you're doing it in the same state, the boiler plate language for the most part does not change. You just need to change the address of the property, the names of the sellers, and the terms of the transaction--everything else is kind of boiler plate. I will tell you, all of the contracts that I use have been drafted by an attorney, but I do not take every deal to an attorney, I'll just simply change my boiler plates. Why don't I give you these contracts myself? Because they vary from state to state, so you need to have an attorney draft them for you.

Number 7: Implement your exit strategy.

Subleasing: If you have a three-year lease with the landlord, you can sublease the rental unit for two years, or sublease part of the unit for three years. Again, you always want to negotiate for the longest lease term that you can, and then sublease for the shortest term that you can, assuming however that at the end of that term, they can indeed qualify to purchase the property. You've got to be mindful of their current credit situation, and make sure that you help them figure that out.

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Selling Your Option: Now, what if you don't want to deal with all of this garbage? You can sell your option. If you were to put this deal together, you go out and you find a homeowner that has a property, you do the lease, and then you turn around and you find a tenant, you put them in there. What you have in essence created for yourself is an income stream. On the first example that I showed you, you were paying $600 a month, you were getting $1050 a month, so you were in essence getting $450 a month. Now, if you lock that up, $450 in 36 months is $16,200. When I buy your option, essentially what I'm purchasing from you is your monthly income stream.

You have seen those commercials on TV about JG Wentworth, right? JG Wentworth wants your lottery winnings. JG Wentworth wants your pension payments. What they're essentially buying is your monthly income in a lump sum form. I can tell you, I have been consulting for 15 years and I have yet to find an instance where selling your monthly income stream is a good idea. It can be leveraged, it can be pledged as collateral, but do not sell it. You create a huge tax liability to yourself, and you have no ongoing future payments.

I hear stories of people selling their pension, I mean, that's ridiculous. I've even heard of people selling their pensions to their company. Employers of GM and Ford, as they were going through their restructures, went to all their pensioners and said, "Look, we're supposed to pay you

$1600 a month until you're dead, we'll give you $100,000 right now for a one-time lump sum payment.

Same concept here. When you do this, you are in essence creating an income stream which can now be sold. I might come to you and say, "OK, well, with the option the way you've structured, you've locked up monthly payments of $16,200 over the life of the 36 month deal. Assuming that they buy, you've got another $20,000. Tell you what, I will buy your entire deal, I'll give $500,000 cash right now for your entire deal." Now the question you have to ask is are you willing to sell? Do you want $500,000 cash now, or do you want $450 a month for the next 36 months? You've got to understand, the leasers could move out or they could trash the place, meaning you have a lot of ongoing liability in this deal, so there are benefits to selling it if you're looking to make fast cash, but there's always a certain percentage of our clients who are not looking to own property. They don't want to be landlord and they don't want to deal with tenants and toilets. That doesn't mean that you can't still make money doing this, you just have to create the income stream, and then sell off the opportunity. That's essentially what wholesaling is.

Buyers contract additions and subtractions.

Make sure there are **no anti-assignment or anti-subletting clauses** in your lease with the owner of the property. Now, I've seen a lot of investors who try to skirt this in their initial negotiations, hoping that they

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can hide the fact that they're intentions are indeed to sublease and charge more money. It's the worst thing you can do. Be upfront, be transparent, let them know exactly what your intentions are with their property. Let them know that you are paying them significantly less than the next guy is going to pay them, and that's how you make your living. People don't mind you making a profit, and if you explain that to them on the front side, they're not going to have an issue with it at all. But, if you try to hide it, and then you give them your contract where it gives you the ability to sublet and to assign the contract, their attorney is going to trample that and say, "Don't do that, it's a bad idea. You lose control." Just be upfront and honest. Honesty is always the best policy.

Get a **right of refusal** in the event the landlord intends to sell the property. This means you're interested in the property but you don't want to buy it, you'll do it as a lease option, but you would like a right of first refusal to whoever they're going to sell it to.

Get an **exclusive option to buy at a certain price**. Lock in the price. At the beginning, I showed you some floating pricing where, if you pay me all of the rent on time, I'll give you x. When you're negotiating with the seller, you've got to lock up

the pricing. There is no, "Based on appraisal, then..." Tell them the price now, even though you're not going to give them that price for the next 36 months.

Examples:

Profit Example #1: The monthly rental payment you negotiated with the owner is $1,000. You set the monthly payment at $1,250 a month for your tenant buyer. Each month you collect $1,250 from your tenant buyer and pay the owner $1,000 each month. Your profit is $250 monthly positive cash flow during the lease period.

Profit Example #2: The second profit is found it the difference in the negotiated future purchase price with the owner, and the future purchase price set for your tenant-buyer. Let's say the property goes up in value to appraise for at least $155,000. Your tenant buyer decides to exercise their option to buy. You buy the property from the owner at $125,000 and then you sell it to your tenant-buyer at $155,000. $155,000 minus the $125,000 you paid to the owner = $30,000 profit to you. Understand that you did that over a three year term. Somebody asked me, "Do we restrict or penalize them if they buy it before the 36 months?" The answer is, **NO** because the sooner they buy it, the sooner we can realize our $30,000 a year profit.

Now, here's the best part about this whole strategy. Your credit doesn't matter. In this case, it's really just on what you can negotiate and then what you can turn around and release the property for. Everything in the middle is yours to keep as long as both parties have been informed. This is why it's called a sandwich lease option.

Some of you have been to seminars where they talk about A-to-B, B-to-C. This is the same concept. When they refer to A-to-B, B-to-C, they're saying, "I'm buying the property from A, which make me B, and as B, I'm selling to C." You guys have heard this referred to as wholesaling or bridge financing, or a short term transactional financing, it's the same thing. The only difference here is that we lock it up through a lease with an option to buy.

Let's fast forward three years, where they do indeed exercise this option. The question is often asked, "Do I have to close at $125,000, or can I just assign my contract to them and they buy it for $155,000 from the seller?" The answer is no. You will need to close your side, and this is where transactional funding comes into play. I can tell you this, if you come into this deal 3 years from now, you've got a tenant that has made all of their payments for the last 3 years, they've cleaned up their credit, they have a loan ready to go. They can close next Friday at $155,000 and you need $125,000 tomorrow, I will write you a check personally for $125,000 because that's a good deal. That's a very simple A-to-B, B-to-C transaction. It’s a great way to go.

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Why would we sell a lease option?

- You experience the best parts of having a renter.
- You get monthly streams of cash flow.
- You get the tax benefits of maintaining the ownership.
- You have loan amortization and a healthy chunk of the future appreciation.
- You get all of this without having to deal with the traditional headaches of having renters.

It has been proven that lease option tenants are the best tenants to have because they have an ownership mentality, as opposed to a renter mentality. Renters think like renters. "I'm going to be here a short period of time, I have no intention of owning this place ever, so I'm going to trash it at will and I could really care less about the outcome."

We want owner-occupied minded people, and there are a lot of them out there right now in the marketplace who want to own a home again. They lost their home in 2007, 2008, 2009, 2010. They don't have the down payment monies or credit necessary to get a loan these days. Therefore lease options are coming back and are becoming very popular again.

Number 1: Advertise with 3 magic words: Rent to Own.

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Rent to own, or lease with an option to buy. That's what they have been trained to look for. I want you to run an ad, whether you have a property or not, that reads, "Lease with option to buy. Call me." When they call, then ask these questions, “What do you need, what are you looking for, what area of town do you want, how much money do you have in the form of an upfront, non-refundable deposit, how much can you afford monthly, how do you intend to be able to qualify in the next 12 to 24 months? Once you vet them out, let them know, "I will call you as soon as I have a property that fits in your parameters."

Number 2: Collect a List of motivated renters/buyers.

Once you have a working ad, start building a list of ready-made buyers and tenants.

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Number 3: Set the selling price.

Explicitly state that the "Landlord/Seller" grants the "Tenant/Buyer" the exclusive privilege, option and right to purchase the property at a predetermined price. Price the house 2-5% above market value per year, taking into consideration the current appreciation rate. Again, you don't want to lock yourself in here, so there's language that it can be the greater of a 5% annual appreciation or the appraised value whichever is higher at the end of the lease term.

Number 4: Collect a non-refundable deposit.

Don’t call it an option fee, call it a deposit. Usually 3% of the value.

Number 5: Set up a rental amount and payment schedule.

Charge slightly higher rent to cover mortgage and obtain cash flow. Give a date when the rent is due. Draft in any grace period if necessary. This document looks, reads, and acts like a rental agreement.

Number 6: Get all paperwork drafted by a real estate attorney.

Again laws concerning lease options vary from state to state, and there may even be local regulations. All first drafts should be drawn up by an attorney and then you can use them later as boiler plate documents.

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Number 7: Collect rent or sell your cash-flowing property.

Sellers option contract additions or subtractions.

These are some things you might want to include.

Final home purchase price. The allocation of responsibility for maintenance and repair costs. You've got to dictate who is responsible for paying what.

A protection clause allowing the owner to inspect the property periodically if they request it.

Specification of the property renovations or home improvements allowed to the tenant. If you're going to do a lease with an option that includes sweat equity for the deposit, what is it they're going to fix. What are they going to renovate or rehab? On a lease option that I just closed, the house was in disrepair, so as part of my initial deposit with the seller, I told him that I would put in new carpet and new tile in the bathroom so that it was a nicer home for the new occupant. I agreed to do $15,000 in repair and renovation to this property prior to re-leasing it out.

How to profit as the seller:

- Option money
- Rental cash flow
- The eventual sale of the property

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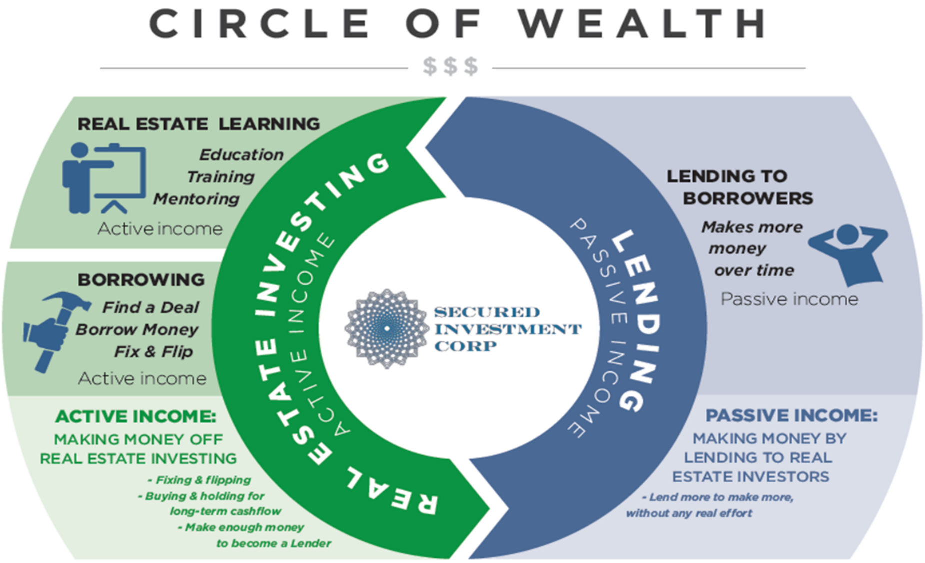
How can you do this right? Well, partnership is the key. What is a partner? Anyone who can provide needed insight, advice, wisdom, or any practical help for the effective achievement of a specific project, goal, or dream.

Sir Winston Churchill said, "We make a living by what we get, we make a life by what we give."

Now I've talked to you guys about the Circle of Wealth. If you have not, I want this picture impressed, on your frontal lobe from now until the end of time. This is our company.



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This is what we are growing and building each and every day with our clients and our client relations. This is the Circle of Wealth. What it means is, we want to take active investors who are interested in buying and selling property, lend them all of the money that they need to buy, fix and flip, and do it over and over and over and over again until they've generated enough income that they can then come back and lend to our new future investors. In so doing, we create an on-going environment with a group of investors, which includes you, who are always making money at some level. Either by borrowing, fixing and flipping, or by lending money to those who are borrowing, fixing, and flipping.

Mary League is somebody that we've worked with.

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Mary League became an affiliate in March of 2011. In November she attended the Orlando Funding Tour. She joined our Inner Circle in January of 2012. In June, I personally flew out and I spent 3 days with Mary. I spent some time with Mary and she bought this house.

She purchased it for $55,000 and then sold it for $98,000. She then bought her second house for $30,000 and her third house for $48,750, which she then sold for $90,000.

Why am I showing you this and the Circle of Wealth? So that you can better understand how this works. Mary purchased this property with a private money loan that came from people in my office!

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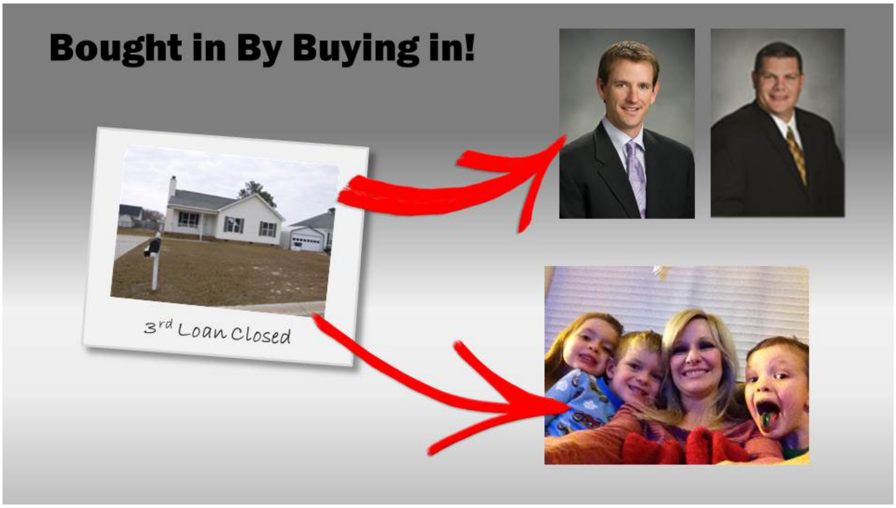

This is Jason Powell our attorney and Terry, our head underwriter. Jason and Terry had put together some money and decided they wanted to lend on a deal from Mary who was a member of our Inner Circle society. Our Inner Circle society members get really great treatment. So they decided that they liked Mary's loan, and they liked Mary, so they funded it. Mary came back shortly after that and said," Hey Lee, I would really like to have some money for fix up and repair. Do you know anybody that would be interested in doing a $15,000 loan for fix up and repair?" Well, I made some phone calls, I searched around town and I found some very savvy and shrewd investors that were more than willing to help Mary out. That was these guys, this is Aundreya, Preston,

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and Harrison. This is their mom and my wife, Jaclyn. As I have mentioned to you several times in the past, my kids are actually private money lenders. They do it through their CESA, which is Cloverdale Education Savings Account, and functions very much like a self-directed IRA for adults. The stipulation is that all of the monies that go into it, I can pay my kids $2000 a year for showing you guys pictures of them because I pay them as models. So I put $2000 each year into their CESA account. Then out of their CESA account, they do hard money loans. One of their favorite strategies is to do hard money loans in second position specifically short term loans for fix up and repair where they are earning on average just about 36% annualized returns. Again, when you understand private money, and the flow if it, when you do really short term 4-6 week loans, you can really maximize your yield. Mary did very well on that property.

> **"I have put 4 properties under contract -- all related to my first deal. I can do this because I have access to PME money. It's a small price to pay to put $16k in your pocket, that's what I made on the property I just closed on."**
>
> **– Mary League**

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Phil Cutting is another affiliate that we've worked with on a one-on-one basis.

Phil became an affiliate in October of 2011, he attended the San Antonio Funding Tour, and he became a member of our Inner Circle Society in March of 2012. Randy, our consultant, went out and spent 3 days with Phil, who then went on to purchase this property in Ohio. He bought, fixed, and sold it. He continued to invest and all of his loans are still cash-flowing.

Now, what's interesting about the 4th loan that he did with us is that it was funded by another one of our employees here at Private Money Exchange, Rosalie Jacobs.

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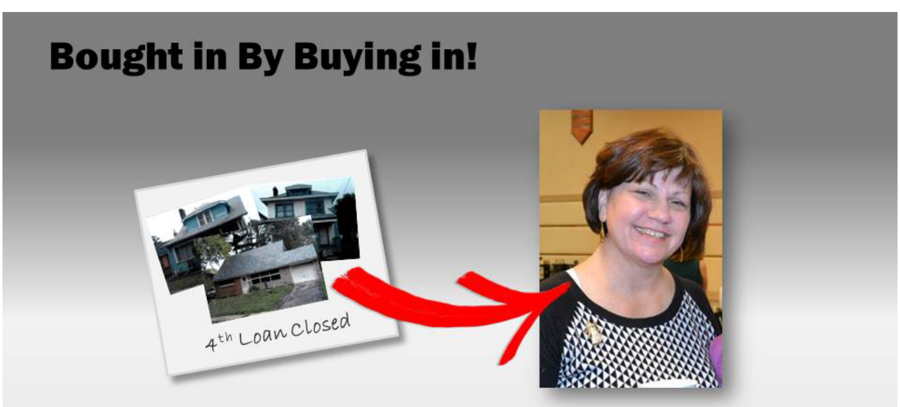

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I'm showing you guys this to illustrate the power the Inner Circle. My employees are lending money to our Inner Circle Members because what we've learned about our Inner Circle Members, they have the greatest success and they do it in the shortest period of time.

Now, Phil closed on another house in February 2013, and he continues to invest. He says, "I got purchase and some rehab money and only had to come out of pocket with 22% of the purchase price and 14% of the total loan! I got funds to cover the rehab in escrow!"

John and Sue McDonald actually responded to a mail piece. They purchased my Hard Money Mastery Home Study Course back in April of 2010. They became PME Affiliates in January of 2011. In March, they registered to attend our Las Vegas Funding tour. And yes, that's me dressed up as Elvis.

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John and Sue became Inner Circle Members in August of 2011. Regan, who runs our consulting program, went out and spent 3 days with the

McDonald's in October of 2011. In January, they purchased this house in Connecticut. They bought it for $112,500 and we lent them $122,500.

100% Financing and Rehab Costs? YEP!

Something many people don't realize is that our Inner Circle Members enjoy 100% financing on their real estate acquisitions and, in some cases, we even cover all the fix up and repair costs as well. The mentoring fees essentially become the last thing they need to come out of pocket for because from there on, they use our funds to do deals.

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Here's another one they bought for $40,000. Here's another one they purchased for $95,000 to put $1,000 earnest money down. We lent them $94,000. In June they attended the Funding Tour in Baltimore,

which re-motivated to buy more properties. They went out and did another deal for $80,000, we lent them $76,375. Here's one that they bought for $69,000, and we lent them $78,000. Again, because they are one-on-one consulting clients, we can give them 100% financing plus money for fix up and repair. They're in the process of getting that one rehabbed. Here's their sixth loan. They bought it for $58,500, we lent them $58,500. As you can see, they are on the Circle of Wealth to quickly becoming lenders. Here's their latest check. They made a $20K profit here, and you can see that was just dated in April.

Do you want to be involved in the Inner Circle?

Do you want access to 100% financing as well as money for fix up and repair?

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Well, **Patrick Judd** did it. He became an affiliate in June of 2011. Attended our Las Vegas Mastermind in December 2011, and then became

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an Inner Circle Member. Juston Puchar, one of our consultants, worked with him in San Antonio in January. He also attended a funding tour in San Antonio in 2012.

In March, he purchased this house for $58,433, and we lent him $58,500. He bought another house in Columbus for $53,000, and we lent him $53,000. Patrick continues to buy and to do deals today.

Are you seeing a trend here yet?

This is Aaron and Dory Schrickel.

This is a cool story because some of you go as far back with me as the late '90's when I started in the info-marketing space. Aaron and Dory actually purchased from a direct mail piece that I was dropping in 2007.

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They purchased my Fortunes in Foreclosures home study course in 2008. Think about how long ago that was, it was 2008. They attended my Hard Money Mastery seminar in Salt Lake City in September of '08, and they became Inner Circle Members in September of 2012. We've been in communication since 2007, when they purchased the initial book and DVD course, and then almost five years later, they took the plunge and got involved in our Inner Circle in 2012. Regan Richmond went out and spent 3 days with them in February.

They bought this house in Ohio for $48,750, we lent them $48,750 (100% financing). They later paid it off. They then purchased this house for $164,000, and we lent them $150,800. We're continually in the process of lending them even more money on their deals. They invested in themselves, by being an Inner Circle member and now we're investing in them to complete the Circle of Wealth!

Many of you right now are in need of 100% financing and money for fix up and repair. You probably realize that we do not offer 100% financing and fix up and repair money to our Affiliates or other clients, right? Why? The relationship that we have with you is not as strong as we need it to be to feel confident in lending you 100% funding and money for fix up and repair.

But we have raised several million dollars for our Inner Circle Members. We do this because we've invested time and resources on our Inner Circle members and we're confident they have the chops to make smart real estate buying decisions. One of our highly trained consultants fly out and spend 3 whole days in the field with you. They show you how to find the types of deals that we are looking for. They help you find lease option strategies like we were talking about here today. They will help you go to the auction and acquire property at the foreclosure sale. They will walk you through everything.

On your next two, three, or four subsequent transactions, we will call your consultant, who you have spent three days with in the field and 12 weeks with on the phone, and we will ask them, "Hey, so-and-so over

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Are you willing to sign off?" When that mentor tells us, "Yes, I'm signing off on this deal." We then will fund 100% financing of your purchase price and 100% of your fix up and repair. We'll put those funds into escrow and we'll deploy them as the work is completed. You'll get it sold, we'll pay the loan off, and we will go and do it again, and again, and again.

I can tell you that our most successful clients right now are those who have gone out and spent 3 days with one of our highly trained consultants. I am highly recommending and encouraging that every single one of you get involved in the mentoring program. Now, I have 2 spots available in the month of July. Normally my mentors are booked out months in advance, and I can't get them out to you that quickly, but I have two spots for the month of July. I'm going to encourage you to get involved.

Go to www.privatemoneyexchange.com/ICS and watch this special video training. Then let us know if your interested in getting involved with our Inner Circle Consulting program. If you would like to hear more about it, just simply fill out the form. One of my people will give you a call and see if you're a good fit for the program.

Now, I can tell you that you don't just qualify because you want to. We are looking for motivated, driven individuals. If you have been attempting to be a successful investor, and you're having difficulty getting off

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> Get Involved in the Circle of Wealth

the starting line, you cannot afford **not** to have mentor come out and work with you and spend time with you in your market. However, if we believe that you are going to invest a significant amount of money and do nothing, then we're not interested.

I was on the phone last week with two different groups, both of whom want to give us an additional $10 million to deploy. That means that I need more competent investors that we can lend money to and we lend the most money to our Inner Circle Members because they are the best trained and they have the built-in reputational capital with us and our consultants, which is why you absolutely need to do this.

Now, you may be asking right now, "Lee, what does it cost?"

You know what, don't worry about that. All I'm interested in is how motivated are you for your own success? We will figure the rest out, ok? We are very creative. Our company has grown to the size that it is by being creative investors. We will figure out a way to make this happen for you, if you can convince us that you are motivated and that you are a good candidate.

Just go to www.privatemoneyexchange.com/ICS and watch the special bonus video and then fill out the form.

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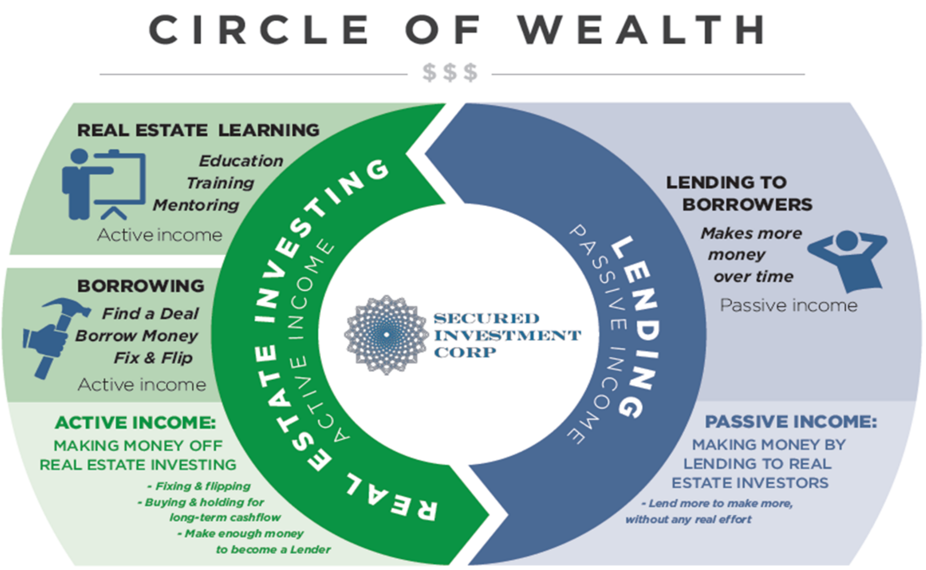
> Get Involved in the Circle of Wealth



OPPORTUNITY

> Get Involved in the Circle of Wealth

After years of teaching and mentoring around the nation, I found that education doesn't mean a lick, if the person being taught doesn't have the capital to put their knowledge into genuine action.

So, I took the challenge and created a place, Private Money Exchange, where real estate investors could go for unlimited funds for their non-owner occupied investments.

While the progression seemed natural, we were missing one, very large and essential piece of the pie. The marketplace was teeming with people who had the funds, who aspired to make higher returns on their invested dollar, but lacked the desire to get involved in real estate at the ground level.

In light of this opportunity, we created Secured Investment Corp, which gave people a medium to lend on private money loans secured by real estate, and make higher returns than they

> Get Involved in the Circle of Wealth

were currently seeing in the stock market, bank CDs, or bond investments. As we combined all these facets—training, funding, and the means to lend on real property—we began to notice a progressing trend of growth and success with the clients involved.

Through this model, what we call *"The Circle of Wealth,"* we also noticed that people who entered in at the training level and borrowed funds for their real estate investments, eventually became blenders in their own right. They then helped others obtain the capital needed to grow their real estate portfolios.

This allowed everyone, on every side, to win!

It is our goal that **<u>everyone</u>** can enjoy some level of success in ***The Circle of Wealth***, and inevitably lap it several times over! We hope you're one of them!

<u>Circle of Wealth Member</u>

"I chose to work with Private Money Exchange because I have watched Lee over the past few years. I have been impressed by his attitude, ethics, and humility. My experience has shown that the company performs excellent due diligence before agreeing to an investment.

Becoming a lender was an easy business decision for me. But a thank you gift was icing on the cake. Where do I send my thank you note.

I have to believe this is a terrific place to work! Thanks for all your help."

- Susan C.

> Who is Lee Arnold?

Like most self-made millionaires, I began at the bottom of the financial food-chain. My humble beginnings started as a bag boy at a local grocery chain in Spokane, Washington working for $3.90 per hour. My first “aha moment” happened while I was aspiring to a management role at the store and was reading the life-changing book, “Rich Dad, Poor Dad” by Robert Kiyosaki. Suddenly my management aspirations looked very small, but my future possibilities became extremely big.

My second “aha moment” happened while I was sitting in a philosophy 101 course in college. My attention span was divided between the slow ticking of the clock and my professor’s long winded discussion on the economy. While the minutes ticked by, he let it slip that he was making only $45k a year. That information and the knowledge I gained from Kiyosaki’s book, made me realize I was on the wrong path to success and needed to make some very important changes fast. So, from those experiences and an influential nudge from an incredibly persuasive late-night infomercial, I went into real estate.

I began the way many people do—in the educational and training space. Like many, I went to real estate seminar after seminar and bought course after course. Through long years of trial and error, I built up a very profitable, million-dollar real estate business from the ground up. I’m proof-positive that the training system can and does work! Because of this, I decided to help others by teaching them how to translate workbook education and real estate theory into the real world of real estate investment.

THE Lee Arnold SYSTEM OF REAL ESTATE INVESTING