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Monday,
June 15, 2009

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MONDAY, MAY 18TH MEETING:

Sandusky County Auditor Bill Farrell

As Chief Fiscal Officer of Sandusky County, the Auditor is the bookkeeper for all county elected officials and many of the county agencies such as Human Services and Children Services. The County Auditor also keeps books for many "outside" agencies such as park districts, health departments, soil and water conservation districts, and regional planning commissions. As part of that bookkeeping responsibility, the County Auditor pays all the bills for these groups including payroll.

Your County Auditor establishes the real property value and calculates the property tax for every parcel of real estate within your county. After the taxes have been collected by the County Treasurer, the Auditor then calculates how much of the money collected goes to each taxing district. Cities, villages, townships, school districts, park districts, community colleges, and others depend on the Auditor to do this quickly and accurately because these taxes are their lifeblood.

If Sandusky County is unable to collect real estate property taxes, they are also unable to provide important government services like police protection, public schooling and medical services.

Unpaid property taxes create a serious cashflow problem for Sandusky County.

Property taxes that are delinquent are added to any previously uncollected taxes on a parcel of Sandusky County. Parcels whose taxes are subject to sale will be advertised in a Sandusky County newspaper of general circulation. The parcels are listed by sequence number. Parcels fall into 1 of 2 groups. Each group is sorted by parcel number.

The Sandusky County tax sale list appears about three to six weeks before the Sandusky County tax sale auction and is also posted on the Internet.

To solve this problem, Sandusky County allows investors to pay off these taxes. In exchange the investor receives the Sandusky County lien for taxes. A tax lien is simply a claim for delinquent taxes.

Why would investors do this?

Well, depending on Ohio laws and competition, savvy Sandusky County tax sale investors can realize high-yielding returns with Ohio tax lien certificates and/or purchase real estate for a fraction of its true market value with Ohio tax deeds.



Bill Farrell has been the Auditor of Sandusky County since 1979, earning his Bachelor's Degree in Accounting at Tiffin University.

Asset Protection for Real Estate Investors

By Marco Santarelli

During the early years of my real estate investing I ran my business as a sole proprietor because I was confused about asset protection. All the books and expensive courses only added to the confusion, and the subject of asset protection only became more frustrating for me.

Luckily, I survived with only minimal damage, but there comes a point when it is time to assess the best legal structure to use for real estate investing. This becomes increasingly important as your net worth grows.

Consider this scenario. You are sued for an accidental injury that occurred on one of your properties where you held title in your name personally. You are sued for \$2,000,000. Your insurance only covers \$1,000,000. That's a very bad day.

The biggest mistake you can make in real estate is to hold title on your property in your own personal name. Title to property is public record. Anyone can look up what you own, determine its market value, and deduct what you owe to determine what they can attempt to sue you for. It's like painting a bulls-eye on your back for prying eyes such as attorneys, creditors and even your tenants.

So what entity provides you the best asset protection? How do you limit your liability exposure?

Now, if you ask 10 experts about asset protection, you are likely to get 10 different opinions. With that in mind, I'll share my opinion and experience. Remember, free advice is only worth what you pay for it.

If you are a beginning investor, it's probably best to not worry about asset protection until you actually have some assets to protect. Why spend your time and money setting up a business entity and creating tax reporting requirements unless you need to? That's like buying full coverage auto insurance on a beat up car that you don't own. What's the point?

Once you have some investment property to protect, then it's time to set up your business structure.

Your first line of defense is liability insurance. You should carry an insurance policy on each of your properties covering all the normal hazards plus liability insurance for as much as your insurance provider will allow. This will vary but may be capped at \$1,000,000 to \$2,000,000 per property.

In addition to your individual insurance policies, you will want to purchase additional liability insurance in the form of an umbrella policy that covers all your properties and covers you for any shortfall in the individual policies. This is not expensive and is well worth the cost.

Here are the various options when it comes to asset protection vehicles:

Land Trusts: A land trust is basically a living trust used to hold title on real estate so the beneficiaries of the trust cannot be easily discovered. It is a very good tool for anonymity. However a land trusts is not considered to be a separate taxable entity and there are no tax benefits to holding title in it.

Corporations: A corporation can be an effective vehicle to hold your real estate assets. Additionally, corporations have some great tax benefits that may not be available using a limited liability company. For example, the first \$50,000 of net profit is only taxed at a 15% tax rate with corporations versus paying taxes at your personal income tax rate using a flow-through LLC. Additionally, you can use your corporation to pay for a large number of allowable expenses using pre-tax dollars.

Depending on your tax situation you may be better off with a C Corporation rather than an S Corporation. A corporation is a C Corporation by default and files a separate tax return whereas an S corporation is specially set up so that it splits its profits among its shareholders. The shareholders then report their income on their own personal tax returns. In some cases it's better to start out as an S Corporation and later change to a C Corporation when the tax advantages become evident. Consult your tax advisor on this.

LLC: A limited liability company (LLC) allows its members (shareholders) to participate in the running of the company without sharing in its liability. Like an S Corporation, the profits and losses flow through to the owners. However, buying and selling multiple properties within an LLC may subject its members to "dealer status", which would force you to pay taxes on any gains at ordinary income tax rates as opposed to capital gains rates.

Keep in mind that many states do not provide you with anonymity because the officers, directors and/or members of the entity are a matter of public record and are freely searchable on the internet. If anonymity is important to you, consider states like Delaware and Wyoming that offer complete privacy.

The bottom line is you need to cover your assets ("CYA"). Protect yourself with adequate insurance coverage and an entity that provides you liability protection and anonymity.

Marco Santarelli is an investor, author, and founder of Norada Real Estate Investments – a national real estate investment firm offering turnkey investment property in growth markets nationwide.

Contingency Clauses Make for Risk-Free Real Estate Investing

You just found what you think might be a great real estate deal. The property is being sold for a below market price and it has lots of potential. You haven't run the numbers, so you're not positive that you want to buy it. But you know that if you don't get it under contract now, another investor will come along soon. How can you put it under contract--without financial risk to yourself--in order to analyze it further?

The answer is simple. Use a contingency clause.

When writing offers to purchase real estate, it is essential that you include language in your contracts that protects you and gives you greater control. This is true whether you are dealing with:

- For Sale by Owner (FSBO) properties,
- Properties marketed through the MLS, or
- Properties that have been repossessed by financial institutions.

Every buyer's contract should contain at least one contingency clause. ***But what exactly IS a contingency clause?*** It's simple: A contingency clause is language that let's you get out of a real estate contract--if everything is not what it initially seemed to be--without losing a penny.

Three Savvy Clauses

There are literally hundreds of contingency clauses you can use as a buyer. But you don't need hundreds in your contract--you only need one to get you "off the hook" if you decide not to go through with a deal. Here are three popular and powerful contingency clauses:

1. *This offer is contingent upon buyer receiving favorable financing.*
2. *This offer is contingent upon buyer's inspection and approval of property before closing.*
3. *This offer is contingent upon buyer's **partner's** inspection and approval before closing.*

(The third clause can generally get you out of any contract and could easily be modified for use with someone other than your "partner"--perhaps your CPA, attorney, spouse, or another friend or family member.)

Canceling a Transaction Is Your Right

Some people refer to contingencies as "escape" clauses or "weasel" clauses as if it were somehow wrong to cancel a transaction. But remember, a real estate contract gives you--the Buyer--the specific right to do additional research to make certain that you want to conclude the transaction. And the Seller agrees to give you this right when you use a contingency clause.

What if you inspect the house the day before the closing and say, "This is not what I thought it was. I don't want it." Can you get out of the contract? Yes. Do you have to close now? No. Assuming you put down earnest or escrow money, can you get it back? Of course. So what is your risk? None!

Make Offers with Peace of Mind

Obviously, this ***doesn't*** mean you shouldn't go around writing contracts on properties you have no intention of closing on. Discretion and integrity are important, no doubt. But it ***does*** mean that when you use a contract that contains a contingency clause, you can relax and make the best decision for you--with no financial risk.

Get out there and enjoy your risk-free real estate investing!

Writing an Effective Advertisement

Often, the first contact a potential tenant has with you is through a written advertisement for your property, be it online or in print. This first impression is exceedingly important in attracting numerous quality tenants.



The most important factors in writing a good classified ad include

1. The first word or two of the ad is the most important. It must catch the reader's eye and entice them to read more. Words like "clean" "large" "quiet" and "new" are all good examples.
2. Find out if your newspaper lists classifieds alphabetically. If this is the case, you may want your first word to start with one of the first letters of the alphabet. This is an especially helpful tactic if you are competing with many advertisements in a large city.
3. Since most classifieds do not include a picture, it is important to be as descriptive as possible.
4. Be sure to include basic information such as rent price, exact location and number of bedrooms. Including information regarding amenities will increase the likelihood of receiving relevant calls.
5. Does your rental have carpet, a stove, drapes, utilities, laundry, a pool, a refrigerator or a yard. Are pets or children ok, or do you want adults only

Be sure to only use commonly known abbreviations such as "AC". Avoid confusing, less well known abbreviations such as "KIT" for kitchen, or "HW" for hardwood floors.

Once your advertisement has been printed, be sure to look in the newspaper and verify that it is correct.

Renting to College Students



It is common for many college students to search for off campus housing alternatives to tiny, expensive, randomly assigned dorm rooms. Students can be great tenants, but certain precautions should be taken into consideration when renting to students.

1. College students typically don't have established credit histories so it is smart to require a parent or other adult with established credit to co-sign the lease. Run a credit check on the co-signer to be sure that if the students don't come up with the rent, it can be collected from a reliable source.
2. Larger than normal security deposits are often required by landlords of college students, due to their reputation for causing damage to a property.
3. Turnover is common amongst students, so keep this to a minimum by requiring a nine month or yearlong lease. This will reduce the costs incurred to you by constant turnover, and will reduce the amount of time your property is vacant between renters.
4. Students often rent in groups, so make sure each person planning to occupy your property has signed the lease. This can help you identify who is liable in case of a problem.
5. Inspect the property often: at least every 45 days. This will reduce the likelihood of being left with a mess at the end of the school year, and will allow you to keep up with any damages as they occur, so appropriate repairs can be made in a timely fashion.

Real Estate Ownership without Personal Liability

Many real estate investors don't realize they can take title to a piece of property while leaving the mortgage in the seller's name. Although this seems to go against traditional thinking, not only is it legal, it happens all the time. **It's called a "subject to" deal.**

A "subject to" deal is when the seller gives you the deed to his home but leaves his mortgage in place for you to make the payments. You don't have to qualify for the loan, have your credit checked, or come out of pocket with cash. You just use a piece of paper to transfer title (the deed).

A Common Scenario

Let's say a seller is behind on his mortgage payments, and does not have the financial means to bring them current. You, as the buyer, can agree to make his mortgage payments for him, if he'll sign the deed of his property over to you. Meanwhile, the loan stays in the seller's name, but you own the property!

The seller--faced with losing his house to foreclosure--has very little to lose with this arrangement and much to gain. If you bring his payments current and eventually pay off his loan (through sale of the property), he owes you a debt of gratitude for rescuing his credit along with his dignity... and taking a huge weight off his shoulders.

Changing Ownership with Real Estate

Taking title in this manner is called "subject to" because the buyer is taking title **subject to** the underlying loan. Many real estate investors will also refer to this type of transaction as "getting the deed." That's a little misleading, however, since you don't actually get the deed. In reality, you must get the sellers' to sign a new deed prepared by you or some other professional. Changing ownership of real estate isn't like buying a car. There is no previous title or ownership document to use because their interest in the property is recorded in public records.

How Did This Happen?

Buying real estate "subject to" has become more and more popular over the years as the number of *assumable* loans has diminished. A couple of decades ago, it was very common for a buyer to be able to assume a seller's existing loan without qualifying. Although a few assumable loans still exist (some FHA, VA, and private loans), in general, lenders don't issue them anymore.

But why would you want to assume a loan anyway? By assuming the seller's loan--you must submit paperwork to the lender, get approved, and become personally liable for the debt. Why do that when you could take title "subject to" instead? "Subject to" eliminates personal liability to you because you have not guaranteed the note to the bank. Yet the deed transfers all the ownership rights of the property to you!

The Demand for "Subject to" Deals

In today's soft real estate market, many people **need** to sell. Some simply can't find a buyer. Others are in pre-foreclosure and have no way out. "Subject to" is a great way for you to purchase properties without using any of your own money. Motivated sellers are everywhere, and some will even PAY you to take their deed. With "subject to" deals, it's always a great time to invest in real estate!



THANK YOU TO LAST MONTH'S GUEST SPEAKERS

A special thank you is extended to our own Cindy Crispen for her informational topic regarding all the different changes that are amongst us in the mortgage lending industry. And an extra thanks to Karl Schabel, of Schabel Appraisal Services, for his input on how the new governmental banking policies affect his appraisal business and what it all means to us as real estate investors.

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For further information,
you may contact
any of the
Board Members
at any time

About Our Organization...

SCAREIA was organized in October 2005. Our primary focus is to share information, to help educate and to motivate our members in their successful real estate endeavors.

Anyone interested in Real Estate Investing, whether you are just beginning or a seasoned investor, are welcome to join.

SCAREIA meets the 3rd Monday of every month at 7pm. Meetings are located in the basement of the Fort Stephenson House, 600 W. State St., Fremont, Ohio.

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