

FLIPPING HOUSES 101 eBook SERIES

Financing Your Fix and Flip Projects

Strategies and insights for
securing the optimal financing
for your fix and flip projects.



PART
2



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Introduction

So, you've heard about house flipping, right? It's when you buy a distressed property, give it a makeover, and sell it for a profit. If you're new to the fix and flip game, it might seem like there's a mountain of information to learn, and the whole process can feel a bit daunting.

But hey, even if you're a seasoned investor, there's always room to grow! In this business, you can never stop discovering new tips, tricks, and strategies that can boost your success.

Fix and Flip

Since the housing crisis peak in 2009, the house-flipping market has been on the rise. In 2022, a whopping 407,417 single-family homes and condos in the US were flipped, marking a 14% increase from 2021 and a staggering 58% jump from 2020. That's the highest it's been since 2005, with flipped homes making up 8.4% of all home sales¹.

Sure, reality TV shows like Flip or Flop, Flip This House, and Property Brothers have made house flipping look exciting, drawing thousands of new investors. But let's be real, it's not as easy or straightforward as it seems on screen.

About this eBook

Flipping Houses 101 is a series of eBooks that cover the “6 Fs”—**Find**, **Finance**, **Fix**, **Fill**, **Flip**, and **Fun**—of flipping houses. In this eBook, we examine part two—**finance**—and explore various financing options that you can leverage to secure your real estate investment deals. Ready to get flipping? Let's go!

¹ATTOM Staff, “Home Flipping Spikes across U.S. in First Quarter of 2022 but Profits Drop to 13-Year Low,” ATTOM, June 23, 2022, <https://www.attomdata.com/news/market-trends/flipping/attom-q1-2022-u-s-home-flipping-report/>.

Part 2: Finance

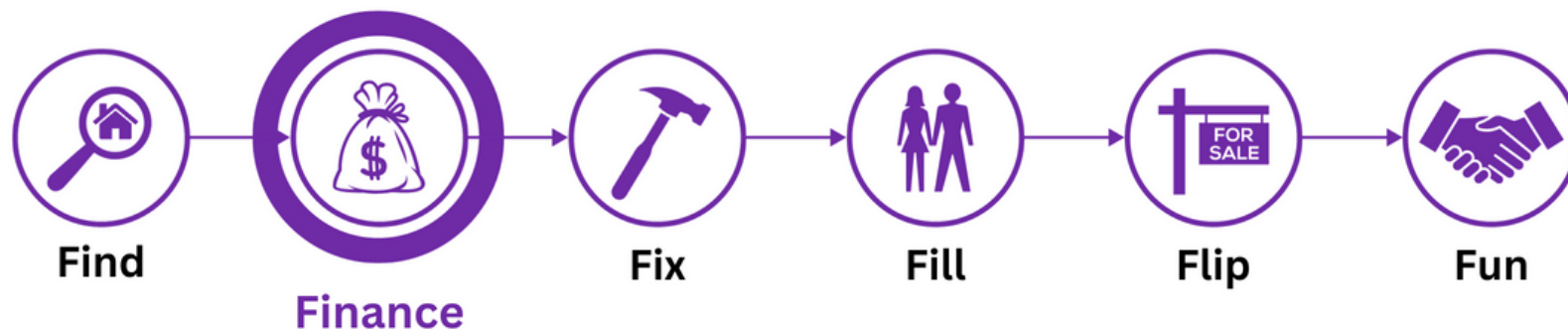
How To Get Financing For Your Fix and Flip

Wouldn't it be awesome to fund your daring fix and flip endeavors with the same cozy interest rates and repayments as a traditional mortgage? But the reality is that banks and credit unions often seem to be a touch shy about showering real estate investors with such benefits. It seems they get a bit jittery about the risk involved.

Why? Well, while you can quickly generate profit when flipping houses, you can also potentially lose money. This is particularly true if that "For Sale" sign starts gathering dust post rehab.

But hey, don't pack away those blueprints just yet! Fortunately, you aren't limited to traditional financial institutions, and there are various ways for real estate investors to fund a successful flip. So buckle up, real estate adventurers, as we embark on a journey exploring five common and potentially rewarding paths to finance your fix and flip dreams.

Ready to roll? Let's go!



Cash

Many seasoned real estate adventurers live by the creed: “Cash is king.” Indeed, cash does wear the crown when it comes to the simplicity of purchasing investment properties. But, if you’re fresh to the real estate field, your cash resources may not be as plentiful as those who’ve been cultivating their investments for years.

Now, suppose you’ve managed to amass a significant cash reserve and are mulling over the idea of buying properties outright. Before you dive in, it’s crucial to assess some key factors. Let’s explore the pros and cons of fueling your investments with the power of cash.

Pros

- **With cash in hand, you can finance a fix-and-flip project without any restrictions based on the property’s condition.**
- **You get to skip the line, bypassing the often slow-paced lending process.**
- **You avoid those pesky borrowing costs, such as fees and interest.**
- **And, let’s face it, it’s simply easier. Borrowing can sometimes feel like a maze, depending on the lender.**

Cons

- **The foremost requirement: a solid cash reserve.**
Keep in mind, the median cost of a home in the US is hovering around \$430k as of April, 2023.¹
- **You limit your asset diversification when you invest all your cash in a single property instead of using financing to acquire several investments.**
- **Not leveraging—a.k.a using other people’s money—can make your entry into real estate investing a tougher climb, especially when you’re trying to save enough to pay outright for properties.**

In the exciting world of real estate investing, cash can be a reliable ally. But, as with any aspect of this journey, it’s vital to grasp both the advantages and the potential setbacks it might bring.

¹Danielle Dale and Dabrina Speianu, “April 2023 Monthly Housing Market Trends Report,” Realtor.com, last modified May 4, 2023, <https://www.realtor.com/research/april-2023-data/>.

Home Equity Loans and HELOCs

Ever heard of home equity loans and home equity lines of credit (HELOCs)? These are financial tools that may differ in their workings, but they share a common principle. You're essentially harnessing the power of the equity tucked away in your existing home to fund your fix-and-flip project.

Let's pause for a moment. What exactly is equity? Picture it as the golden difference between your home's market value and the outstanding balance on your mortgage. Say your home is valued at \$350,000, and you've still got a \$200,000 mortgage balance. That leaves you with a sweet equity pot of \$150,000 to dip into for renovations.



Home Equity Loan

Obtain a single installment of money which can be used to finance a fix-and-flip project.



HELOC

Access a flexible line of credit, similar to a credit card, allowing you to borrow as needed and pay interest only on the utilized amount.

If you have enough equity tucked away, these options can be among the most cost-effective avenues to finance your fix- and-flip dreams.

However, like many things in real estate, home equity loans and HELOCs come with their own set of pros and cons. Let's navigate through these:

Pros

- With a HELOC, you pull out only what you need—no more, no less.
- You're free to use the funds for any venture. This could be a strategic move to boost your investments and make them work harder for you.
- If equity is on your side, home equity loans and HELOCs can be quite affordable.

Armed with this knowledge, you're one step closer to transforming your fix-and-flip dreams into reality. Remember, every financial tool has its pros and cons, so it's essential to choose wisely and make your equity work for you!

Cons

- If you tap into all your home equity and property values in your area take a nosedive, you might find yourself in choppy waters.
- Keep an eye on interest rates—they could change every month.
- Remember, your equity acts as your limit. You can't draw more than you have.



Hard Money Loans

When time is of the essence, and your fix-and-flip project is on the fast track to completion, you might find yourself drawn to the fast lane of financing. House flippers generally plan to sell the home within a short period—typically less than a year—so they don't need a longer loan term like a traditional 30-year mortgage.

In the fix-and-flip arena, you're not planning a lengthy stay—you aim to enhance, sell, and move on, usually within a year. So, a marathon-like 30-year mortgage? Not the best fit.

Fix and flip loans, also referred to as bridge loans, are built on the asset-based lending model. Think of it as having a safety net for your lender—the value of the property you're investing in acts as an insurance policy. If you fail to keep up with payments or repay the loan at the end of the term, the lender can claim the property.

Did You

Know?

The print in financing can significantly impact your return on investment? At 1st Truitt Financial, we believe in transparency and being upfront about the fees we do and don't charge.



But here's where it gets interesting. Unlike traditional lenders who comb through your financial life history, hard money lenders focus mainly on the property's value. This shift allows for a faster process, and you could have your funds ready in mere days instead of weeks or months. Let's explore some pros and cons of these turbocharged loans.

Pros

- **Quick approval and swift closing? Check.**
- **Approval is property-focused, not tethered to your credit history.**
- **Flexibility is the name of the game.**
- **Less stringent underwriting process—it's like a breath of fresh financial air.**
- **Opens doors to the exciting world of fixing and flipping properties.**

With this insight, you're better equipped to decide if hard money loans align with your fix-and-flip goals. Remember, as with all financing options, it's about finding the right fit for your unique situation.

Cons

- **Watch out for medium to high-interest rates—they come with the territory.**
- **Be prepared for substantial down payments.**
- **Shorter terms mean a faster repayment clock.**
- **The risk of foreclosure or default is present, just like in any real estate investment.**



Private Lenders

Ever thought of venturing off the beaten path of traditional banks, credit unions, or government agencies for your loans? Private loans spring from individual lenders or private organizations, acting as a different kind of lifeline for your fix-and-flip ambitions.

If you're an investor who's looking to dodge the rigorous criteria of a traditional loan, or you're in need of a speedy transaction with fewer hoops to jump through, a private loan might be the road you want to take. These loans often open their arms to easier qualifications, faster processing, and flexible terms.

Keep in mind, though, private loans still have to play by federal and state rules. The lender holds a stake in the property as collateral, and if the payments slide or the loan isn't repaid, they can take legal action. This could potentially lead to the repossession of the home and strained relationships.

Did You

Know?

Interest fees can eat into your profits and hinder the success of your real estate ventures.



When considering your financing options, it's important to carefully evaluate the advantages and disadvantages to ensure the best fit for your unique situation. Let's take a closer look at the pros and cons of partnering with a private lender:

Pros

- An approval process that's as swift as a gazelle.
- Easier qualifications—it's like a breath of fresh air.
- Potentially more attractive loan terms, tailored for your needs.

Cons

- Possible legal ramifications if things go sideways.
- Differences from one lender to another—each has its unique way of operating.
- Interest rates are typically higher with private-money lending than with conventional loans.

As with any financial move, it's crucial to weigh the pros and cons and choose the best fit for your unique situation. Private lenders like 1st Truitt Financial can be a compelling choice for your real estate investing journey, offering a personal touch and tailored solutions to your financing needs.



Owner Financing

Some owners will offer to help finance the home they're selling because they would rather have a steady flow of monthly payments vs. one lump sum. Owner financing, otherwise known as seller financing, involves the seller providing the buyer with funds instead of a traditional mortgage lender.

Also known as seller financing, owner financing turns the seller into your personal financier. Instead of handing over the keys and taking a one-time lump sum, they opt for the steady rhythm of monthly payments. And instead of you securing a mortgage upfront, the seller lets you make installment payments over a set period, making up the total cost of the home, minus any down payment.

Picture this—you agree to the seller's terms, sign on the dotted line of a legal document that sets the interest rate, repayment plan, and penalties for not making those timely payments. Sometimes, the seller keeps their hands on the rights to the property until the loan is paid in full.

This is accomplished by amortizing the loan over 30 years (which keeps the monthly payments low), with a final balloon payment due after just 5 or 10 years. The idea is that after 5 or 10 years, the buyer will have enough equity built up to improve their financial situation and qualify for a mortgage.



Below are some pros and cons of owner financing. Let's check out the pros and cons of dancing to the beat of owner financing:

Pros

- Quick steps to closing—no waiting around for a lengthy mortgage process.
- Ditch the bank fees and appraisal costs—it's all about simplicity.
- Flexible down payments—you might find a little wiggle room here.
- It's an alternative path for buyers who can't qualify for a traditional mortgage.

Cons

- Could come with a higher interest rate—every beat has its cost.
- Seller approval is required—after all, they're your personal financier.
- The potential for balloon payments—large, lump-sum payments due at the end of the loan term—can create financial pressure and require careful planning.

Conclusion

As we close out Part 2 of our guided tour through the “6 Fs” - Find, Finance, Fix, Fill, Flip, and Fun - we hope this journey has been both enlightening and enriching. Whether you’re just stepping onto the path of real estate investing or you’re already walking confidently along, constructing a thriving portfolio, we’ve designed these insights to help pave your way.

The second ‘F’, Finance, plays a pivotal role in your real estate investing journey. Just like the varied bricks and beams that make up a sturdy property, the financial options are numerous and diverse. From traditional pathways like banks and credit unions to alternative avenues such as home equity loans, hard money loans, private lenders, and even owner financing - each has its own unique blend of benefits and challenges. Choosing the right fit is an art, balancing risk, reward, and your personal strategy.

No matter if you’re laying the foundation for your first investment property or you’re adding a rooftop to your fiftieth, keep this in mind: you’re not building alone. 1st Truitt Financial is here to support you with customized financing to fit your goals and help you grow. From every brick laid to every beam hoisted, we’re here to help your real estate ambitions come to life.





Since 2013, we've believed that real estate investors could benefit from the power of modern technology and tailored industry expertise. In just a few years, we've built an industry-leading team and a powerful technology platform that delivers flexibility, speed, and simplicity that our customers rely on.

Together, we've funded more than **\$16+ billion** in loans, unlocked **\$4.1+ billion** of value for real estate investors to help them scale their business, and completed over **65,000 projects**.

As we look to our future, we're committed to helping real estate investors revitalize the approximately \$25 trillion worth of aged U.S. housing stock to provide move-in ready homes and rental housing for millions of Americans across the country.

Ready to Get Started?

1st Truitt Financial's advanced tech platform removes many traditional barriers, automates time-consuming manual steps, and provides quick approvals and true transparency throughout the entire process. We provide robust backing with expert guidance for both new investors as well as seasoned professionals.



Fix and Flip / Bridge Loans

Short-term financing for purchasing and rehabbing investment properties with high leverage, competitive terms, and fast closings.

[Learn More](#)



DSCR Rental Loans

Flexible term lengths, low rates, and easy processes to maximize monthly rental income allow you to enjoy the benefits of property appreciation.

[Learn More](#)



Rental Portfolio Loans

Consolidate 5+ properties under one low monthly payment and customizable loan to make managing your growing portfolio easy.

[Learn More](#)

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