

LEASE OPTIONS 2.0



OPERATION MANUAL



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Introduction

The Operation Manual you have is intended to be a guide to help you get started in lease options, or give you ideas that you may not have thought of before if you are already doing lease options.

This Operation Manual is not intended to give you answers to every possible scenario that may arise with lease option transactions. No manual or book can possibly do that.

This manual designed to use in combination with the online training videos and documents on LeaseOptionClasses.com will give you the tools and education that you need to get started in lease options, particularly lease option assignments, which is what Leasing To Buy specializes in.

You received a certificate to attend a 3 day bootcamp with your manual, and I can not stress enough how powerful the 3 day events are in exploding your knowledge of lease options. You can watch the website for upcoming events and register for a bootcamp there. At the events we go through the entire lease option process, and also do live deals right there as we make calls and talk to sellers. Leads that YOU bring us!

As updates are made to any documents they will be updated on the site as well as your flash drive once you insert it into your computer and log in.

Please print off your 30 Day Action Plan and take action to complete each step. If you focus and follow the steps you can do this. Read the manual, watch the videos in their entirety. Start taking action on the 30 Day Action Plan, and register for a bootcamp.

After the bootcamp you will know more about lease options than most educators!

If you want to learn more about the Leasing to Buy Affiliate Program e-mail us at: support@leasingtobuy.com or call us 817-663-7610

Disclaimer: There are absolutely no guarantees of success with this education or any investment or real estate training. The success lies solely on the person using and implementing the training.

Leasing to Buy Affiliate Program

If you are interested in more in depth, hands on coaching, then the Affiliate Program is what you are looking for.

Unlike most “coaching” programs, the Affiliate Program stands out among coaching programs. Why?

Because it is not a typical 6 month or 90 day coaching, rather it is much more like a license agreement type of arrangement whereby you, as the Affiliate, have the full support and branding of Leasing to Buy, and we are working directly with you to help you get deals and close them.

This goes far and above a coaching program, as we are often talking to the sellers with you, setting the numbers, checking the contracts and seriously involved in the transactions.

You will still get weekly group coaching, weekly 1 on 1 coaching, and of course full access to everything that Leasing to Buy brings to the table.

There is no better way to ensure your success in real estate than this program where we take you under our wings and work directly with you to do deals.

If you are interested in applying and learning more, simply contact us directly:

support@leasingtobuy.com

or 817-663-7610

You'll likely be surprised and the low investment that we have structured for you, as we want you to succeed. Your very first deal will likely pay for the entry of the Affiliate Program.



My Story

I hated...no...I loathed my job. I worked at Radio Shack and no, I didn't sell batteries or extended warranties. I worked in their repair facility repairing camcorders. For those of you a little younger, camcorders were something you used to record video with before there were smart phones. I had repaired camcorders for many many years, and I hated it for many many years. But I kept at it, and my day consisted of this:

Making the drive I hated to a job I hated to a building I hated and walked in to people I hated standing around at a computer talking about the job they hated and the management they hated then talking about where to go to lunch. (whew). THEN, at 11:00 I'd get in a car with people I hated to go eat lunch with people I hated to talk about the jobs we hated and the other people we hated and when we were done I'd get back in the car with people I hated to go back to the job I hated and continue to do the job I hated then finally leave the place I hated to make the drive I hated back home.

Does any of this sound slightly familiar to you?

I hope it doesn't, but then again, I kind of hope it does, because I want you to know something. It can get better. Far, far better, but only if you make the decision to make it better.

I had been wanting to leave the Rat Shack for some time, and had been studying stocks and daytrading, learning a lot of the tactics, lingo and styles by researching and studying books and forums online.

One day my wife told me she was pregnant, so I did the most responsible thing I could think of, and I quit my job. I decided I didn't want to bust my butt at a job I hated, to pay for a stranger to watch my soon to be baby girl. So, I quit and became a stay at home daytrader and dad. I'm still so grateful to this day that I made that decision. For me and for her.

I was a daytrader and options trader for about 2 years and had wanted to get into real estate, but as I was looking at real estate I found a lot of similarities between the stock market and real estate. The 2 biggest similarities I found were that all markets are cyclical, and that successful traders and real estate investors have a niche.

I knew that I wanted a niche that required very little capital, and also involved very little risk. I looked at rentals, but it seemed like at the time that would involve getting a loan, then rehabbing the house, and renting it out, only to make, at the time, \$150 or so cashflow. That didn't seem appealing.

Every now and then I kept running across a mention about a niche called "lease options". Well, I understood options, because I had been trading options for 2 years. But at the time, the only information I could find about lease options seemed to be this:

"It's a great way to get down payment from someone who will never qualify for a loan, then when they can't qualify at the end of the year or two, kick them out and do it all over again". Well this didn't sit well with me of course, as I wanted to help people. So I took the essence of a lease option, as far as the core structure, and began envisioning and putting together the correct pieces needed to help make it successful for everyone involved.

Hence, Leasing to Buy was born.

I had ZERO clue as to what I was doing.

Yet, I started to do what was possible, such as create an LLC, get my EIN, and search what limited information that was on the internet at the time about lease options.

I had no idea how to find sellers that might work with me, and eventually would print off ads from Buyowner.com and spend two hours a week calling them to see if these sellers that were selling their houses FSBO might be interested in selling via a lease purchase.

They would typically just shut me down and I don't blame them, I didn't exactly have a decent phone pitch.

I did this cold calling for about 2-3 weeks and I wasn't making progress. I wanted faster results.

One day I decided to take a different street than I had ever taken, that was close by my house. I decided to just drive, not knowing there was a term for this, called driving for dollars.

Well, I found a house that had a FSBO sign in the yard and I called it. This house was about half a mile from my house, so it wasn't far, but I had never driven down these streets. I asked the owner if he might be interested in a short term lease purchase, and he said YES! YES!

Oh crap!

So here I go, I have to put the contracts together, and I assume with the help of Michael Carbonare, Mr. Naked-Investor, I put the contracts together and got them signed, and began to market the house.

I had a sign that I had made already, so I was set to go.

I put the sign in the yard and within about 3 weeks had a tenant/buyer for the house.

I showed it 2 times and the second couple snagged it up.

I made \$3500 on that house and that set the course for me.

That first house is always the most important because it assures you that this CAN be done, and that you CAN be successful.

After this house, the next house I found was also driving for dollars and was about 8 blocks away. It was owned by a HomeVestor franchise and that turned into a number of houses that I did for their franchisees.

After about 90 days I was doing nothing but lease options full time, and then grew it by bringing on reps and doing various marketing and even sending direct mail to listed houses which exploded our business.

My story may not be thrilling or exciting, but I think it does show that with effort and persistence that you too can succeed, and you can do it by following the steps in this manual.

Levels of Desperation

No matter what niche of real estate you are utilizing, whether it be wholesaling, Sub 2, or lease options, you need to understand the levels of seller desperation. Wholesalers, investors looking for sub 2, or pre-foreclosures are looking specifically for sellers that are at a high level of desperation. Sellers that are open to a lease option are not necessarily desperate, they are looking for Plan B.

Because of this, you have to understand this and when you do, it dramatically changes the approach you have when talking to sellers. You don't want to approach a seller about a lease option the way a wholesaler approaches the sellers they talk to. They are negotiating with a seller that they hope is desperate.

You are not. You are offering a Plan B to a seller that couldn't sell their house as quickly as they would have liked.

This will become very important as you work the seller scripts and develop your own flow and conversations on the phone with sellers.

So let's look at the levels

FSBO

FRBO

MLS

LISTED FOR LEASE

WHOLESALE

SUB2

FORECLOSURE

Most investors only work with one specific level, such as wholesalers only working with the 5th level. With lease options, you can work with the top 4 levels, and there's actually a level right between LISTED FOR LEASE and WHOLESALE that is prime for Sandwich Lease Options.

Sellers may typically start with trying to sell their house on their own, so they start FSBO, but after some time, 30 or so day, they are more likely to go to either FRBO, so look to rent their house, or go with an agent. They had not intended on renting their house, but now they think that renting is Plan B. It's not. But they need to be educated about a lease option and why it is far better than renting their house out.

****Because of this, calling and contacting FRBO is often the best place to start when looking for sellers!**

If they decide then to list the house, this is where we send mail pieces to houses that are listed over 60 days. I'll get into the specifics on that later, but targeting older listings is, in my opinion, the best use of your direct mail dollars.

Houses that are listed for lease (NOT with a property management company) can be a great source as the agent normally doesn't make much on the commission as it's just half of one month in many cases.

I always suggest that you are simply taking the seller leads, and once you have a conversation with them, you present the solution or solutions that might be a fit for their situation. So this way you aren't throwing away any leads. The only leads where we just can't help is if they are absolutely ADAMANT that they get cash with NO terms and that they get FULL price and CASH. Without some flexibility as far as terms or price then there isn't much we can do, but for most sellers a lease option is the perfect Plan B.

What Is A Lease Option

I'm still surprised when I'm talking to investors or new investors and how many of them aren't really sure what a lease option even is. I'm guessing because wholesaling is the big thing and what so many new investors try to start off doing.

But a lease option is actually the easiest way to get started in real estate because it requires no cash or credit, and you are working with pretty houses, not ugly houses.

So here is what a lease option is:

A lease with a separate option to purchase of real property. The Optionee (the tenant) has the right but not the obligation to purchase the property at a set price before a set date on the option to purchase.

If you have ever leased a car, then you actually had a lease option on that car. You were leasing it, but at anytime you could have purchased that car for a set price. You had a lease option.

A lease option does have some difference than just a straight lease of course. With a lease you have a deposit. With a lease option there is NO deposit but there is nonrefundable option consideration. The option consideration is much larger than a deposit, and is usually 4% - 5% of the price. (I'll get into the numbers and setting the numbers later, but for now I just want to make clear that there are differences between a straight lease and a lease option).

The terms of a lease option are set in the contract, as far as the lease amount, the option consideration, the length etc.

It's very important to understand what a lease option is NOT.

A lease option is NOT owner finance!

There is no transfer of title with a lease option, as the Optionee must obtain permanent financing in order to get the title to the house.

Therefore the Landlord (Optionor) can evict the Optionee for default, although we'll get into When Things go Wrong later in the book.

Although I'm about to get into the 3 types of lease options next, for now, I just want you to know the basic definition and idea of a lease option.

Here is an example:

A seller has a house he has rented out before but wants to sell it. He wants to get the full market value for it and knows he can structure a lease purchase which will cashflow and also get him full price.

A buyer (Optionee) comes along and rather than rent the house, he and the owner structure a lease option, whereby the Optionee is going to pay a nonrefundable Option Consideration, rather than a deposit, and that consideration will apply towards the price of the house at the time of finance. If he decides not to purchase the house then he forfeits the option consideration.

Again, the lease and option to purchase are 2 separate contracts, and you may hear that it is important to have 2 separate contracts, and the reason is so that if the seller does have to evict the seller can present just the lease in court and ideally then not have any potential issue with the tenant claiming that the seller was financing the house or anything that might cause a challenge on the eviction.

The lease will layout the exact terms of the lease, such as the monthly amount, and when it starts and ends just as a typical lease will, and the option to purchase will layout the terms of the option which will include the option price, which is the agreed upon price, the option fee, what the Optionee is putting up as nonrefundable option consideration, and the date that the option period expires, which will be the same as the lease end date.

What are the benefits to the seller, and to the buyer?

The seller benefits by getting the full asking price, getting a nice nonrefundable option consideration, sometimes a little higher than market lease payment, and normally the buyer takes better care of the property in a lease purchase than in a traditional lease.

The buyer gets the advantage of securing a house that he wants to purchase, but does not have to get immediate financing, so he has bought time. Normally the buyer of a lease option is also allowed to make changes to the property within reason, such as updates etc., and if something were to happen where the buyer is unable to purchase, then they aren't stuck with a house they purchased and now have to put on the market to sell. Think of it as a "try it before you buy it" situation.

Next we will discuss the 3 types of lease options, and when you would utilize each one.

The Three Types of Lease Options

There are 3 types of lease options and it's important to know the difference in each one so that you'll understand what situation calls for each type.

Straight Lease Option

Sandwich Lease Option (SLO)

Lease Option Assignment (aka. wholesale lease option)

We will start with the most basic type, which is the Straight Lease Option.

The Straight Lease Option is simply where there are only two parties involved. The Optionor and the Optionee. The example in the previous chapter was a Straight Lease Option. IF you own a property, and it doesn't matter if you have a mortgage, but if you own a property, and want to offer it as a lease option rather than rent it out, that would be a Straight Lease Option. The contract is between you and the Optionee and that's it.

Keep in mind that you can also BUY a property on a Straight Lease Option as well. AS a matter of fact, if you want to secure properties for AirBnB then you can do so using a Straight Lease Option.

The next type of lease option that we will discuss is a Sandwich Lease Option, also referred to as an SLO. A SLO is often the type of lease option that you may hear about, where investors talk about making money in the front, middle and in the end. In a SLO you as the investor are staying in the middle of the transaction between the seller and the buyer, so therefor you are

“sandwiched” between the seller and the buyer. A SLO is actually two lease options. One lease option between you and the seller and another between you and the buyer.

In a SLO you negotiate the terms with the seller to be favorable to you. You negotiate the option price so that you get it as low as you can, the monthly payment to be as low as you can get it, and you want the length of the option to be as long as you can get, usually five years if you can get it. The other thing you want is you want the option consideration that you pay the owner to be as low as you can get it, even being as low as \$10 option consideration, which may sound insane, but on real estate transactions, a \$10 option consideration is actually not unheard of.

Once you have the lease option in place between you and the seller, you then begin to market the second lease option, which is the lease option between you and the end buyer. So this is an A-B B-C transaction. You are going to raise the option price that the buyer is paying you, so that you are selling it for more than what you have contracted between you and the seller, and you want to charge more per month than what you are paying the seller. This way you are getting a monthly spread each month. You also will be charging a nonrefundable option fee, which is what the end buyer will be paying to you upfront.

You are subletting the property to the end buyer but the end buyer has an option to purchase the property.

So there are three profit centers in a SLO for you.

- 1) The nonrefundable option fee
- 2) The monthly spread.
- 3) The equity or difference between what you have it contracted for and what the end buyer is paying.

Let’s look at an example:

You contract with the seller to lease option the property for:

\$170,000

\$1200 a month

\$10 option fee

5 year term

You then put a sign in the yard and market it as “Rent to Own” with these terms:

\$200,000

\$1600 a month

\$10,000 option fee

1 year term.

You are now going to get \$10,000 nonrefundable option fee, a cash flow of \$400 a month, and upon cash out, if the buyer purchase, a spread of a remaining \$20,000.

3 profit centers.

Now, I normally do not recommend a SLO as your first lease option. I recommend doing 5-8 lease option assignments first, which we'll discuss next, because they require no risk. A SLO does have some inherent risk as you are on the hook for making the payments unless you stipulate in your contract with the seller that you are not making payments until you find a tenant/buyer. Some sellers may go for this, but normally they want the payments taken care of as soon as possible.

A Sandwich Lease Option is what you will use if the owner:

Has some decent equity

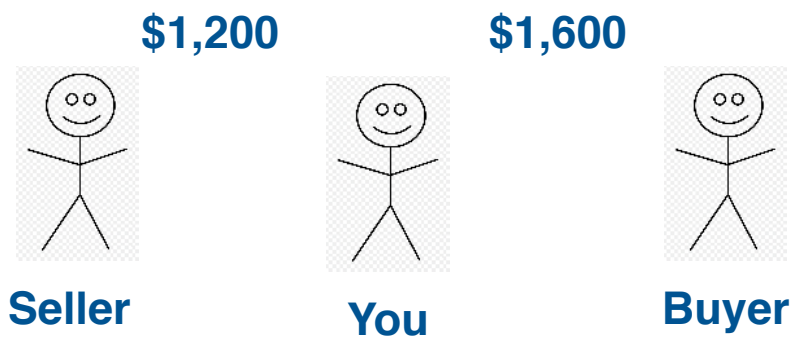
Has fairly low payments

Is more desperate than just wanting to rent it out

Wants to stop the bleeding

There are 3 profit centers in a SLO

**Non-refundable option fee
Cash flow monthly
Equity upon cash out**



**\$10,000 down
\$400 month
Equity upon cash out**

The last type of lease option is the one that Leasing To Buy specialized in and that we really train our Affiliates on. It is called a Lease Option Assignment. Sometimes referred to as a Wholesale Lease Option.

A lease option assignment is a no risk and no money down type of transaction. Here you are working with pretty houses in nice areas, that really don't need repair and are move in ready. With a lease option assignment, you are NOT negotiating with the seller on any of the numbers really, other than perhaps what you will be receiving as an assignment fee.

You secure the property with a lease option, with all of the terms contained within the agreements, then, you ASSIGN the entire agreement to the end buyer. You are not making payments on the property so therefore have no risk. Imagine getting a contract on a house for full price then simply assigning that contract. This is why I prefer lease option assignments for people starting off as there is no risk or need for any money.

So let's take a look at the structure of an assignment.

You contact a FSBO seller or FRBO seller, and discuss the bullet point advantages of a lease purchase. You will then structure the numbers so that the seller is getting his full asking price or close to it, and you will be getting an assignment fee. This assignment fee is how you get paid. Remember with a lease option there is a nonrefundable option fee. Well this nonrefundable option fee is called an assignment fee on a lease option assignment and this is how you make your money. The end buyer is paying you your fee. You'll also work with the owner on the monthly payment and ideally, they will cash flow each month.

The advantages to the seller are:

- 1) They get full price
- 2) No negotiating
- 3) Monthly cash flow
- 4) Most repairs are taken care of by the Optionee
- 5) No commissions

The advantages to the buyer are the same as on any type of lease option, so they can get into a house while they prepare for financing, rather than rent a house somewhere while they get financing in place.

Although I'll go thru setting the numbers in a later chapter, here is an example of a typical lease option assignment.

The seller has been trying to sell their house for a couple of months with no luck and has even dropped their price a few times. You contact him and after discussing the bullet point benefits, you put the numbers together.

The owner was asking \$250,000 for the house and on this example don't worry about the actual figures so much as the flow of the lease purchase.

You set the numbers as such:

\$257,500 Option Price

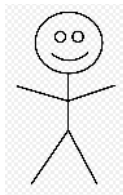
\$8,500 Option Fee **This is your assignment fee that YOU are getting paid!

\$2395 a month

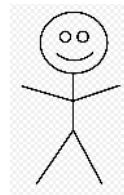
(There is also a concession but I didn't include it here as I don't want to cause any confusion, and I will cover in detail in a later chapter, so for now just focus on these three numbers.)

With these numbers, the owner is getting close to his price, and you can see the option price is \$7,500 higher than what he had been asking. However, your fee (follow me on this) of \$8,500 comes OFF the price when the buyer buys. But, you raised the price some, and the seller is still not paying commission, and on the monthly amount is cash flowing in almost every case.

I suggest going to my site and the site our affiliates use, www.LeasingToBuy.com to see actual deals that we are doing, and you'll see the numbers listed on each house and you'll understand how a real deal looks.

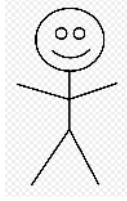


Seller



You

**Your company signs a contract with the seller
This includes the Option Price, your
assignment fee, the monthly payment**

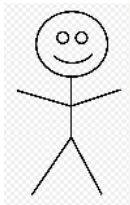


You



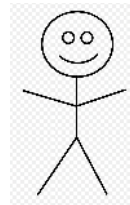
Tenant/Buyer

You then market the contract with online ads, signs in the yard etc. to find the Tenant/Buyer



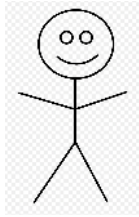
You

**Assignment
Get your \$\$\$!**

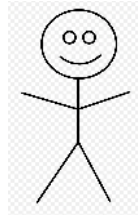


Tenant/Buyer

You then ASSIGN your contract to the Tenant/Buyer and they pay your ASSIGNMENT FEE!



Seller



Buyer

Once you have assigned your contract, you are out of the deal.

Benefits for the seller:

**They get full price
No negotiating
Cash flow each month
Buyer takes care of the property
Don't pay commissions
Equity at cash out**

The Buyer (Optionee)

What is their pain?

They can't qualify for a loan

They are self employed and need time

They are relocating

Marketing to Sellers

A few of my educator friends use the saying, “You’re not in the real estate business, you’re in the marketing business.” There is some truth to this, in the sense that if you aren’t marketing you aren’t really in business so marketing is the obvious cornerstone to not only launch your business, but to continue to grow it.

There are multiple ways to market to sellers, and I’ll give you a number in this chapter, but one of the keys is to not try to do ALL of them, rather, find a few strategies that you can master and do over and over. The reason, is that if you try to master all of them you will be horrible at all of them and become frustrated quickly and quit, not to mention potentially a lot of time and money wasted.

I want you to go back to the levels of desperation, and you can use that as you visualize new or different ways to market to sellers. Look at the different levels and think of ways to market to each level. You’ll want to get creative here. I say that the most expensive marketing you can do is the marketing you do when you have the money to market. In other words, pretend like you don’t have much money to market when coming up with ideas. Creativity will always beat recklessly used money when it comes to marketing. In the 3 day boot camps, we actually have an activity where the students group together and come up with creative ways to market to sellers.

I have a document that has about 20 ways to market to sellers, but here are 14 to consider, then I’ll address the top 3-4 that I recommend.

14 Ways to Market To Sellers

FSBO

FRBO

For Lease

Listed houses

60/90/120 expireds

REI Meetings

Magic Business Cards

Bandit signs (call them)

14 Ways to Market To Sellers

Contractors

VA's

Bird dogs

Driving for Dollars

Text Blast Software

Web Scraper Software

I suggest starting off with:

Cold calling FSBO and FRBO

Bird dogs - pay them nicely!

Driving for Dollars

Paying for skinny leads

REI Groups

Calling bandit signs

FSBO and FRBO

Craigslist

Zillow

militarybyowner.com

ForSaleByOwner.com

MyPlusLeads.com

14 Ways to Market to a Seller

Let's start with FSBO and FRBO.

Remember the levels of desperation? These are at the top of the list and you can of course search sites such as Redfin, Zillow, Craigslist and other sites for houses that are FSBO and FRBO.

For these listings you can cold call them, which I actually recommend for starting off, as you get your comfort up talking to sellers and get your presentation down.

You can of course also use tech to help you hear and use RVM (ringless voicemail) and text blast apps/software.

There are a number of platforms that you can use, and we actually have developed a web scraper that will e-mail and can also text the sellers. Our Affiliates have pretty good success with this.

But starting off I would suggest cold calling as well as using a text blast such as Lead Machine Pro.

If you are going to use texting for the initial communication with the owner, what is highly important is that you don't try to carry on a conversation with the owner via text. Simply ask something like:

"Is your house on Main Street still available, and if so, would you consider a short term lease purchase?"

If they respond with anything other than NO, then reply with something such as:

"OK, let me call you in just a bit when I'm free if that's OK."

You don't want to try to explain the lease purchase or anything via text.

Just see if they are interested and then make the call to them.

When talking to them on the phone, use the seller scripts provided on the training downloads online, and what I prefer you do is take those scripts, and adjust them so they fit you and your personality. Make the your own. When talking to a seller you really don't want to explain every detail of a lease option on the first call. Just hit the bullet points:

Full price

Normally cash flow each month

No commissions

You are paid by the buyer

Short term – most of your buyers close within 10-12 months, as you only offer 12 month lease options.

The information you want to gather is simply:

Name

Email address

Confirm accurate phone number

Address

Asking price

You can always get more information such as how soon they are moving etc., but we don't need the mortgage info or anything.

If the conversation is flowing, then certainly make that connection on the phone, and allow it to flow just as if you were talking to someone in person. When I'm talking to a seller I usually only talk about the house a little bit, and take the conversation other directions such as, how soon they are looking to move, did they already buy another home, and ask questions that show you are actually interested such as "Oh, you're moving to Houston? I'm down there quite a bit, what area are you moving to?" then let the conversation flow.

Once you have the basic info you'll follow up with the 1st of the 3 e-mails, which I'll discuss later. Right now I want to focus on marketing strategies.

When talking to someone that has a FRBO, they are likely renting it because it did not sell, and they would rather not rent it out. Keep this in mind when talking to the sellers. Approach the conversation as if they were hoping to sell it, and ask them "Would you be willing to sell it for full market value, on a short term lease purchase?"

A seller offering a FRBO is almost always going to fit into 2 categories:

- 1) They tried to sell and can't
- 2) They are an investor.

If they are an investor then ask if they are looking for other properties to purchase, as you get properties all the time that might be a fit for them.

REI Meetings, Meetups, wholesalers

REI meetings can be a fantastic resource of leads. The people at a meetup or group can be a great source of bird dogs as well as leads from the ones that are wholesaling and generating leads. A majority of the leads that they generate are low equity leads and they aren't able to utilize them. This is where you come in. You can offer to pay them for those leads that you can convert into lease options.

Get business cards that have in big bold print "I pay \$1,000 for low equity leads!". Make it very well known to all wholesalers that you can turn their trash into cash.

We actually work with some large wholesalers and they set up a group in their Podio or CRM that they push their dead leads to that we can then access and call.

You may want to offer to split the assignment fee you'll be getting, or you may want to offer a flat amount per deal you close, like \$1,000.

You can also call bandit signs that you see as they are wholesalers as well. Call them or better yet, have your VA call them as you build a list of bandit sign numbers, and call them every week to see what deals they have, or if they use a CRM you can get access to a workspace to work those leads for them. That is like free, found money to them that they can then utilize for additional marketing.

Over 60/90/120 and expireds

This is the best direct mail list that we have found for response rate. These are owners that are trying to sell their houses but haven't been able to sell, so they are getting more and more desperate, and you are the knight in white to come in and offer them a solid Plan B.

When marketing to listed houses though, only contact them via direct mail, DO NOT try to skip trace and call them! That is tortious interference and can get you in serious trouble.

But, with direct mail, they then reach out to you. If you are an agent then you'll want someone on your team to have their contact info on the mail pieces, not yours.

An easy way to get this list is Redfin if it is in that territory, or you can utilize PropStream. This is a fantastic tool for generating lists and pulling data.

You can get 7 days free at:

<https://trial.propstream.com/leasingtobuy>

I highly suggest using that link to get your 7 day free trial to see how you can easily pull lists and research title data and comps.

For this direct mail list, I always suggest our tri-fold brochure that you have on your flash drive and on the online training site.

I'll cover direct mail next, as direct mail is an art that you can easily lose money on if you aren't doing it correctly.

****The following information was from my original manual, but I included it as it contains some valuable information as well.****

SELLER SCRIPT

OK, so you have some letters out there, and you just got a phone call from a homeowner. Now your panicking, a little nervous, and your not entirely how to make sense of all this to the homeowner. Don't worry, I've put together a very simple script for you, that although you probably shouldn't relay it verbatim, as you don't want to sound like you are reading a script, you can certainly use it as a guide. What you want to understand, is that you want the initial conversation with the homeowner to be fairly short and simple, and that you want to use it as a means to simply gather some basic information from the seller. You don't really want to overburden the seller with 30 minutes of information that they can't possibly absorb or understand. You can easily lose them in 3 minutes if you start trying to explain every tiny detail of how it works. So keep it simple on the initial conversation if at all possible. Sometimes a seller will want you to explain everything you can on the first call, but try to avoid that if you can. What you want to hit on with the first call are these points:

- Our program is lease purchasing
- The mortgage industry has tightened and changed to the point where most people can't get a loan anymore.
- If people can't get a loan, they people can't sell houses nearly as easily, so our program offers the perfect solution for this real estate market.
- The people that come to us to get into houses, are typically people that were actually trying to buy a house, but didn't realize that the mortgage industry had changed as drastically as it has, and now they can't get financed.
- Our program allows you, the seller, the opportunity to get the full price for you house, get your payments covered while we are working with the tenants to get them financed, and there is no commission at all paid by the seller.
- Most people that we work with can close in 10-12 months.

So there is a brief highlight of the points, so here is a seller script that you can utilize that covers the basic points of the initial conversation:

Hello, I just received your letter in the mail and I wanted to get some more information about your lease purchase program.

You bet! Our company specializes in lease purchasing, which means that most of the people that come to us to get into a home, are people that for whatever reason can't quite get financed just yet. More and more we're seeing people that were trying to buy a house, or may have been approved for a loan, but then the mortgage guidelines tightened up, and now maybe they are 20 points away from financing, but they still need a house for their family, still need to keep the kids in school, and lease purchasing is the best route for them to go, while they put some things in place to get ready to purchase your home.

You know, you always hear about the sub-prime mortgage industry going down, but what you don't hear about, is how the whole mortgage industry has changed dramatically, and it's even affected people like me with good credit, but who may be self employed. So we see people that 6 months ago may have been fine for mortgage, but now they have to plan several months in advance to get all of their ducks line up in a row.

So with our program, we actually work with the people that are coming to us to get them ready for finance, which may include anything from our credit improvement program, to helping them establish credit if needed.

The nice thing for the owner, is you get your payments covered, and hopefully even cash flow each month, you don't have to worry about repairs, as they are responsible for the repairs, and when we get them financed, you don't have to pay real estate commissions, so you end up with more money in your pocket.

Let me get a little bit of information from you, then I can look some information on your house, and we can see how this might work for you and if it would be a good fit.

Sure.

First, what's the address of the house?

OK, is the house listed, or for sale by owner, or is it being rented...?

No, it's listed with an agent.

OK, that's fine, we can actually work with your agent. How long has it been listed?

It's been about 4 months.

How much is it listed for?

It's listed for \$175,000

OK, approx how much do you owe?

I think we owe around \$150,000

OK, and about how much are your payments?

They are about \$1275 a month.

OK, and I assume the payments are current?

Oh yes, they are current.

Are you all relocating out of the area, or are you purchasing another home here?

We're trying to move out of state due to a job transfer.

OK, great. Let me do this, Let me get your e-mail address from you, then let me do some research on my end and gather some data that's specific to your house, then I can e-mail you some information tomorrow, then follow up with you tomorrow evening and discuss everything in detail and how it would work for your house.

That is normally where I try to leave the initial phone call. The main purpose of the first call, is to introduce myself, and gather information so that I can then put some figures together that are specific to their house, and e-mail them info. I don't want to overwhelm them with all of the details of our program and the figures on the first call, as it can confuse them more than anything.

Let's go through some highlights in more detail.

Is your home listed, or for sale by owner, for lease.....?

I like to use this as an opener, and I like to ask it a certain way.
I like to drag out the question, as if I'm just curious what they are doing with their house.

The purpose of this is that it gives them the sense that we aren't sure how they found out about us and vice-versa.

Also, very likely their house is listed, and of course it can upset agents. If we ask about it being FSBO, it lends itself that we do all kinds of advertising. Basically a cushion if you will if it turns out we are talking to the agent, which will happen sometimes.

In most cases, they will respond that it is listed.

OK, well that's fine. We actually work with agents every day, and as a matter of fact we refer a number of people to agents as well if need be, so that's fine.

How long has it been listed?

I like to ask this to get a feel for their pain. If it's been listed for one month, they are much less likely to use your services right now, and are likely just looking for initial info. If it's been listed for 8 months, well, they are ready to be done with it, and are looking at all options with great intent.

What do you have it listed at?

Now, at this point, you may want to ask the other questions such as what they owe, and what their payments are. You may feel that you want to wait until you discuss the program, as some people may get concerned telling you how much they owe. People are just like that, which that's fine. I'll go ahead and put those questions here now.

Are you buying a new home, or relocating...?

Again, this gets us some info, but also helps warm them up to answering some questions. This also gets us an idea of their situation. They may be building a home and closing in two weeks, and really need to get this going, or they may have already relocated and need to get this going ASAP as well.

What's the address of the property?

Do you know approx what you owe? You can just ballpark the number. That's fine.

I like to make people feel OK with giving me that info, so I tell them they can just ballpark it. If they ask why you need to know, just tell them that you are going to put together numbers for them, and if they owe \$150k, but the house is only worth \$150k, then we may not be able to help them, so we need to be able to give them good information.

Now I normally give them a quick rundown on the program, but I don't bore them with details, as I don't want to drown them with data that they don't understand yet.

Here's another quick script that you can use to give a quick explanation of our program:

Well, our program is a lease purchase. Which means that we have a tremendous amount of people coming to us for our program that are trying to buy a house, but still need to get some things in order. More and more it seems we have people coming to us that were actually in the process of buying, or may have been approved, but with the mortgage industry falling apart as you've probably heard, now suddenly the loan program is gone, or they need 15% down or something that they weren't prepared for. But they still need to buy house for the family, and to keep the kids in school, so our program is a great conduit for those people trying to buy a house, and for homeowners and investors that need to get something done with their houses.

Our program allows them to put a fair amount down, cover your monthly payments, then we can get them financed as quickly as possible. We actually like to see the payments set up on a ACH, so that the payments are all made electronically, and that way the money is just deposited into your account on the 30th, or 1st every month.

We have everything they need to get financed, including credit improvement, if needed, we can help them establish credit, and we even have loan officers in place that oversee everything so that when the file is ready, they pull the file and get them financed.

The benefits to you are that you typically get more money for the property, your payments are covered, you get non-refundable monies down, and THEY are responsible for the repairs on the property outside of roof and structure. We even offer them a home warranty on the home to cover everything. Plus, you don't pay us a commission, so you get more at close as well.

I'd like to look up some info on your home, put together some figures, and then e-mail you some information that you can take a look at, so you can see how it comes together on paper, then we can follow up in the next day or so and go through it in detail.

Can I get your e-mail address?

Now I get the e-mail address, and let them know that I'll be putting some figures together, and e-mailing them some contracts to print off and take a look at, and make a list of any questions they may have, and we can touch base in the next day or two and discuss everything in detail. They might have questions now and want more detail, but normally they would rather take a look at what we have then follow up. Notice I didn't get carried away on the first discussion with all the finite details. I'd rather get them the docs, then follow up and discuss in detail, because then I can answer all their questions at once.

Once I send them docs, then I follow up and answer the remaining questions they have, which are normally the same.

How soon can you find someone?

How long does it normally take them to get financed?

What if they don't pay?

What if they decide not to purchase?

How do you work with my agent if I'm listed?

What's the next step to get this rolling?

Seller's always ask the same questions, so to help you out, I'll run through the typical answers I give to these questions. I don't expect you to remember them verbatim, but you may want to practice them and modify them so that you are comfortable with your answers. If you aren't confident in what you're selling, then you have a tough fight ahead.

How soon can you find someone?

Typically it takes 45-60 days to find the best candidate that fits your home and our program. We certainly can't guarantee how long, but that's the average that we find. It can certainly depend on a number of other factors as well, such as the time of year, or the monthly payment. The end of the year holidays are typically slower, as is the very beginning of the school year, as everyone's getting settled in. But outside of that, typically it takes 45-60 days.

How long does it typically take them to get financed?

It usually takes 10-12 months to get the financing. Most people that go through our program go FHA for financing, and FHA requires that the lease option buyer make 6 payments to the owner, so the 6 month mark is the first benchmark where we start looking to pull the trigger on financing.

What if they don't pay?

Fortunately this rarely happens, outside of maybe a day late, but if they are 3 days late, you'll want to make 2 calls. One to them, and then one to us. Usually you'll find that the payment was already sent, but you will still want to call us. Let us be the follow up with them and let them know that although the payment was sent, until it's received, we have to start the eviction process. Most likely you'll end up calling me the next to let me know you received it, and I can stop the eviction, but the point is that you don't want to call me on the 20th of the month, because now we've already lost 3 weeks.

What if they decide not to purchase?

Well, they're coming to us for our program, and to purchase the house, and given everything they have tied up into it, they really don't want to not purchase. If for some reason they didn't purchase, it's normally because of something pretty catastrophic, like

a relocation, or divorce or something big like that. However, let's assume the worst case for a minute. If they don't purchase, it's still your home, and you can either have us reload it for you, or you can list it with an agent on the MLS.

How do you work with my agent if I have it listed already?

If you're currently listed, you'll certainly want to let your agent know that you are going to look to lease purchase the house while they have it listed. Some agents are fine with that, others may take issue with it, or even offer to just cancel the listing. Now we NEVER tell anyone to cancel your listing, as that's not our goal. Our goal is to be another avenue for you to move the property. And we actually find that often once we get things in place on our end, the activity for the agent will pick up. I can't tell you how many times we've gotten everything in place with our marketing, and a week later the owner has an offer after having no activity for months! As far as commissions, if you get a contract, just call or e-mail and let us know. No harm no foul. You never pay us anything. If we lease option it first, you'll want to let your agent know of course. As far as how they get paid, that is between you all. Often the owner and agent will have an agreement that if the agent doesn't get a contract, the agent doesn't get paid. I do know of many occasions where the owner agrees to pay the agent some fee for their time and marketing expenses, whether that's \$500, \$750 or whatever they decide.

What's the next step to get this rolling?

I'll put the preliminary figures together and send those to you, then I'll send you the contracts to review and make a list of any questions you may have on those. After that, We'll sign the contracts, and I can get pictures and get everything going very quickly for you.

These are the most common questions they ask, and although it will take a few times before you get comfortable and confident answering them, once you do, you will find you get more and more houses in your program.

I try to really make the whole process of working with the sellers fairly easy. Let me run you thru how I normally work it:

My normal approach when a seller calls is to do the 3 minute call. I tell them I am pulling up to an appointment, but would like to call them later if that's OK, then I ask if I can get some preliminary information from them while I have them on the phone, so that when I follow up, I can discuss information specific to their house. I then ask for the address, how much it's listed for, and I get their number and e-mail address. That's it. Now I can pull the tax records which gets me info such as age, owner, tax value etc. I print that off. Then I go to Zillow or PropStream or similar sites to look at the listing. I send the owner the initial "pre-drafted e-mail" that states that I am pulling data and in the meantime I wanted to send a short 2 page sheet that shows how a lease purchase flows, and how it can be a great option for sellers. I then attach the "How Does a Lease Purchase Help" pdf.

Then I put the figures together, and send them the “pre-drafted e-mail” then I put the figures on the Seller Price Sheet and attach that to the e-mail.

I then follow up the next day by phone or e-mail. THAT’S IT!! After I follow up with them and run the figures, then I put the contracts together and send those to the owner. Do not overthink the whole seller thing and talking to sellers. They have a house they need help with, and you are there to help.

Some Sample Seller Scripts Calling sellers from sites such as Zillow etc.:

Hi, this is John Jackson with Leasing to Buy, and I was calling about your house on 123 Main St. Are you still looking to sell that property? (If yes, then continue. If no, then ask “Oh, I’m sorry to hear that. Do you have other properties”) OK, fantastic. Well, our company buys houses for cash, but we also lease purchase properties, depending on the situation and what is best for the owner.

****Normally on a lead from a lead gen. site you’ll have the data you need to make a good determination if it’s a wholesale or lease purchase situation. If the owner is wanting full price, then it’s a lease purchase, not a wholesale, so when you call them, you have a feeling of which way to move forward with the conversation...cash or lease purchase.**

Because they don’t know who I am and I called them from a lead, I like to spend a little bit of time on the phone discussing their situation and letting them know what we do.

I’ll assume that you know how to determine if it’s a wholesale deal or not, as that’s not the point of this tutorial.

BTW- Often lead generation sites will tell you what an owner is asking for the property but never say, “So, I see you are asking \$xxx for it, is this correct? Because the info on the lead site could be wrong.

****Go to our Property Lead Sheet *****

Taking/Calling leads from postcards (absentee owners):

Hello, this is John.

Yeah...I got your postcard thing in the mail and I wanted to see what you do.

You bet! Well, we actually buy houses for cash so we have the ability to close very quickly if that would help you since our goal is to get you your money as quickly as possible, but we can also look to lease purchase properties depending on what you need. Let me ask you a few questions.

**** go to our Property Lead Sheet ****

Taking calls from postcards (specifically to listed houses we want to lease purchase):

This is where I do my “2 minute script” I’m pretty well known for. It’s actually about 90 seconds..but who’s counting.

Here’s the thing..when a seller calls from a mailing I did to listed houses then I know they are lease purchase candidates and I don’t need all of their story and I don’t have time to explain the finer details of a lease purchase. I just want the basic info I need.

“Hello, this is John.” “Yeah..I got your little brochure thing in the mail and wanted to see what you all do.”

“Oh, you bet! Well, we buy properties for cash but we also lease purchase properties where we get you full price and you don’t pay any commissions so you get all of your equity. And I apologize but I’m actually at a house right now at an appointment to show a property, we are getting a LOT of activity right now and the houses we have are going fast but let me get some information from you if I could and I can get back with you in just a few hours when I get back to the office.

First, is this a good number to get back with you at?

Great! What is your property address?

Is it listed or....are you trying to sell it your self...? What is it listed at?

OK, and one last thing then I have to run as our buyer is waiting, what is a good e-mail for you and I can forward you some information as soon as I get back as I’m working on your

Calling leads from bandit signs:

These are the only calls where you have to do some screening so they can't track you, as I imagine your city doesn't allow signs to be put out and you don't want to be getting a citation from the city.

So..what is a young entrepreneur to do???

I recommend using a service such as Google Voice, FreedomVoice, Grasshopper, Vumber etc.

These calls should go to a pre-recorded message then you are returning the calls.

Odd message such as: Yeah, I had a few questions, my name is * my number is *** This is probably code enforcement.

Call from your Google # and get an address and tell them you are with Blah Blah Blah property buyers.

They leave a name and address, then you pull tax records, look at comps etc. Hi, this is John and you called earlier about a house you were looking to sell. Yeah...I have a house on blah blah blah..

** go to our Property Lead Sheet***

Direct Mail

Direct mail is an art, that, done wildly with no direction, can cost you a lot of wasted money.

Let me just cut to the chase on direct mail so you can begin to implement quickly.

Direct mail relies on:

The list

The frequency

The mail piece

If you get any of those 3 wrong, you are likely going to be saddened by the response to the marketing campaign.

So let's start with the list.

For direct mail for lease options I always recommend getting a list of over 60 in your area, or even over 90 days on market. You can get this from <https://trial.propstream.com/leasingtobuy>

You can also go to Redfin and get the list, and then you will need to cross reference to tax records to get the owner's mailing information.

Doing the cross reference can be very time consuming, so I recommend hiring off of Fivver or Upwork to do this for you.

Once they cross reference the list you will want it in a .csv file.

From there, you can upload to your mailing platform, whether it be Click2Mail, or other mailing platform. Our LTB Affiliates have a mailing platform that allows them to select the mail piece and quickly send out the pieces with their contact information on them.

Let's talk a little further about the list.

With a list for wholesaling, you'd likely look for absentee owner with high equity. With lease options though, you can also look for absentee owner with low equity. Why? These are the owners that are far more likely to consider a lease option. Because they bought the house within the last few years but do not live there. That means they are investors or accidental landlords, meaning, they bought the house and something happened and they had to move. Therefore, they are much more likely to consider a lease purchase, as the house is a burden on them. Especially because they don't live there and may even be out of state owners.

How about frequency?

I would recommend that when doing direct mail, you go deep vs. wide. What does this mean? It means that you want to focus on a smaller area and hit that area multiple times rather than a large wide area and hit it one time.

There is the 7 touch theory that states a customer has to be touched 7 times to respond, whether by mail, radio, online ad etc. So when you are doing direct mail, keep in mind that most of your responses will come after they have received your piece 2-3 times. Pull the list, and mail it, then hit it again at least 2-3 more times and I recommend hitting it every other week. So in 6 weeks the list has been hit 3 times.

Don't send to the list one time and think that will get the phone to ring. It won't. Hit the list a few times and then repull the list for updated information.

The Piece.

For lease options the absolute best piece that we use is the tri-fold brochure. This is a double sided mail piece that you have access to on the training website, as well as your flash drive. I highly recommend using this piece and making adjustments and tweaks to it as you desire. The cost for this is more than a postcard, but keep in mind you are not looking for wholesale houses, so you need a different mail piece.

The Message

The Message has to fit the mail piece and list.

Don't send a piece that says "We buy ugly houses" to \$500k houses!!

I recommend sending this 2-3 times then send one of our large postcards. Your numbers are going to vary, but for every 1000 tri-folds you send out, you should get about 8 – 10 calls, and from that you should secure at least 2 houses, which typically net about \$8500 plus per deal. I usually send out about 650 or so mail pieces at a time, and with 3 mailings to the same list I get about 3-4 houses. Obviously the numbers will vary and you can't say specifically what your numbers will be, but this gives you an idea of what to expect. Starting off anticipate that your numbers will be a little lower as you prime the pump of your mailings.

Sometimes I will take a specific targeted area, of say 200 or so houses, and I really want to grab their attention. I may send them a fake express mail envelope with a letter inside, not a yellow letter, that discusses the benefits of a lease purchase.

I only recommend this to a very targeted area, such as a specific neighborhood you wanted to hit. You can get the envelopes at 3DMailREsults.com.

Do not try to send mail to one area one time, then get antsy and try to send one mailing to another area, as you will not get results. Focus on one area and become the master of that area as you get started.

Direct Mail

If you want to blow thru \$2,000 very quickly, do direct mail like everyone else

Direct Mail

The most important things in direct mail is:

The list

The message

And the frequency.

Setting the Numbers

In the 3 day bootcamps, one of the topics we spend some time on is how to actually set the numbers properly in a lease option. I'm not sure why, but I seem to be the only educator that really discusses this very important topic. Setting the numbers is actually very easy, but normally people way over think it trying to get every number to the exact proper dollar. Don't try to do that. Keep in mind we are setting numbers for a purchase that is a year down the road. We don't have a crystal ball but by sticking to these formulas you can get the numbers very very close to what they need to be.

There are 4 numbers in a lease purchase that you need to know.

The 4 Numbers of A Lease Purchase

Option Price

Option Fee (Assignment Fee)

Concession (Rent Credit)

Monthly Payment

Let's start with the Option Price.

The Option Price is the price that the house will be marketed at.

This is the first number you will look at.

How do you determine what the Option Price is going to be?

The easiest way is this.

Look at what the owner is asking or what it is listed for first.
Then you want to see if that asking price is in line with the market.
So many people are concerned about getting access to comps, but I'm not an agent and even though I've had access to the MLS in the past, the truth is there are enough platforms or sites that provide you the information that you need.

So I'll keep all of this as simple as I can for the purposes of this manual.

Take the asking price, then look at the market in that area. This takes less than 2 minutes.
Look at Redfin or Zillow for solds in that area as well as listed. Don't look at the Zestimate.
Use PropStream: <https://trial.propstream.com/leasingtobuy> It's comps are very solid to go with as well.

Option Price

The Zestimate is Zuesless!

Are they in line per sq. foot with the asking price? What is the price per sf for that area? About 95% of the time the asking price will be in line with the market. So the asking price can be your base line. If the owner is out of whack on what they are asking, then you have to work with what the comps for asking or sold show, and use that as your base, and explain to the owner that you just aren't seeing the price he's asking, but perhaps you are not seeing something that the owner sees. Believe me, there are times when the owner is completely out of line for what they are asking, and you have to just let them know that you aren't seeing the numbers there, and see if it's even a fit.

But normally the asking price is in line, so let's get back to setting the numbers.
If the asking price is in line, I generally raise the price of the house by about 2.5% and that is my Option Fee. For more expensive houses I may go down to say 2% for houses over \$400k, and if it's over \$500 or \$600k only raise it by 1.5%.

So let's take a \$250,000 house.
Our option price would be \$256,250, and I'd likely round it to say \$256k, but that's up to you.
So we have our first number in place.

Option Price - How much to RAISE the price

\$150k - \$300k list price x .025

\$300k - \$400k closer to .02

\$400k and above .015

So 2.5%

2%

1.5%

You can see in the example below from our website the option price is set at \$263,500 on this particular house.

The 4 Numbers of A Lease Purchase

Option Price - How to set it

newly stained floor. Large backyard with large mature shade trees and large oversize deck perfect for entertaining.

▲ GENERAL INFO			
Address:	218 Meadowbrook	Approx SqFt:	1700
City:	Keller	Bedrooms:	3
County:	Tarrant	Baths:	2
Zipcode:	76248	Parking:	2 Car Garage
Price:	\$263,500	Pool:	None
Rent:	\$2,195	Year Built:	1984
Rent Credits:	\$3600	Exterior:	Brick
Option Fee:	\$10,000	Stories:	1
School District:	KISD	Fireplace:	1 Gas
Heating:	Electric	Cooling:	Central
Study:	No	Game Room	No
Utilities:	Electric	Map:	click for map location

The Option Fee

This is the amount you are going to make. This is the option consideration they are paying, also called the assignment fee.

I like to take the price, and it does not matter if you use the owner's asking price or the Option Price that you just set, just take the price and multiply it by 4%. For houses over \$500k I usually go up to 5%.

So, in the example above, the \$250,000 house the Option Fee would be \$10,000.

$\$250,000 \times 4\% = \$10,000$

Again, this is what you are going to get paid.

I used to keep all of the option fee, but over time and now I give the owner part of our fee.

I may give say, \$1,000 or maybe \$2,000 of our fee.

They are not getting a deposit so this helps them feel more comfortable.

How much you give, if any, is up to you.

But I find that \$1,000 or so helps them move forward with the deal.

Getting started tho, I wouldn't hesitate to offer say, \$3,000 or so if you think it will help get the seller to move forward.

***Important note! I mentioned there is not a deposit with a lease option. Never ever ever get a deposit on a lease option!

We have the first 2 numbers now.

The Option Price and the Option Fee.

Next we'll look at the concession.

This number is really simple yet tends to create the most confusion.

In a lease option there is a rent credit, or, there is normally a rent credit, where a portion of the payment is applied to the purchase.

It might be \$300 or \$250 or whatever the case may be.

When the buyer goes to purchase, he would have the rent credit times the number of months he was in the house.

So if he was getting \$300 a month after 12 months he would have \$3600 in rent credits that usually go towards the closing costs.

In 2008 or so the lenders decided that if a contract had a rent credit in it, they would order a rent rate appraisal and if the buyer wasn't paying more than the market rent then the lender would not allow the rent credit.

For example, if the buyer was getting \$300 a month rent credit, the buyer needed to be paying \$300 above market rent or the lender wouldn't allow the rent credit.

We solved this by just offering a seller concession, which is really what the rent credit was to begin with. What is a concession? It's simply an amount the seller is willing to contribute to the buyer's closing costs.

We usually offer \$3600 concession on most houses, as we used to offer \$300 a month, so 300×12 is \$3600.

On houses over \$500k we'd likely raise that to \$5400.

The concession is not money that the seller writes a check for or anything, it simply comes out of the proceeds at the time of finance.

Monthly lease amount

This of course is the monthly amount the seller will receive each month.

I use a simple calculation so that the buyer's payments are close to what their payments will be at the time of finance.

You can certainly ask the seller what their payments are, but I have found that it really isn't necessary initially, as when you set the preliminary numbers and send the price sheet, the monthly payment I set is normally going to cash flow the seller each month. If it doesn't then we can certainly look to adjust it.

So we simply take the price (doesn't matter the list price or Option Price) and multiply by .0085
Yes, it's that simple.

Example:

\$300,000 house the payments would be \$2550

This formula works for any price range really, although, on lower end homes the lease payment may well be above 1% and on houses above \$1MM you'll see the lease payment slightly lower than .0085.

I don't normally care about the rent rate for the area, so I never use RentOmeter or anything like that. Just go with this formula and you'll be alright!

So let's review with an example:

House is for sale at \$300,000

Here are our numbers:

Option Price: \$307,500

Option Fee: \$12,000

Concession: \$3600

Lease amount: \$2500

See how easy that is?

Granted there will be times where you get a house that it is hard to tell value, or the local rent rates are so low that it's hard to compete with them, and in those cases, you'll want to adjust your numbers accordingly but be careful not to make the rent so low that the buyer gets payment shock at finance time.

The 3 E-mail Campaign

Once we make contact with a seller, the next step is to begin what I call the 3 E-mail Campaign. It's super simple and helps you communicate with the seller the lease option process, the advantages, and the numbers.

Once we talk to a seller and they want more information, here is what we send:

- 1) How does a lease purchase help?
- 2) 2) Seller Price Sheet
- 3) Contracts

The first e-mail is below, and we include the attachment which is online as well as on your flash drive:

I am putting the preliminary figures together for your house and will have those to you shortly. Often times, when a home owner is trying to sell their house, they think there are two options.

- 1) Sell for cash.
- 2) Rent the property out.

The truth is, a lease purchase can be a fantastic second option, with just offering a straight rental as a distant third option.

Just some of the benefits for the seller utilizing a lease purchase are:

- Absolute top dollar for the property
- No haggling, no negotiating with the buyer
- No commissions to us, which will save you 6% in most cases (you NEVER pay us!)
- Cash flow each month
- Purchaser obtains a home warranty thru Old Republic Home Protection
- You are NOT responsible for any repairs other than what is covered by your insurance, such as storm damage etc.
- Although we draft 12 month contracts, most of the buyers that come thru our program get permanent financing within 8-10 months, as they want to close as fast as they can.

I've also attached a short 2 page sheet that shows the flow of a lease purchase with our program, and how it can be a great option for sellers.

This combines with the short 2 page attachment explains the lease purchase fairly well to the seller.

Fell free and I even recommend to change the attachment so that it has your companies information and I've had Affiliates that made a much nicer looking attachment, so feel free to run with it!

The next e-mail contains the numbers and we attach the seller price sheet to it which outlines the numbers as well:

I've put together some preliminary figures and information for you to review.

I've also attached a sheet that shows the figures for you.

Keep in mind these are preliminary, but I think will get us very close to where we need to be. Since this is NOT a straight lease, rather, they are making payments directly to you while getting the financing in place, I think it's important to review how it will come together for you financially.

With a lease option, there are 4 primary figures to look at, so I'll break them down one by one.

Option Price

Option Fee

Rent Payment

Seller Concession ("Rent Credit")

I'm going to start with the Option Fee, since it affects the Option Price

Option Fee- This is what the Optionee pays as a non-refundable fee. This is how Leasing to Buy is paid. Our client, the Optionee (tenant/buyer) pays us the Option Fee, which is an assignment fee for our contract, and will reflect as part of his down payment at the time of finance. This is paid at move in, just as you would expect from a deposit. However, since there is no additional deposit with a lease option, we actually pay the owner part of our fee. I set the Option Fee at \$_____ and you would actually receive \$_____ of that at move in. We pay you this out of our fee, and it is non-refundable. The full Option Fee is reduced from the price at purchase, since it will reflect as their down payment.

Option Price-- This is the purchase price. What we like to do, if we can, is RAISE the listed price (if we can) by the portion of the Option Fee that we retain, that way, when we are paid at move in, you end up right back where you started at the list price or very close to it, yet you don't pay a commission to us. You will see the Option Price as \$_____

Rent Payment---- This of course is the payment that comes directly to you each month. We actually like to see it set up electronically if possible. We base the monthly on 2 main things.

1) What are the owner's payments?

2) Approx. what will the buyer's payments be when they go to finance?

I set the lease payment at \$_____

Seller Concession (Rent Credit)- With a lease option, there is a "rent credit". Potential buyers will often ask "how much of what we pay goes towards the purchase?" Since they do NOT want to rent, they want to PURCHASE, they want to know that they are working towards that goal as quickly as possible. The "rent credit" is actually nothing more than a seller concession at close. You don't write a check for the concession, it simply comes off your side of the HUD-1. On a typical purchase offer an agent may bring you, you will normally see that the buyer is asking for a concession. Typically, they will ask for the full amount allowed by the lender, which for FHA can be 6%! That's on top of the fees and commissions you pay! Yikes!

Rather than see that happen, we just like to have a small, set amount which will help the purchaser complete financing. We set the concession at \$_____

Total Received: \$____ This of course represents what you would receive for your property including the portion we paid you. This does not take into account your monthly cash flow.

****Again, keep in mind, there is no commission paid to us on this.****

Feel free to contact me anytime you have a moment, and we can discuss these initial figures as well as the structure and flow of how the lease option works.

The seller price sheet is a PDF and looks like the next page:

Address: _____

LEASE OPTION PRICE: \$ _____

This is the amount the Assignee is
paying for the property
minus the Option Fee

OPTION FEE: \$ _____

This is the amount our client, the
Assignee, is paying to us for
our contract/finance preparation services.

= \$ 0.00 _____

NEXT,
ADD the amount of the non-refundable option fee THAT WE PAY TO YOU:

PORTION OF OUR FEE PAID TO SELLER: \$ _____

This is the amount of our fee that WE ACTUALLY PAY YOU from our Option Fee. (This is
non-refundable and you can spend it however you wish!)

WHAT YOU ARE RECEIVING FOR YOUR HOME: \$ 0.00 _____

Option price minus Option Fee
PLUS the portion of the Option Fee paid to seller

Lastly, subtract the seller concession (rent credit)

SELLER CONCESSION: \$ _____

(The concession is simply a set amount that will assist the buyer with some of their closing costs,
but helps to complete financing. Many refer to this as the "rent credit".)

TOTAL RECEIVED: \$ 0.00 _____

TOTAL RECEIVED AT MOVE IN BY SELLER:

PORTION OF OPTION FEE \$ _____ + 1st PAYMENT \$ _____

= \$ 0.00 (This is what you will receive at the lease start date)

BOTTOM LINE:

You will receive \$ 0.00 plus \$ _____ per month!

And pay NO commissions to us!!!

So now you have sent the seller how the lease purchase works, as well as the preliminary numbers.

The next thing to do, is no later than a day after you've sent the numbers, is to call the seller to see if they've received the information and if they have any additional questions.

Then, comes the 3rd e-mail, which is the contracts.

I send a pre-drafted e-mail with this and the one I send for Texas is below, but if you are in a different state simply remove the verbiage and reference about Texas.

I've attached the lease option contracts for your home below.

It is a PDF attachment. If you can not open the attachment, please let me know.

Please take a moment to print the documents, and review them, making note of any questions you may have, so that we can discuss those items in detail in the next day or two.

Keep in mind these are the standard documents but there are certainly a few items that we can make adjustments to if needed and we can discuss those items as well.

Although they may appear lengthy, they're actually quite straightforward, but do contain certain items as set forth by Texas Property Code so I'll give you a quick breakdown on each section, which makes it much easier to understand.

The first section, "Landlord's Acknowledgements" is essentially you acknowledging that you own the property, the payments are current, etc.

The first few paragraphs are required by Texas Property Code, and are in reference again to the payments being current and assuring that the house is not in foreclosure. Texas requires certain disclosures and acknowledgements for the buyer's protection. Years ago people would put money down on a house but the owner didn't disclose the fact that it was actually in foreclosure, so the Texas Legislature drafted Code to try to protect people from being taken advantage of. So if you're wondering about some of the odd verbiage and references in Paragraph 2, it's because politicians wrote it!

Again though, the purpose of the statutes are to protect the buyer from getting into a house that is in foreclosure, such as Item 2(D) that allows the buyer to save the house from foreclosure if the seller stops making payments to the bank, but the buyer would be able to deduct what they had to pay to save the house from the price.

The third page shows all of the financial figures together, so you can see the Option Price, the monthly payment, and what you would anticipate to receive at close, minus your closing costs.

The second section is the Lease Agreement. The Lease Agreement is fairly straightforward, and not really much to point out, but one item that is important to note is Paragraph 17 regarding Maintenance. The buyer is responsible for all non-structural related repairs, and we even offer them a home warranty through Old Republic Home Warranty which covers items such as plumbing, AC, water heater etc.

The next is the Option to Purchase, which of course allows the buyer to purchase the property. This simply shows the price, payments, and rent credits, so not much to point out on this, although I will point out a few items. Item 6 discusses closing costs at the time of finance, in regards to which party will pay for certain items. These are broken down exactly as it would be in a traditional sale, so that the seller has their costs, such as title policy etc., and the buyer has their costs. Items 15 and 16 are again in reference to Property Code, and are just the seller again acknowledging to all parties that the payments are not in default.

The Assignment of Agreement is just a one page document where we assign the contract to the tenant/buyer.

The next section is for the Assignee, and is their acknowledgements regarding their role and responsibilities etc., so you would not need to sign this part.

The last two pages typically draw interest.

They are required by Texas Property Code, and go back to protecting a buyer from a house that is in foreclosure.

The next to last page would be completed by you with your mortgage information. This is supplied to the tenant/buyer. The verbiage at the bottom again reverts back to the specific language required on the document by the state.

The last page is to be held by you, then completed when we have the tenant/buyer, and you can fax that to the mortgage company once we have assigned the contract. That does NOT go back to us or the tenant/buyer. This page simply tells the mortgage company that they have permission to verify to the buyer's that the house is not in foreclosure should they ask.

Let's try to follow up in the next day or two and we can discuss any questions you may have in detail.

Now you have sent everything to the seller, and the only think left is to get the contract signed after any final questions and then it's time to begin the marketing!

The Contracts

You are only as good as your contracts and fortunately for you, I have the best lease option contracts there are. They may be a little lengthy but they are filled with CYA and verbiage you will want in them.

The best thing to do to learn the contracts and how to fill them out, is of course watch the Contract Control Course videos on the training website www.LeaseOptionClasses.com

These are videos that will show you how to complete the contracts and they explain some of the verbiage and sections as well.

Rather than go thru the contracts again here, I'd prefer to send you to the Contract Control Course videos that will help far more.

I have included on the next page the contracts which are for Texas for you to review. The contracts for other states are of course on the training site as well as the Texas contracts.

Again, the Contract Control Course will guide you on the contracts where you can actually watch me go thru them.

The contracts are broken into different sections:

The Landlord/Optionors Acknowledgements

The Lease

The Option to Purchase

The Assignment of Agreement

The Assignee's Acknowledgements

In Texas, we add the Lienholder Information Disclosure and the Authorization to Release

Occupational Code

Even though each state will have its own Occupational Code and Property Code, they are going to have very close similarities, as they will be trying to accomplish a lot of the same things. The Occupational Code is essentially the law regarding real estate agents, and what you can and can't do if you aren't an agent. Each state will have a regulatory commission that oversees the Code. In Texas it is TREC (Texas Real Estate Commission). The commission is essentially made up of attorneys that try to make sure that real estate agents don't get hosed over for their commissions, and that the agents behave properly. (There is a whole soapbox here that I won't go into in this manual!) Where you need to be interested in the Occupational Code, is that it states that you can not receive payment for the sale of a house if you are not the owner, or an agent. We bring this up, because it goes back to what we've mentioned before, which is you, or your company, is signing a lease with the option to purchase on the houses, making your company a principal in the agreement.

You are not selling houses, and you do not receive any fee or commission for selling houses, or for leasing houses. You are simply receiving an assignment fee for your contract.

The Property Code addresses the state's law for leases and contract for deeds (owner finance) and if the state develops laws or regulations for lease options, then they would also be contained in the Property Code. I always suggest printing off a copy of your states Property Code and reading it when you can. The best time to read it is when you are having trouble sleeping, as it is written by politicians and attorneys, so you will find it very wordy, redundant, and boring. The areas of interest that you would want to highlight or make note of would be anything that discusses items that the state requires be included in a lease, or statutes regarding late fees and the eviction process. For example, in Texas, the property code states that the late fees can not exceed 8% of the monthly rental rate. I would also suggest printing a copy of a lease utilized by the Association of Realtors from your state and reading through it.

THE CONTRACTS

You will be given a copy of the contracts in a Word and PDF format. With the Word version, you can edit in your signature and initials, prior to converting it to a PDF version. Once converted to PDF, you can then create field forms, allowing you to complete the contracts on your computer, and save them. The PDF version you will have

will already allow you to do this, but you will eventually want to add your initials to the contracts to make it quicker and easier for you. You will want to get Adobe Acrobat Pro or unless your version of Adobe Acrobat allows you to create field forms. The contracts you use MUST NOT have the Leasing to Buy watermark on the background, or the Copyright emblem at the bottom with our name. You can add your own if you desire using Adobe if you wish.

After speaking with or meeting an investor or homeowner, you will want to draft the contract, and either meet with them to sign them, or it may be easier, especially if the owner is out of the state, to create them, save them, and then you can e-mail them to them. Once they have them, and you have answered any questions, get them back or have the owner scan them back to you. In the back of the manual you will find a copy of the contracts. On the following pages we will discuss some of the items of interest on the contracts. Many items are self explanatory, so we will not touch on each section of the contracts. Since we are based in Texas, and Texas is one of the very few states to address lease options in its property code, you will see a few items in the sample contracts and explanations that will not apply to your particular state, or where the item number referenced does not match.

LANDLORD/OPTIONOR'S ACKNOWLEDGMENTS

This is essentially the homeowner's agreement that they own the property, the payments are current, they must keep the payments current, and they must provide mortgage information to the Tenant. It also has a breakdown of the numbers and disclosures such as they have been advised to seek legal and financial advice etc.

1) This states the above facts regarding payments of the property, they are current, they must be kept current etc. We also do NOT want a house that is involved in a bankruptcy or probate. Either case can tie up a property so that it can not be readily available for purchase.

2) This is compliance per the law brought forth in Texas by HB1823 as of Jan 06. The separate lienholder info sheet will provide the lienholder contact and account number, but if the homeowner is notified of a default, they MUST notify the tenant immediately. The tenant can also make up any deficiency, and be reimbursed 150% of that amount from the purchase price.

7) This states that the homeowner understands the price is final, and should it appraise for higher, they have already agreed to sell at the Option Price. They can not raise the price during the term of the Agreement.

9) The homeowner is giving us the right to assign or sublet (which we don't sublet) and should we not be able to assign the Agreement, the Agreement is void.

10) This allows the homeowner or us to cancel the Agreement at any time PRIOR to the lease start date. This is needed in case the house is listed and it sells before you can assign your contract.

12) This states that the homeowner WILL provide the necessary and required documents to close.

14) This would be filled in with the terms of the lease.

15) This states the complete price structure. You will complete this, and it has a line for you to put the amount of the assignment fee going to the Landlord at the time of assignment.

25) This paragraph simply states that if the original Assignee chooses not to purchase, that the Landlord/Optionor may enter into another contract with us.

26) States that we are not a broker, agent or represent any party other than ourselves.

27) States that nobody can accurately determine what a property is going to appraise for 12 months in the future. It states that should the property not appraise for the Option Price, the owner retains the right to negotiate the Option Price. This puts everyone on notice that we can not guarantee what the market will be like 12 months from the signing of the Agreement. The bottom line, is the buyer wants to buy and the seller wants to sell. So, if the price is close enough, it should be fine, but this is why you don't want to arbitrarily set the numbers way out of line.

28) Most Lienholders will have a "Due on Sale" clause in the lending documents. Due on Sale essentially means that if the homeowner sells the property, even through a contract for deed, that the lender can then call the note due. This almost never happens, as the lender normally is not aware of this transaction unless insurance changes, plus, unless interest rates are increasing dramatically, it's normally doesn't make sense to call a good note due. With the lease option, there is no change of title, and there is no sale until the tenants obtain permanent financing.

RESIDENTIAL LEASE

4) Type in the address of where the payment should be sent. Sometimes the owner may not have it yet, as they may be still looking for a new house.

7) Late fees are \$25 per day up to 3 days. Late fees are paid by the tenant to the Landlord.

8) The Tenant/Optionee must give at least 60 days written notice of their intent to cancel the Agreement. This gives the homeowner and us if applicable, time to locate

Somebody else for the property. However, the Tenant/Optionee is still responsible for any monies lost due to lost rent etc. to the Landlord.

10) Simply fill in the Tenant/Optionee's names here when you have them.

15) Put the Landlord's name and phone number here

17) The Tenant/Optionee is responsible for all repairs outside of structural. This is why we offer the home warranty.

21) In most cases, the Landlord allows painting etc. while the tenants are in the property. Some Landlords will NOT allow painting, and if that's the case, simply mark out this section, and have the Landlord initial it, and write below it "No Painting or changes allowed without Landlord's written permission".

26) The Tenants must abide by all HOA rules and covenants. They are responsible for any fines incurred due to their negligence.

35) This is essentially the consequences for non-payment. The eviction process spelled out for them.

36) Allows for arbitration to settle any dispute for all parties.

38) We normally put down that 2 pets are allowed, but again, this is up to the individual Landlord. If they don't want pets allowed, type this in.

OPTION TO PURCHASE

2) The purpose of this is to allow the Landlord sufficient time to prepare for the closing, such as gathering documents etc. It also allows the Landlord a 30 day cushion of time to prepare if the Tenant elects not to purchase.

3) You should pay the Landlord a \$10 Option Consideration for the Option. We typically use a Cashiers Check, simply for the receipt.
Type in the date of when you receive the Assignment Fee.

4) We have the closing costs broken down as they typically would be paid if someone were purchasing directly from the seller, because that is essentially what is taking place. The Landlord will pay for Title policy which is about 1%, and other title and escrow fees, all of which add up to about 1.5%.

13) This section states that the seller agrees to offer the FULL amount of rent credit no matter when the option is exercised during the lease term. The tenant will almost always need the full amount to close, and if someone is ready to purchase at 6 months, let's get it done! No need to wait 6 more months!

ASSIGNMENT OF AGREEMENT

This agreement is what assigns the entire agreement to the Tenant/Optionee. You will complete it with their names, date it, and have all parties sign it.

TENANT/OPTIONEE'S ACKNOWLEDGEMENTS

This is the Tenant/Optionee's acknowledgements to us, stating that they understand in full the agreement that they are the Tenant/Optionee of .

It states that they understand they are the Tenant/Optionee of a lease with the option to purchase, and that the sales price has been set.

15) Shows the money they paid for the assignment, and that it does apply towards the purchase of the home.

16) States that we can't guarantee permanent financing. We don't know if they are going to keep all of their payments up during the lease etc. We will do all we can to help, but in the end they are the ones that are responsible. This also states that they will allow us to pull credit every 90 days to make sure they are staying on track, and let's us know when they are ready for finance.

18) States that they are taking the property "As is/Where is" and that they are responsible for the upkeep of the property.

20) Again covers the lease extension, and that they will be dropped from any program that they are enrolled in with us or our service providers at the end of the lease, unless an additional fee is paid.

(The last two items only apply to Texas)

NOTICE OF LIENHOLDER INFORMATION

This sheet is to be completed by the seller with the lienholder's info. A copy of this will need to be given to the Tenant/optionee at the time the contract is assigned.

AUTHORIZATION TO RELEASE INFORMATION

This sheet is also completed by the seller. Once we have assigned the contract, the seller can complete this sheet with the tenant/optionee's name, and can then fax it to the mortgage company. Neither you nor the Tenant/optionee need to get a copy of this sheet

Landlord/Optionor's Acknowledgments ("Acknowledgments")

I, _____ ("Landlord/Optionor" whether singular or plural), on this ____ day of _____, 20____, have agreed in writing to lease with an option to purchase the real property commonly known as _____, (the "Property") to _____ ("Tenant/Optionee") and or its assigns, according to the terms and conditions contained in the Residential Lease Agreement and separate Option to Purchase Real Property (the "Agreement") of even date, a copy of which is attached hereto. Any capitalized terms which are not defined herein, shall have the same meanings ascribed to them in the documents in which they are defined. I further state and acknowledge, as follows:

1. OWNERSHIP OF THE PROPERTY: I am the owner of the Property (or I have an equitable interest in the Property) and I am able to enter into any agreements for the Property's lease and option and potential sale. I also acknowledge that all indebtedness, loans, liens, property taxes and dues or assessments for homeowners associations, on the Property are in good standing, and that I will continue to make all payments on time to lenders, creditors or tax assessor collector. I also understand that the Tenant/Optionee and or its assigns have the right at any time during the term of the Agreement to obtain verification from me that all such payments are current. This may include, but is not limited to, mortgage statements or receipt of payments to the mortgage company, receipts for tax payments, loans and dues or assessments. I also acknowledge that the Property is not currently the subject of any bankruptcy or probate proceedings, and that I am prohibited from including the Property in any bankruptcy proceeding during the term of the Agreement.

2. COMPLIANCE OF PROPERTY CODE REGARDING CONVEYANCES: In accordance with Texas Property Code Title 2 Chapter 5, I acknowledge and understand the following:

(A) That no lien or sum of liens on the Property is greater than the full purchase price stated in the Option to Purchase Agreement.

(B) The Landlord/Optionor is obligated to make timely payments and give monthly statements of payments made to lienholders to the Tenant/Optionee and or assigns.

(C) If the Landlord/Optionor receives notice or has actual knowledge of a default, acceleration or foreclosure on the Property, Landlord/Optionor will notify in writing in 14-point type to the Tenant/Optionee and or assigns of said notice and attach a copy of all related documents to the written notice.

(D) If the Landlord/Optionor does not make timely payments on liens against property, the Tenant/Optionee may without notice, cure any deficiency with a lienholder directly and deduct from the total outstanding balance owed by the purchaser under the Option Agreement 150 percent of any amount paid to the lienholder.

INITIAL

3. LIENHOLDER INFORMATION: I acknowledge that any lender or lienholder allows a Lease with Option to Purchase Agreement to be entered into on the Property, and will verify loan information to Tenant/Optionee per attached Authorization to Release Information form, which I have signed, and any lienholder will accept payments directly from Tenant/Optionee should I default on payments.

4. ACCEPTANCE: I have reviewed the terms and conditions contained in the Agreement and have I accepted Tenant/Optionee's offer to lease and option to purchase the Property with the right to assign to another person or entity.

5. IN MY BEST INTEREST: I am satisfied with the Agreement and I have agreed to lease with an option to purchase the Property as it is in my best interest to do so.

6. FULLY INFORMED: I have signed the Agreement being fully informed and with sufficient understanding of all terms and conditions contained therein.

7. SATISFIED WITH THE SALES PRICE: I understand that I may be renting and optioning the Property for less than market value. As such, I have chosen to do so because my specific circumstances dictate that an immediate solution, even if at a discounted price, is in my best interest. I am satisfied with the lease-option arrangement and the sales price I have negotiated for myself.

8. SALE IS FINAL: I understand by signing the Agreement, that I have agreed to Lease and Option the Property to Tenant/Optionee and or its assignee and I am now bound by the terms and conditions described in the Agreement.

9. AUTHORIZATION TO ASSIGN: I understand Tenant/Optionee may assign the Agreement. If the Tenant/Optionee is unable to assign the Agreement subsequent to execution of the Acknowledgments and the Agreement, that the Agreement is terminated and void, and the Tenant/Optionee shall have the right to cancel the Acknowledgments and the Agreement, without penalty, and will be held free and forever harmless of any encumbrances.

10. CANCELLATION OF AGREEMENT: I understand that _____ or Landlord/Optionor may cancel the Agreement at any time prior to the commencement of the Lease ("Effective Date") with no further obligation to either party to perform.

11. NOT A LOAN: I understand the Agreement I have signed is for the outright lease of the Property and an option to purchase the Property and is not intended to be a loan of any kind.

12. COPIES OF THE AGREEMENTS: I understand that copies of any and all executed agreements I have signed will be provided to me in a timely manner and I acknowledge that circumstances dictate that copies may not be immediately made available to me.

INITIAL

13. TERMS OF THE AGREEMENT: The principal terms of the Agreement with _____, or to its assigns are as follows:

\$ _____ Option price

\$ _____ Assignment fee paid by Assignee at time of Assignment (may be shown as 'Earnest Money' at time of purchase)

\$ _____ Option price minus Assignment Fee

\$ _____ Seller concession

\$ _____ Proposed amount excluding closing costs that Landlord/Optionor anticipates in the event that Property is appraised for Option Price.

14. TENANT/OPTIONEE IS ENTITLED TO MAKE A PROFIT: I understand _____, is entitled to charge any Assignee an Assignment Fee for

assigning the Agreement and may realize a profit in doing so. This fee will be paid by the Assignee at the time of assignment, and be deducted from the option price of the Property at the time of closing if the Option is exercised.

15. LEGAL COUNSEL ADVISED: I acknowledge that _____, has advised me to seek independent legal counsel to review the Agreement.

16. FINANCIAL REVIEW ADVISED: I acknowledge _____ has advised me to seek an independent financial advisor to review the Agreement.

17. FAIRLY NEGOTIATED: I understand _____, has negotiated on its own behalf and likewise, I have negotiated on my behalf. I acknowledge the Agreement has been negotiated fairly.

18. NO OTHER COVENANTS: I have not been warranted or covenanted anything other than what is set forth in the Agreement. No unresolved issues, no side agreements, nor other terms not disclosed in the Agreement exist.

19. NOT UNDER DURESS: I am not under duress and I have signed the Agreement of my own free will, without any undue financial pressure. _____, has in no way pressured me into signing the Agreement.

20. FULLY SATISFIED WITH AGREEMENT: I am fully satisfied with all terms and conditions contained in the Agreement.

21. CLOSING: At time of closing, all documents necessary for title transfer shall be executed and held in escrow at the designated title company. Property taxes, HOA dues and rents will be prorated on the date title to the Property is transferred.

22. ACCESS: _____, or its Assignees shall have access and a key to the Property upon receipt of full payment of the first month's rent, any security deposit and any assignment fee due at the start date of Lease.

INITIAL

23. NOT AN AGENT: The parties hereto understand and agree that both parties are acting on their own behalf, and not as a broker, agent, employee or contractor of the other party. The relationship between the parties shall not create any agency, partnership, joint venture or other legal relationship between the parties.

24. APPRAISAL VALUE OF PROPERTY: By executing this Agreement, the Landlord/Optionor, Tenant/Optionee and or any assignee (the "Parties") included in the Agreement acknowledge that the value of the Property as of the date of execution of this Agreement may change at any time subsequent to execution of this Agreement. It is not commercially or reasonably practicable for the Parties to predict changes or alterations that may be included in future appraisals of the Property. As such, the Parties acknowledge that the Property may or may not appraise at the same value as set forth in the Option Price. In the event that, at the time of purchase, the Property does not appraise in an amount above or equal to the Option Price, then I, as the Landlord/Optionor, retain all rights to negotiate the Option Price at the time of the Option execution.

25. DUE ON SALE CLAUSE: I, as Landlord/Optionor, hereby acknowledge that lienholders and lenders on the Property may have a “due on sale” clause, as that term is defined by the applicable lien documents, which may affect the acceleration of the maturity of any debt secured by the Property. In the event that I, as Landlord/Optionor, have any inquiries regarding the scope of said “due on sale” clause, I shall contact the lender or lienholder directly.

26. MEDIATION: The Parties agree that: all claims, demands, disputes or controversies of every kind or nature that may arise between them concerning any of the provisions of the Acknowledgments or the Agreement, or any breach of the terms or performance of any covenant under the Acknowledgments or the Agreement, **OTHER THAN TENANT/OPTIONEE OR ASSIGN’S FAILURE TO PAY RENT, EVICTION PROCEEDINGS BROUGHT BY LANDLORD/OPTIONOR AGAINST TENANT/OPTIONEE AND/OR DAMAGE TO THE PROPERTY CAUSED BY TENANT/OPTIONEE** shall be settled by first attending a mediation with a dispute resolution service, with two mediators selected by such organization. In the event of mediation, each party shall be responsible for its own costs related to mediation, including, but not limited to, reasonable attorneys’ fees.

IN WITNESS WHEREOF, I, as Landlord/Optionor execute these Acknowledgments as of the date first above written:

Landlord/Optionor Date

Tenant/Optionee Date

By: _____

Title: _____

Landlord/Optionor Date

RESIDENTIAL LEASE AGREEMENT

This Residential Lease Agreement ("Agreement"), dated _____, is entered into by and between, _____, ("Landlord") and _____, ("Tenant"), or its assigns for the real property (the "Property") located at:

under the following terms and conditions:

1. **FIXED TERM AGREEMENT, (LEASE):** Tenant agrees to lease the Property for a fixed term of _____ months, beginning _____ ("Effective Date"), and ending on _____ ("Termination Date"). Thereafter, Tenant must provide Landlord written notice of Tenant's intent to vacate and terminate this Lease within thirty (30) days prior to the Termination Date, or if the parties agree to an extension of this term, at end of any renewal period.
2. **RENT:** Tenant agrees to rent the Property for the sum of \$_____ per month, payable in advance on the _____ of each month of the lease term. There will be no rent increases through the Termination Date. If this Lease is renewed in writing, Landlord may increase the rent during any renewal or extension period, by providing written notice to Tenants.
3. **FORM OF PAYMENT:** Tenant agrees to pay rent in the form of a direct deposit, a cashier's check, or a money order delivered and payable to Landlord or as Landlord instructs.
4. **RENT PAYMENT PROCEDURE:** Tenant agrees to pay rent to Landlord at the following address or bank: _____, unless other arrangements are agreed to in writing.
5. **RETURNED CHECKS:** If for any reason a check paid by Tenant to pay Landlord is returned without having cleared, (insufficient funds), Tenant will be responsible for payment of a returned check charge of \$35.00 per return. If any check is returned for insufficient funds, Tenant must thereafter make all subsequent payments via a cashier's check or money order only.
6. **RENT DUE DATE:** The rent is payable in advance, and due the _____ day of every calendar month for the subsequent month. Tenant must pay rent on or before the due date. There is no grace period and rent payments **received** after the rent due date will be considered late.
7. **LATE FEES: (A)** In the event rent payment is received after the due date, a late fee of \$25.00 per day for a maximum amount of three (3) consecutive days following the date will be due in addition to the rent. In the event that Tenant does not pay rent in full along with the late fees as set forth herein within three (3) days of the due date, then Landlord shall have the right to pursue any and all of its remedies as provided by applicable law, including, but not limited to, seeking eviction of the Tenant from the Property.
(B) APPLICATION OF FUNDS RECEIVED FROM TENANT: Landlord will apply fees

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received from Tenant first to non-rent obligations of Tenant including late charges, returned check charges, charge-backs for repairs, then to rent regardless of any notations on a check or instrument stated by Tenant.

8. LEASE CANCELLATION AND DEFAULT: The original Tenant or Landlord may cancel this Lease at any time prior to the Effective Date without notice. Thereafter, if for any reason any subsequent Tenant or assignee elects to cancel this Lease, Tenant or assignee must provide to Landlord at least sixty (60) days prior written notice of his/her intent to cancel this Lease, but is liable for any damages resulting from the early cancellation of the Lease. Upon Landlord's receipt of notice of cancellation, Tenant or assignee shall be held liable for any and all rent payments due until Landlord has found another tenant to lease the Property. Upon cancellation, there will be no refund of any funds paid by Tenant or assignee. Tenant or assignee will also be responsible for damages incurred by Landlord as a result of this action, and as allowable under state and local laws. These damages may include, but are not limited to, lost rent and income, expenses incurred for advertising, clean up of premises, locksmith services, all maintenance and repairs, and travel expenses related to repairing and showing the Property. If Landlord breaches this Lease, Tenant or assignee may seek any relief provided by law. If Tenant or assignee fails to timely pay all rents or late fees under this Lease or otherwise fails to comply with this Lease, for any reason, Tenant or assignee will be in default and Landlord serve tenant with a Notice Of Default via registered or certified mail.

9. UTILITIES/SERVICES: Tenant agrees to pay all utilities and services. Unless provided by Landlord, Tenant must, at a minimum, keep at all times during this Lease or any renewal the following utilities on and current (if available): gas, electricity, water, wastewater and garbage services.

10. OCCUPANTS: The number of occupants is limited to _____. Only the Tenant(s) listed below are permitted to reside in the Property:

NAME _____ RELATION _____

NAME _____ RELATION _____

NAME _____ RELATION _____

NAME _____ RELATION _____

NAME _____ RELATION _____

11. GUESTS: Tenant may house any single guest for a maximum period of seven (7) days, every six (6) months.

12. ASSIGNMENT: _____ may assign its obligations as Tenant under this Residential Lease Agreement. Any other Tenant or Assignee may not sublet the Property, in whole or in part, nor may they assign this Lease to anyone without first obtaining the Landlord's written permission. In the event that this Lease is assigned, upon Landlord's prior written consent, then the Effective Date and Termination Date of this Lease shall be modified from the date first above written to the date of the assignment.

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13. VEHICLES: Tenant agrees to keep a maximum of _____ vehicles on the Property. All vehicles must be operable, registered and insured. Tenant agrees to advise any visitors regarding parking and to take responsibility for same. Any vehicle with an active leak of any kind may not be placed on or near the Property. Tenant agrees not to repair vehicles on the Property if such repairs will take longer than a single day unless the vehicle is kept in an enclosed garage. Tenant agrees not to park any vehicle on the Property as prohibited by local codes.

14. TENANT INSPECTION: Tenant hereby acknowledges that it has inspected the Property and all its contents and agrees everything is in satisfactory order, including the electrical, plumbing, heating and cooling systems, and is accepting the property in "as-is" condition. Tenant acknowledges and agrees that that the Property is habitable.

15. NOTIFICATION OF SERIOUS BUILDING PROBLEMS: Tenant agrees to notify the Landlord immediately upon its initial discovery of serious building problems such as, but not limited to, a crack in the foundation, moisture in the ceiling or a leaking roof, buckling sheetrock, a spongy floor, termite activity, or any other serious problem. The person who must be contacted is: _____

16. TRASH REMOVAL: Tenant agrees to dispose of its ordinary household trash by placing it into a receptacle for weekly collection. Tenant agrees to dispose of extraordinary household trash by hauling it to the dump themselves or by paying someone to haul it away. Tenant agrees to pay for trash collection service.

17. MAINTENANCE AND REPAIRS: Tenant has inspected the Property and acknowledges that it is in satisfactory condition, and accepts the Property "as is/where is" and with "all faults." Tenant agrees to accept responsibility for all maintenance and repairs to the Property, as well as all damages that Tenant or guests may cause. This may include, but is not limited to: air conditioner, heater, water heater, dishwasher, plumbing not related to a slab leak, electrical, fence, yard, cosmetic items, windows and doors. Landlord is responsible for any structural repairs such as: roof damage or other damage caused by weather, repairs for which coverage is allowed by Landlord's property owner's insurance policy, foundation, or a slab leak. Landlord, at Landlord's sole expense, will repair conditions that adversely affect the health or safety of an ordinary Tenant and those conditions caused by the negligence of Landlord or its contractors.

18. LOCKS/LOCKOUTS: Should Tenant desire to change any lock on any door or mailbox, Tenant agrees to do so at its expense. Landlord must be provided with duplicates of all locks changed.

19. ACCESS: Landlord recognizes that Tenant has a right to privacy and Landlord will respect such right. However, owners, Landlord, or their agents may have to gain access to the Property for the purposes of repairs, inspections, or maintenance. Landlord will provide tenant with reasonable notice of twenty four (24) hours when access is desired, or less than twenty four (24) hours with Tenant's permission. In the event of an emergency, advance notice of entry may not be possible and is not necessary.

20. YARD AND LANDSCAPING: Tenant agrees to properly maintain and care for the Property, and the land associated with the Property. This shall include the maintenance and upkeep of the yard, which shall

include keeping the yard, hedges, bushes and landscaping at an appropriate height, edging sidewalks and drives, and at minimum, weekly watering of the yard

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and any landscaping. Tenant understands that keeping the yard properly watered can prevent unnecessary and costly foundation repairs.

21. ALTERATIONS: Tenant agrees not to make any structural alterations to the Property without first obtaining the Landlord's written permission. Non-structural changes to the Property including painting may be done at Tenant's expense without prior written permission from the Landlord, so long as they adhere to any standards of a homeowner's association or restrictive covenants affecting the Property.

22. PEACE AND QUIET: Tenant is entitled to the quiet enjoyment of the Property. Tenant agrees to refrain from making such noises that would constitute a nuisance as defined by applicable law or violation of any local noise ordinance.

23. BUSINESS USE: Tenant agrees to use the Property as its personal residence. Tenant may operate a home office from the Property so long as no commercial vehicles are kept at the Property without the written consent of the Landlord, and any business activity does not violate any HOA or city codes.

24. LAWFUL USE: Tenant agrees that it will not engage in any illegal activities on the Property, nor will Tenant knowingly allow others to engage in any illegal activities on Property.

25. COVENANTS, CONDITIONS AND RESTRICTIONS AFFECTING THE PROPERTY: Tenant acknowledges receipt of all pertinent rules, regulations, and all conditions, covenants, and restrictions pertaining to the Property and Tenant will be financially responsible for any fines incurred due to any violation of these rules or covenants.

26. INSURANCE: Landlord shall maintain, at minimum, a Landlord policy on the Property to cover any roof and fire damage to the Property, and liability insurance to cover certain personal injuries occurring as a result of property defects or owner negligence. This insurance does NOT cover Tenant's possessions or Tenant's negligence. Tenant is advised to obtain any insurance coverage Tenant deems necessary for Tenant's personal property and belongings.

27. RENTER'S INSURANCE: Tenant is required to obtain a renter's insurance policy to cover damage or loss of its own possessions, as well as losses resulting from its own negligence. Tenant shall also be required to obtain a liability policy that includes coverage of Tenant and Tenant's guests.

28. INSURANCE CONSIDERATIONS: Tenant agrees that Tenant will not knowingly keep anything on the Property that will result in an increase in the cost of the homeowner's insurance policy or an endangering of the Property.

29. FIRE OR CASUALTY DAMAGE: Should fire or casualty damage have been caused by Tenant's action or neglect, Tenant shall not be relieved of the responsibility for payment of rent, and Tenant shall also accept the full responsibility for all associated repairs and costs incurred.

30. HOLDING OVER: If Tenants fail to vacate the Property on or before the Termination Date of this Lease or at the end of any renewal period, Tenants will pay rent for the holdover period and will be held

responsible to the Landlord and/or prospective tenants for damages including lost rent, lodging expenses and reasonable attorneys' fees.

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31. ILLEGAL PROVISIONS NOT AFFECTING LEGAL PROVISIONS: If any term in this Lease is found to be contrary to any local, state, or federal law, said item shall be considered null and void. This will not affect the validity of any other term in this Lease.

32. NON-WAIVER: Should Landlord or Tenant waive its rights to enforce any breach of this Lease, that waiver shall be considered temporary and not a continuing waiver of any later breach. Neither Landlord nor Tenant shall have waived their rights to enforce any breach unless they agree to a waiver in writing.

33. CONSEQUENCES: Breach of any part of this Lease, or nonpayment of rent or other charges when due shall be cause for eviction under appropriate sections of the applicable Texas Property Code. If payment has not been received three (3) days after the due date, a Notice of Default shall be sent via registered or certified mail. If no payment has been received by the end of the right to cure period, then the case will be immediately filed with the Justice of the Peace in the county and precinct where the Property is located. The Landlord also retains the right if needed, to file for a Writ of Possession, thereby allowing for the physical removal of Tenant's belongings.

34. MEDIATION: The Parties agree that: all claims, demands, disputes or controversies of every kind or nature that may arise between them concerning any of the provisions of the Acknowledgments or the Agreement, or any breach of the terms or performance of any covenant under the Acknowledgments or the Agreement, **OTHER THAN TENANT/OPTIONEE OR ASSIGN'S FAILURE TO PAY RENT, EVICTION PROCEEDINGS BROUGHT BY LANDLORD/OPTIONOR AGAINST TENANT/OPTIONEE AND/OR DAMAGE TO THE PROPERTY CAUSED BY TENANT/OPTIONEE** shall be settled by first attending a mediation with a dispute resolution service, with two mediators selected by such organization. In the event of mediation, each party shall be responsible for its own costs related to mediation, including, but not limited to, reasonable attorneys' fees.

35. ATTORNEY'S FEES: If either party to this Lease shall bring a cause of action against the other party for enforcement of this Agreement, the prevailing party shall recover reasonable attorney's fees involved.

36. PETS: No pets are allowed on the Property without written permission from the Landlord, except as noted below. Under no circumstance shall any aggressive breed of animal be permitted to be kept on the Property. _____

37. SMOKE DETECTORS: The Texas Property Code requires that smoke detectors be installed at certain locations at the Landlord's expense. Tenant acknowledges that the smoke detectors in the Property are in good working order on the Effective Date of this Residential Lease Agreement. Tenant agrees to maintain batteries for battery-operated smoke detectors at Tenant's expense.

38. PREPARER'S DISCLAIMER: All of the undersigned parties in this Lease agree not to hold the preparer of this document liable for any errors, omissions, mistakes or negligence.

OPTION TO PURCHASE REAL PROPERTY

This Option to Purchase agreement, dated _____, 20____, is entered into by and between _____, (“Landlord/Optionor”), and _____, and its assigns, (“Tenant/Optionee”) for the real property located at:

(the “Property”) under the following terms and conditions:

a) OPTION TO PURCHASE:

- a) Landlord/Optionor grants to Tenant/Optionee the right to purchase at any time during the option period of _____, through _____, the Property conditioned upon full compliance by Tenant/Optionee with the terms of this agreement.
- b) The full purchase price of the Property shall be \$_____ at the time the option is exercised.
- c) Landlord/Optionor agrees that upon exercise of the option, Landlord/Optionor shall contribute \$_____ to be applied towards funds to close as a seller concession to the Tenant/Optionee if and only if the option is exercised before it expires. If the option to purchase is not exercised, for any reason, there will be no refund of any rent or concession.

- b) RIGHT TO ASSIGN:** _____, has the right to assign this option and such assignment by will be without recourse to _____.
After _____ makes any assignment, this Option cannot be assigned, nor can the property be sublet, in whole or in part, to any third party, without the prior written permission of the Landlord/Optionor.

c) EXERCISE OF OPTION:

Tenant/Optionee must notify Landlord/Optionor of Tenant/Optionee’s intention to exercise the Option no later than 30 days prior to the option expiration. If Landlord/Optionor does not receive such notice within 30 days prior to the expiration of the Option, the Landlord/Optionor may begin marketing the Property to another party.

d) OPTION CONSIDERATION:

_____, shall pay Landord/Optionor the amount of \$10.00 (Ten Dollars) as fair and valuable non-refundable option consideration. This consideration was paid on _____. Should this Option be assigned, any assignee will pay _____, a nonrefundable assignment fee of \$_____ which will be considered as option consideration for the option on the Property, and it will apply in full towards the purchase or towards funds to close if the option is exercised. This option consideration was paid on _____. If the option to purchase is not exercised, for any reason, there will be no refund of any assignment fee or option consideration.

e) TRANSFER OF OWNERSHIP:

So long as the term of the option has not expired, Landlord/Optionee may not sell, convey or

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transfer any ownership interest in the Property, nor may Landlord/Optionee market the Property for sale, conveyance or transfer of ownership. Landlord/Optionee shall maintain current balances with all lenders with liens secured by the Property.

6. PRORATIONS, CLOSING COSTS, ASSUMPTION AND REFINANCING COSTS:

The closing costs shall be those costs normally incurred in conjunction with closing escrow in an arms-length transaction and shall be paid at the close of escrow are as follows:

- a) Expenses payable by the Landlord/Optionor as the seller: Releases of existing liens, including prepayment penalties and recording fees; release of seller's loan liability; tax statements or certificates; title insurance (title policy); survey; preparation of deed; one-half of escrow fee; and other expenses required by the seller under FHA, VA, or other government loan program regulations.
- b) Expenses payable by Tenant/Optionee as the buyer: Loan origination, discount, buy-down, and commitment fees; Appraisal fees; loan application fees; credit reports; preparation of loan documents; interest on the notes from the date of disbursement to one month prior to dates of first monthly payments; recording fees; copies of easements and restrictions; mortgage title policy with endorsements required by lender; loan-related inspection fees; photos, amortization schedules, one-half of escrow fee; all prepaid items, including required premiums for insurance, courier fee, repair inspection, underwriting fee and wire transfer, expenses incident to any loan, and other expenses payable by the Buyer under this contract.

7. PROPERTY CONDITION:

The Property is being sold in "as is" condition, and the Tenant/Optionee acknowledges that they have inspected the property and accept it in its current condition. The Tenant/Optionee is responsible for all non-structural maintenance and repairs to the property during the term of this agreement.

8. REMEDIES UPON DEFAULT:

a) In the event of any default by Tenant/Optionee of the obligations under the Residential Lease Agreement, in addition to any remedies available to Landlord/Optionor at law or in equity, Landlord/Optionor shall have the right to terminate this Option and all rights hereunder after providing a Notice of Default and the time for the right to cure has expired.

- b) All of the terms of the Lease Agreement must be complied with in order for this Option to be valid. In the event this option agreement conflicts with any part of the corresponding Residential Lease Agreement, the terms and conditions of this option agreement shall be superior and prevail.

9. MODIFICATION:

Any modification of any portion of this agreement must be made in writing and signed by both parties. As written, this agreement constitutes the entire agreement between the Landlord/Optionor and the Tenant/Optionee. They have made no further promises of any kind to one another, nor have they reached any other understandings, either written or verbal, relating to the Option to purchase real estate.

10. ATTORNEY'S FEES:

If either party to this agreement shall bring a cause of action against the other party for enforcement of the agreement, the prevailing party shall recover reasonable attorney's fees involved.

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11. PREPARER'S DISCLAIMER:

All of the undersigned parties in this agreement agree not to hold the preparer of this document liable for any errors, omissions, mistakes or negligence.

12. FINANCING DISCLAIMER:

The parties to this agreement acknowledge that speculation of availability of financing or assumption of existing loans towards the purchase of the Property is impossible to predict. Therefore, the parties agree that these items shall not be a condition of performance of this agreement, and they agree they have not relied upon any representation or warranties by either party.

13. OPTION EXERCISE ACCELERATION:

To encourage the Tenant/Optionee to expedite exercising the Option, the Landlord/Optionor agrees to credit the Tenant/Optionee with the total amount of the agreed upon monthly contributions at any time during the lease term to be applied as funds towards closing as a seller concession for the Tenant/Optionee.

14. INDEMNIFICATION:

After any assignment of this option by _____, Landlord/Optionor shall indemnify _____, and hold _____, harmless from and against any and all claims, including statutory and contractual liens, and any other causes of action, claims for monetary damages, including attorney's fees, or for contribution or indemnity, and the reasonable and necessary costs, including attorney's fees, incurred in defense of any such claim or claims that may at any time be made or brought against _____, by an assignee of the option or anyone claiming by, through, or under Landlord/Optionor on account of any injury or loss sustained in or arising from the Residential Lease Agreement or this Option to Purchase Real Property.

15. DEFAULT OF MORTGAGE:

Landlord/Optionor acknowledges that all payments are current and in good standing with the mortgage company, any tax assessor collector, or homeowners association, and agrees to make all payments to the mortgage company, tax assessor-collector, or homeowners' association during the lease period of the Residential Lease Agreement in a timely manner and keep the mortgage current. Landlord/Optionor agrees to provide documentation of mortgage payments, tax and homeowners' association payments at the request of the Tenant/Optionee. If, during the option period the Landlord/Optionor fails to keep the payments on the property current, and the property is foreclosed upon, the Tenant/Optionee retains the right to seek damages from Landlord/Optionor as allowed by law.

16. COMPLIANCE WITH TEXAS PROPERTY CODE REGARDING CONVEYANCES:

- a) Landlord/Optionor shall make timely payments on the loan and may give monthly statements to the Tenant/Optionee reflecting the amount paid to the lienholder, and the date the lienholder receives the payment. Landlord/Optionor has provided to Tenant/Optionee the name, address and phone number of the lienholder or servicer of such loan.
- b) Landlord/Optionor, not later than the third day the Landlord/Optionor receives or has actual knowledge of a document or an event described below, to notify the Tenant/Optionee in writing in 14-point type that Landlord/Optionor has been sent a notice of default, notice of acceleration, or notice of foreclosure or has been sued in connection with a lien or mortgage

on the property and to attach a copy of all related documents received to the written notice. If
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Landlord/Optionor does not make timely payments on the loan or any other indebtedness secured by the property, the Tenant/Optionee may, without notice, cure any deficiency with a lienholder or mortgage company directly and deduct from the total outstanding balance owed by the purchaser under the Option Price, without the necessity of judicial action, 150 percent of any amount paid to the lienholder or mortgage company.

17. ACKNOWLEDGEMENT:

The undersigned each hereby acknowledge that each has read this agreement, understands it, agrees to it and has been given a copy. This agreement is not to be recorded unless the Landlord/Optionor gives prior written permission for recording. Each further have been advised to seek legal, tax, technical expertise and any other counsel of their choosing concerning this contract prior to signing.

Landlord/Optionor Date

Tenant/Optionee Date

BY: _____

Landlord/Optionor Date

Title: _____

ASSIGNMENT OF AGREEMENT

_____ (hereinafter, "Assignor"), who is the Tenant under a Residential Lease Agreement and the Tenant/Optionee under an Option to Purchase Real Property Agreement dated _____, (hereinafter collectively, "the Agreement"), by and between Assignor and _____, (hereinafter, "Landlord/Optionor") hereby assigns all right, title and interest in said Residential Lease Agreement, and the Option to Purchase Real Property for the property located at _____

to _____, (hereinafter, "Assignee"), for the sum and consideration of \$_____ received by Assignor. Any assignment fee paid shall be considered option consideration and will be credited in full towards the purchase price of the subject property as specified in the attached Option to Purchase Real Property Agreement.

Assignee hereby agrees to perform all covenants, conditions, and obligations required by Assignor under the Agreement and agrees to defend, indemnify and hold Assignor harmless from any liability and obligation under said Agreement. Landlord/Optionor and Assignee further agree to hold Assignor harmless from any deficiency or defect in the legality or enforceability of the terms of the Agreement. Landlord/Optionor and Assignee shall indemnify and hold harmless _____ from and against any and all claims, including statutory and contractual liens, and any other causes of action, claims for monetary damages, including attorney's fees, or for contribution or indemnity, and the reasonable and necessary costs, including attorney's fees, incurred in defense of any such claim or claims that may at any time be made or brought against _____, by an assignee of the option or anyone claiming by through or under Landlord/Optionor on account of any injury or loss sustained in or arising from the Agreement.

Landlord/Optionor and Assignee agree and understand that _____, is not acting as a Real Estate Broker or agent in this transaction and is not representing either party, but rather is acting as a principal in transferring and selling it's rights and interest in the Agreement to Assignee.

Dated this ____ day of _____, 20__.

Assignor: _____

By: _____

Title: _____

I hereby accept and approve the terms of this Assignment and agree to hold Assignor, _____, harmless from any further liability or obligation under the Agreement.

Assignee _____

I hereby accept and approve the terms of this Assignment to Assignee(s) and agree to hold Assignor, _____, harmless from any further liability or obligation under the Agreement.

Landlord/Optionor _____

Assignee's Acknowledgments ("Acknowledgments")

I, _____ ("Assignee"), on this ____ day of _____, 20____, have agreed and acknowledged to pay the assignment fee as stated in the agreement dated _____, for the Lease with an Option to Purchase Real Property ("Agreement") entered into by and between _____ ("Landlord/Optionor") and _____, ("Assignor") for the property located at _____, (the "Property") and by doing so, I hereby agree to uphold and adhere to all of the terms and conditions set forth in the Agreement, a copy of which is attached hereto.

I further state as follows:

1. ASSIGNEE OF THE LEASE WITH OPTION: I understand that I am the Assignee of the Agreement, and as such, I will be granted all rights, title, responsibilities, performances and liabilities of the Assignor as set forth in the Agreement. Upon execution of this Acknowledgment, Assignor shall no longer assume any liability or damages which may arise from performance or omission of the terms of the Agreement.

2. ACCEPTANCE: I have reviewed the terms and conditions contained in the Agreement and I have accepted the Assignor's offer to lease the Property.

3. FULLY INFORMED: I have signed the Agreement being fully informed and with sufficient understanding of all terms and conditions contained therein.

4. SATISFIED WITH THE OPTION PRICE AND CREDITS: I acknowledge that I am leasing the Property and I have a right to purchase said Property if I so choose. All earned rent credits will be applied towards the purchase or towards funds to close. I understand that neither party to this Acknowledgment has the ability to forecast the future amount of an appraisal/valuation in 12 to 24 months' time. The Fair Market Value of the appraisal may be more or less than the agreed-upon option price.

5. LEASE OPTION CONTRACT IS FINAL: I acknowledge that by signing the Agreement, I have agreed to be assigned a lease with an option to purchase the Property, and upon said assignment, I will assume and be bound by the terms and conditions described in the Agreement. I further understand that I cannot terminate the Agreement at some later date.

6. NOT A LOAN: I understand the Agreement I have signed grants me the right to lease the Property and an option to purchase the Property and is not intended to be a loan of any kind.

7. COPIES OF THE PAPERWORK: I understand that copies of the paperwork I have signed will be provided to me in a timely manner and I acknowledge that if extenuating circumstances dictate that copies may not be immediately made available to me, that

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Assignor shall have no liability for any delay in providing said paperwork to me.

8. ASSIGNOR ENTITLED TO MAKE A PROFIT: I understand Assignor is selling its rights in the Agreement, and may realize a profit in doing so.

9. LEGAL COUNSEL ADVISED: I acknowledge Assignor has advised me to seek independent legal counsel to review the Agreement.

10. FINANCIAL REVIEW ADVISED: I acknowledge Assignor has advised me to seek an independent financial advisor to review the Agreement.

11. FAIRLY NEGOTIATED: I understand Assignor has negotiated on its own behalf and likewise, I have negotiated on mine. I acknowledge the Agreement has been negotiated.

12. NO OTHER COVENANTS: I have not been warranted or covenanted anything other than what is set forth in the Agreement. No unresolved issues, no side agreements, nor other terms not disclosed in the Agreement exist.

13. NOT UNDER DURESS: I am not under duress and I have signed the Agreement of my own free will, without any undue pressure from any party.

14. FULLY SATISFIED WITH AGREEMENT: I am fully satisfied with all terms and conditions contained in The Agreement.

15. ASSIGNMENT FEE: The non-refundable assignment fee of \$_____ will apply in full to the purchase or towards funds to close at settlement. In the event the Assignee fails to exercise this option or defaults under any terms of the attached Agreement then this option will be void and all monies paid to Assignor or to Landlord/Optionor will NOT be refundable.

16. OBTAINING PERMANENT FINANCING: I, as Assignee, understand that there are no guarantees of obtaining permanent financing. I understand that I may need to enroll in a credit improvement program or establish credit in order to qualify for permanent financing. I, as Assignee, also understand the requirement to keep payments to all creditors in good current standing, and that I am solely and fully responsible for preparing to meet the lender's guidelines, and that no promises, written or orally have been made in reference to guaranteeing financing before the expiration of the Option period.

17. APPRAISAL VALUE OF PROPERTY: By executing this Agreement, the Landlord/Optionor, Tenant/Optionee and or any assignee (the "Parties") included in the Agreement acknowledge that the value of the Property as of the date of execution of this Agreement may change at any time subsequent to execution of this Agreement. It is not commercially or reasonably practicable for the Parties to predict changes or alterations that may be included in future appraisals of the Property. As such, the Parties acknowledge that the Property may or may not appraise at the same value as set forth in

INITIAL

the Option Price. In the event that, at the time of purchase, the Property does not appraise in an amount above or equal to the Option Price, then I acknowledge that the Landlord/Optionor retains all rights to negotiate the Option Price at the time of the Option execution.

18. PROPERTY CONDITION: This property is being transferred in an AS IS/WHERE IS condition. The Assignee acknowledges that it has inspected the Property and Assignee accepts the Property in its current condition. The Assignee is responsible for making and paying for all non-structural repairs and maintenance during the term of the Agreement. This may include but is not limited to: air conditioner, heater, water heater, dishwasher, plumbing not related to a slab leak, electrical, fence, yard, cosmetic items, windows and doors. This does NOT include structural repairs such as: roof damage or other damage caused by weather, repairs covered by the Landlord/Optionor's homeowner's insurance policy, foundation, or a slab leak.

19. **MEDIATION:** The Parties agree that: all claims, demands, disputes or controversies of every kind or nature that may arise between them concerning any of the provisions of the Acknowledgments or the Agreement, or any breach of the terms or performance of any covenant under the Acknowledgments or the Agreement, **OTHER THAN TENANT/OPTIONEE OR ASSIGN'S FAILURE TO PAY RENT, EVICTION PROCEEDINGS BROUGHT BY LANDLORD/OPTIONOR AGAINST TENANT/OPTIONEE AND/OR DAMAGE TO THE PROPERTY CAUSED BY TENANT/OPTIONEE** shall be settled by first attending a mediation with a dispute resolution service, with two mediators selected by such organization. In the event of mediation, each party shall be responsible for its own costs related to mediation, including, but not limited to, reasonable attorneys' fees.

20. **NO REPRESENTATIONS:** Assignee acknowledges that Assignor has made no representations or warranties concerning the condition of the Property or the improvements thereon, its ownership, the neighborhood, or the value of the Property.

21. **NOT AN AGENT OR BROKER:** Assignee understands and acknowledges that _____, is not acting as a Real Estate agent, broker, or dealer, and is representing no party other than itself, acting only as a principal in the Agreement. The relationship between the parties shall not create any agency, partnership, joint venture or other legal relationship between the parties.

Dated this ____ day of _____, 20____.

Assignee

Assignor

BY: _____

Title: _____

NOTICE OF LIENHOLDER INFORMATION

Name and address of lienholder(s) or loan service company:

Phone number of lienholder(s) or loan service company:

(____) ____ - ____ ext ____

(____) ____ - ____ ext ____

Loan or account number(s):

1st lien _____

2nd lien _____

Balance of loan(s):	Payment amount	Due Date
---------------------	----------------	----------

1 st lien _____	_____	_____
----------------------------	-------	-------

2 nd lien _____	_____	_____
----------------------------	-------	-------

Name of Homeowners Association (HOA): _____

HOA Management contact: _____

NOTICE TO PURCHASER:

If the Landlord/Optionor fails to make timely payments to the lienholder or servicer, the lienholder or servicer may attempt to collect the debt by foreclosing on the lien and selling the property at a foreclosure sale.

I acknowledge receipt of this disclosure at least three (3) days prior to the Effective Date of the Agreement.

_____	_____
Tenant/Optionee(s)	Date

AUTHORIZATION TO RELEASE INFORMATION

Authorization dated this _____ day of _____, 20__.

Borrower(s): _____

Phone number (H) _____ (C) _____

(W) _____ (Other) _____

Loan Number: _____

Property Address: _____

Bank or loan service company: _____

Address: _____

Phone number: _____

Fax number: _____

I/We the undersigned hereby authorize you to release information regarding the above referenced loan to _____ and/or their agents/assigns. This form may be duplicated in blank and/or sent via facsimile transmission. This authorization is a continuation authorization for said persons to receive information about my loan, including duplicates of any notices sent to me regarding my loan.

Borrower

Date of Birth

SSN (last four digits)

Borrower

Date of Birth

SSN (last four digits)

Marketing to Buyers

There are a number of ways to market to buyers now, and just like marketing to sellers, creativity can be key. In the 3 day boot camps we again have an activity for groups to develop ways to market for buyers.

The first thing to do of course is to get signs in the yard and if appropriate, directional signs going to the house.

You'd be surprised how many calls you'll get from signs.

I use 24x 18 signs and I use aluminum for the signs in the yard:



There are a number of websites to utilize so I'll name just a few here:

RentDigs.com

Fizber.com

Both of these are syndication sites so they will promote on various sites.

Craigslist

Facebook Marketplace is also becoming a more popular way to market properties.

You'll also want a Facebook page for your company where you can showcase your houses and even direct them to a Carrot site.

Carrot website. If you don't have one already, go to OnCarrot.com and get a website, which is actually a SEO driven template that you can then modify and make changes so the template suits your area and your needs. They are very easy to navigate and work with, even if you aren't a tech person.

Even though the Carrot sites are SEO optimized, you will need to adjust them so that they are targeted for your area, so they rank higher for your city.

We have found that just a simple site combined with a minimal ad spend for driving traffic to it generates a large number of buyer leads. When I say minimal, I'm talking \$5 a day in ad spend will drive a large number of leads to your site. We post our properties on our site and have a field form to capture the buyer's information.

Here is one of our sites that you may want to take a look at to get a feel for what you can do:

<https://johnleasingtobuycomrenttoown.carrot.com>

We get so many leads just from this site and a very very small paid ad spend that we have a person whose job it is to keep up with and track the leads.

You will also want to network and reach out to people in the business such as loan officers and real estate agents, and also credit repair companies. Loan officers are a great source of leads as they are obviously working with people trying to buy a house, and those that can't qualify are great for a lease option, and you can send them back to the loan officer once they are ready for financing.

Taking Calls

There's not much to discuss about taking the calls from potential tenant/buyers, but I will mention a few points. When I get calls from people that start off with something like "How much is that rent house?" I typically throw up a red flag and let them know that it is not a rent house, rather a lease purchase, and we have the complete lease purchase program in place. Then I ask if they are looking for a lease purchase, or if they are just needing a rental. The purpose of this is to save yourself a bunch of wasted time talking to someone that isn't even looking for a lease option. If they are looking for a lease option, before I go into a big speech about our program, I give them the financials on the house, and see if that is in their price range. Then I can go into details about our program if need be. You'll find as you get more and more business that it's key to keep from wasting time on the phone.

The main points to make in the phone calls is the price, down payment, and rent, and see if that is in their price range. Then explain that a portion of their payment goes towards the purchase, and that you have everything in place to help them get financed, including credit repair and finance.

I wouldn't just jump up and go show a house, until you know that they are at least looking for a lease purchase, and they are looking in that price range. You'll be shocked at how many people will waste your time getting you to show the house, then asking if you have anything just to rent.

You definitely want to find out their timeframe for moving before you show a house. It's not uncommon for people to want to see a house and they aren't even looking to move for several months.

Something that some people get hung up on is what phone number to use as far as signs and online ads. I use my cell number. I know, you're thinking "what"? I have used my cell number since 2003, and there have been times when I almost changed that, but unless you get a massive number of calls, my cell is what I use, however, you can certainly use a service like PatLive or something, but starting off just stay with the basics and use your cell number.

Showing the Property

As far as showing the properties, there's not too much to discuss, but I will throw out a few caution signs to be on the lookout for.

If someone shows up with their belongings in the back of a pickup, you can be fairly assured that they were just evicted.

If someone seems VERY anxious to get into a house, even trying to give you cash to hold the house, they may be getting evicted.

If they seem very antsy, and are really pushing the question of how soon they can move in, they are probably being evicted.

If they say they are waiting on a "settlement" for the down payment money, you should probably move on down the road. You don't want to be a part of that.

If they go on about how awful their current landlord is, they are probably trouble, and will be for you as well.

If they are "boyfriend/girlfriend", they probably are not a good fit.

Don't be afraid to ask questions such as, "what do you all do for a living?" "How much do you all make per month/year?" "how long have you been on your current job?" "are you all currently in a lease?" "Where do you all live now?" "Why are you all looking to move to this area?"

Keep in mind that YOU are the primary line of qualifying a person that you may have to work with for 12 months!

If the house is occupied by the owner, I always schedule the showing around the owner's schedule and prefer that they be there, so it's unlike what an agent would do.

You'll find that you typically only need to show the house about 4-5 times before you have a solid applicant.

If the house is vacant, you may want to put a lockbox on the house, but never give someone the code that wants to see the house! I've probably done it a few times but I shouldn't have, and I have a friend that is a property manager and he did give out the code and the people moved in and became squatters! Yep! He had to go thru a whole process to get them out!

Applications and Credit Check

Our website allows people to complete an online application for a property. They can click on a house, then click on the application button on the right hand side, and complete the application. They will then be directed to PayPal to pay the application fee. Once they have done this, we receive a notification that an application was submitted and paid for. You don't necessarily need to get this fancy on your site, as most people will be either faxing the application to you, or will hand it to you at the property. However, keep in mind that the application will cost you about \$40 each to pull, so you don't want to get into the habit of doing them for free.

Sometimes you will have a couple who only wants one spouse on the application because "He'll be the one qualifying for it", or "Since I stay at home, I don't need to be on it". You want every adult who will be living in the property to complete the application. Regardless of whose name will be on the mortgage, you need all adults to complete the application. If the tenants default and the owner want to file a judgment against them, you have all of their information. Plus, at the time of finance, the lender will pull both spouse's report, even if only one is going to be on the mortgage, because they have to look at both reports to calculate DTI.

The report we pull is a trimerge report that has personal records information that will show bankruptcies, judgments, and liens, and it also has some previous address information and normally it will have some previous employment info. I normally don't do background checks, as far as criminal history in most cases. If you feel like you need to do a criminal history check, they probably shouldn't be in the house. You can perform an eviction check or criminal check at www.publicdata.com or by going to www.youcheckcredit.com If a recent judgment appears on their report, (which will appear on the credit report) it may very well be that they have just been evicted. You may also use these two sites above to check if the applicant is on a registered sexual offender list.

There are a number of sites to pull reports from, but I like AdvantageTenant.com as their reports are clean and fairly easy to read. You can contact them to set up an onsite inspection, where they verify you have a separate office in your house, locking file cabinets, and your office door has to lock as well.

One of the HUGE benefits to our Affiliates is that we actually pull and process the applications for them, so they don't have to worry about doing it themselves. This seems to be a streamlined process that they rely heavily on us for.

You may want to utilize a loan officer for processing the applications, and then of course feed them the buyers when they are ready for finance.

Here is a copy of our application:

Representative : _____

Property : _____ TOTAL sales price : _____

Assignment fee: _____ Monthly payment : _____

Credit Report Authorization and Release

Authorization is hereby granted to Leasing To Buy, LLC to obtain a standard factual data credit report from a reporting agency or mortgage lender chosen by Leasing To Buy, LLC.

My signature below authorizes the release to the credit reporting agency, a copy of my credit application, and authorizes the credit reporting agency to obtain information regarding my employment, bank accounts, prior rental history, background check and any outstanding credit accounts (mortgages, auto loans, personal loans, charge cards, credit unions, etc.). Authorization is further granted to the reporting agency to use a photostatic reproduction of this authorization if necessary to obtain any information regarding the above mentioned information.

If applicants request a copy of the credit report obtained with any possible derogatory information be sent to the address of present residence, applicants will hold Leasing To Buy, LLC and any credit reporting organization harmless in so mailing the copy requested.

Any reproduction of this credit report authorization and release made by reliable means (for example, photocopy or facsimile) is considered original. Authorization is also granted for Leasing To Buy, LLC to release any information to the Landlord/Optionor for qualification purposes.

(Other than spouses, use separate sheet for all applicants)

<u>Applicant 1</u>

Name: _____ SSN _____ VA Eligible?: Y N

D.O.B. _____ DL# _____ State _____

Applicant's Phone Numbers H _____ C _____

E-mail Address _____

Present Address _____

Zip Code _____ How long? _____ Own or rent? _____

Current monthly rent or house payment _____

If renting, landlord's name/number _____

Previous Address _____

Zip code _____ How long? _____

If rented, landlord's name/number _____

Present Employer _____

Employer's Address _____

Employer's Phone Number _____ Your Position _____

Gross monthly income \$ _____ Dates of employment? _____

Applicant 1 cont.

If less than two years, previous employer and position:

Previous Gross Salary: _____ Dates of employment: _____

Do you have any pets? Y N - If Yes, what kind and how many? _____

DEBTS:

_____	_____
Account	Monthly payment
_____	_____
Account	Monthly payment
_____	_____
Account	Monthly payment

Applicant 2

Name: _____ SSN _____ **VA Eligible?: Y N**

D.O.B. _____ DL# _____ State _____

Applicant's Phone Numbers H_____C_____

E-mail Address _____

Present Address _____

Zip Code_____How long?_____Own or rent? _____

Current monthly rent or house payment_____

If renting, landlord's name/number _____

Previous Address _____

Zip code_____How long? _____

If rented, landlord's name/number _____

Present Employer _____

Employer's Address _____

Employer's Phone Number _____ Your Position _____

Gross monthly income \$ _____ Dates of employment? _____

If less than two years, previous employer and position:

Previous Gross Salary: _____ Dates of previous employment: _____

<u>Applicant 2 cont.</u>

Do you have any pets? Y N - If Yes, what kind and how many? _____

DEBTS:

Account

Monthly payment

Account

Monthly payment

Account

Monthly payment

I declare that all of the above information is accurate and correct. I authorize complete verification of this lease application and the obtaining of credit reports of all applicants. **I agree to pay a nonrefundable application fee of \$20 per person.** I further agree that the landlord or his agent may terminate any agreement entered into based on any misinformation contained in this lease application.

Applicant Signature _____ Date _____

Applicant Signature _____ Date _____

Mortgage Guidelines

First, I want to briefly talk about 3 different types of loan. There is VA, FHA, and conventional. Each has its own guidelines and individual requirements that you need to be familiar with. I don't expect you to become a loan officer after all of this, but just understanding some of the basic guidelines will be a big help to you. Also understand that there are countless number of lending programs that come and go all the time, and there are certainly programs that will take a lower score, or a higher DTI, but at the end of the day I stick with the known guidelines, as this will keep you from guessing what new loan programs are out there.

Let's start with VA.

VA, or Veterans Affairs, is a loan program available to veterans, whether active or not. However, just because someone is a veteran doesn't mean they QUALIFY for a VA loan. First, a person can only have one VA loan at a time, just like FHA. (There are some exceptions to this but I don't want you to worry about this) So if they have a VA loan on another house, they will have to go conventional on the next house, as you can't have two government guaranteed mortgages.

VA and USDA loans offer 100% financing, and sometimes you will have potential buyers stating that they are going to use their VA benefits so why would they put money down with you if they can get 100% financing? The answer is this. They can't qualify right now, so they can't use the benefits right now anyways, however, once they go to finance they and the loan officer can look at how to structure the loan so that the money they used as the option fee can be used towards closing costs and/or principle reduction. The VA lending guidelines have fallen more and more in line with FHA, which they used to be much more flexible.

FHA is Federal Housing Authority. FHA does look at credit scores, and currently they require a 640 mid score. They also require some of the guidelines that VA require, such as utility collections must be paid (this includes phone, water, electrical etc) payment plan for tax liens, no judgments, 3 years from a foreclosure, and 5 years from a CH 7 BK, one year on time payments for CH 13 BK, and no collections for the last 12

months. Most people that go through our program end up going FHA for financing.

Both VA and FHA have loan limits. These limits vary from county to county, so you will want to familiarize yourself with the limits in your area. For example, in Tarrant County, the FHA loan limit is \$395,000. These limits change quite a bit, but you'll want to be familiar with the limits. I don't expect you to constantly be checking the loan limits, but just be familiar with them.

Conventional loans typically have higher score requirements, with a mid of 660 in most cases, but conventional can sometimes overlook some of the items that FHA looks at, such as collections within 12 months etc. Conventional requires 5% down, but if the file is not as strong it can be 10% down.

As far as the lending requirements, there are 4 primary things to look at. There are other items to look at, but I wanted to point out the 4 biggest things here, then break them down a little bit.

- DTI (debt to income)

- Scores

- Foreclosures

- Public records

The first things to look at before you even pull the report are on the actual application. You want to look at DTI. Debt to income. Now, until you look at the report, you are just getting a feel for what they can afford. A quick rule of thumb is to triple the gross yearly, and that is about the max they can spend on a house. In other words, if they make \$50k a year, then \$150k is the max they want to spend on a house. Now, this is a very general rule, but it gives you a quick idea of whether they can afford it or not before you even get too deep. If you see they make \$30k a year, and are applying for a \$200k house, you know before you even pull the report that they aren't a good fit.

They will need to look at a smaller home. The lenders use the actual rule of about 43% monthly DTI. So to get specific, add up all of the reported monthly payments. This would be taken from the report. This includes credit cards, car, student loans etc. So if you take the household monthly income, multiply it by .43, and that is the total that their monthly debt can be INCLUDING the house payment. Here's a quick example:

Monthly income: \$4,000

Reported monthly debt payments: \$1000

$\$4,000 \times .43 = \1720

This means the applicant has to look for a house under \$720 a month!

Do you see how important DTI is and how easily someone can get in over their head on a house?!

After looking at DTI, you can of course look at the scores, making note of the mid score. Since we'd like to get the people to at least a 640 mid, you should look for a mid score on the report of at least a 550 or 580. At least. The FICO scoring system is not perfect though, and I've seen people with a 520 that I could tell by looking at the whole

report, that they were very workable. Maybe they only had a few old derogatory items, but no good credit. Very workable. But, ideally, look for at least a 550 to 580 mid score.

After the scores, look at the items on the report. How many non-derogatory items? Any recent derog's? Lates or collections in the last 60 days? If so, they very likely will not be a good fit for our program. Look at the utility collections. How much is owed on those utility collections? What about public records? Tax liens, judgments? If so how much and how recent? If a recent judgment, it may have been an eviction. Look at the whole picture. Learning to get the picture of the report, and make your assessments is not something that you can really do right off the bat. Don't get discouraged, it takes time seeing a number of reports to really get the hang of it. You will get the hang of it though, if you just don't try to make it too complicated.

The real estate records are the next thing to show on the report after the scores. Always look at this section. If there is a foreclosure, see how old it is. If it is less than 2 years ago, you'll need to move on. But, you're not just looking for a foreclosure, but you're also looking to see if the applicant currently owns a house. If the applicant owns a house, this is a good thing/bad thing. The good thing, is the applicant at least knows what's required to purchase a house, and owning a house shows some stability. The bad thing, is the applicant has a house that is going to not only affect the DTI, but that house could be a higher priority than the house they are applying for. In other words, what are they doing with that other house? Are they renting it? Is it listed? I've had people that owned another home, and when things went bad with their previous house, which is of course on their credit, they ended up not purchasing the lease option home, and moved back to their primary home.

Look at the public records. This is the last section of the report, and this is where items such as judgments, tax liens, and bankruptcies will appear. If there are public records, it could ruin the application. Judgments must be paid prior to finance, tax liens will now need to be paid, and of course the bankruptcies will have their required time before finance.

Closing the Deal

You got the house, marketed it, and found a solid tenant/buyer for the house. Now it's time to close the deal. Scared? Don't be! It's super easy.

Most people think that you need an attorney to close a lease option. You don't. Can you use one? Sure! But you don't need one. The primary purpose for using an attorney is it makes people feel safe and makes the investor feel warm and fuzzy and safe knowing that an attorney is closing the deal. That's totally fine. I do kitchen table closings but certainly use an attorney if you'd like. Most fee attorneys will do this for you for about \$350, and you can charge the buyer for this fee.

I do kitchen table closings which means I typically go to the house to meet the buyer to close the deal. If you want to do this, you will need to bring 2 copies of the contracts. You can bring 3 but I take 2. One for me, and one for the tenant/buyer. I then scan the final signed contract to the seller. The point is, is that all parties get a copy of the same contract. Everyone gets a copy of everything.

So if you are doing a closing like I do, you'll take 2 sets of the contracts, and also take a receipt to give them. You can use the sample that is in your download materials on the training site, and I recommend taking them to Staples or wherever to have them made into carbon receipts. That way you have a copy and the buyer gets a copy.

You don't need to read every line in the contract to the buyer, but I do hit the highlights on each section so that they understand the documents they are signing. It's important to note that the Option Fee they are paying is non-refundable, and the house is "as is where is" condition, and that you are not in any way guaranteeing that they will get financed.

Review each section with them, and have them sign the Assignment as well as initial and sign the Assignee's Acknowledgements.

They must pay the Option Fee and first month's payment with certified funds, and I have the Option Fee paid to my company and the first month made to the owner.

Make copies of the checks before you deposit them so you have a copy of everything for your file.

They get a copy of the signed contracts, and a copy of the receipt.

Send the owner a copy of the contracts and deposit his check along with any portion of the Option Fee that he was going to get.

Believe it or not, this is all so very simple, and I even have reps that are doing this where I never even see the house or met the buyer.

I also highly recommend that the buyer get a home warranty. I have always used Old Republic Home Protection and have had great success with them. It will cost the buyer about \$600 for a year, but covers quite a bit of repairs and therefore the seller isn't having to be called when something breaks. You can go to www.ORHP.com for more information.

Credit Repair

For years we had the credit improvement somewhat in house, but now we utilize a couple of different companies, and you may find one that you like better than this one, but I normally refer the buyers to www.CreditTude.com . They have a very good track record of helping our buyers, and are reasonably priced. I don't quote their prices because that may change by the time you are reading this. Keep in mind the credit repair may not be enough, and often times they need to establish trade lines.

If the buyer needs to establish trade lines, they can go to www.WalletHub.com and get a few secured cards. This is where they put money on a card and then they use that card, but have to make the monthly payments on what they spent. It is NOT a pre-paid card! It is a secured card, which is a huge difference.

Working with a Realtor

When we originally began this program, we asked that homeowners give us 30 days exclusively to assign our contract on their property. This meant allowing us to go at it with no competition. As we have grown, we have dropped this idea from our program, because we now know that in most cases, we can assign our contract faster than a homeowner or Realtor can typically sell a property. That's not the only reason that we dropped the "30 day rule" from our program. The truth is, as you will read throughout this manual, that our mission is to help people. We really are not here to compete with anyone, as far as how quickly we can move a property.

As you send out mass mailings, and really try to get going, you will get calls from Realtors who may be upset because their listed seller received a letter from you, and the Realtor assumes you may be a Realtor. Realtors do not send solicitations to listed homeowners. That is a no-no among Realtors. They can come under scrutiny from the state's Real Estate Commission for such a horrible crime. Since we aren't Realtors, we send out letters on a mass scale to everyone in our area. Once the Realtor realizes you are not a licensed Realtor, they may even chastise you for what you are doing, explaining that under no uncertain terms are you allowed to do what you are doing without being a Realtor. You will get these calls. That is just a fact. Although you may be tempted to spend hours trying to explain what we do and how we do it, it is probably best if you just condense the conversation to something like, "We send out mass mailings, so I can't control if a specific person doesn't get our letter."

If you try to explain to every Realtor that calls you what exactly you do, you will find that most of them don't comprehend what you are doing, and by the end of the conversation, you are right back where you started. So why bother going into a long dissertation about what you do?

When a seller calls you about the program, one of the first things you want to ask is if they are currently listed. If they are, they can still use our program, but they will want to contact their Realtor and advise them that they are going to use our program to lease purchase their property while it is listed. We are not here to step on toes, and we certainly do not want to go behind the Realtors back, if you will, to get properties in our program. Advise the seller to contact their Realtor, and that the seller may want to get something in writing from the Realtor stating that the seller can try to lease option their property while the Realtor keeps the listing. This may be a simple addendum to the Exclusive Right to Sell Contract that the Realtor has with the seller, or what is sometimes referred to as an Agent Exclusive listing, or an open listing. An open listing allows the seller to try to sell the property at the same time the Realtor has it listed.

The seller's agent may tell the seller that they will not allow the seller to try to lease option the house while they have the exclusive listing. The seller can always cancel the listing, just as the agent can cancel the listing. However, the goal is not to get the seller to cancel the listing, rather, the goal is to work WITH the agent for the better of the seller. Many agents don't want to work with us, because they realize we can probably assign our contract before they can sell the house. If that happens, then the agent won't make any money. Keep in mind though, if the agent sells the house before you assign your contract, you won't get paid either. If the agent tells the seller that they will not work with us, and tells the seller that they can not cancel the listing contract, then we certainly don't want to push the issue. We simply tell the seller to contact us when the contract expires.

You will want to find an agent that will work with you. The benefit is for the properties that are not listed that come your way. You will have properties where you can tell the property will be hard to move, or where the seller is in a tight bind and really needs to move the property as quickly as possible. Again, focusing on the fact that we are here to help, and not compete with anyone, we want to help the seller have "all poles in the water" so to speak. You will want to refer the seller to the agent that you work with, therefore they can have it listed and available for lease option at the same time.

You will find that your business will grow as you try to help people, and sellers will refer you to other people due to the fact that you focused on helping them, and not on the money.

A good relationship to establish is with agents that work closely with new home builders. The builders typically offer good incentives to the agents that bring buyers to them. Those agents also will typically list the buyer's current house as well. Here's the catch though. In almost every case, if the agent can't sell the new home buyer's current house, they can't buy the new house, and therefore the agent won't make any money on the deal. This is where you step in. If you build a relationship with those agents, and also the builder's reps that work in the model homes, you will have a nice avenue of homes that will come into your program. If the agent lists it while you have it in your program, and you lease option it first, the agent will get to sell the new home, and make the commission and incentives from the builder.

There is one other issue that should be mentioned if working with an agent on a house. That is the sales price. Typically, the price is higher with our program, than what it is listed for. You would like your price to be fairly close to the listed price if possible. Maybe higher by the assignment fee, so \$5,000 - \$7,000 higher than the listed price.

What can and has happened, is the listed price is a fair amount less than what we have for the option price, and prospective assignees are looking at the house with us, and see that they are paying quite a bit more through our program, and decide they may be getting ripped off. Because of this, again, it is advisable to have your option price close enough to the listed price so that there isn't an issue.

Texas Lease Options

Because I have already written the entire Reference Manual for Texas Lease Options, there isn't really much more to add, as it is about as complete as you can get. I recommend reading it 2-3 times to fully understand what the history was, and you should probably go thru it while having a set of the contracts in front of you.

Although the Reference Manual is online in the documents section, I've put it there as well for quick access for you.

OK, A Quick Word Before We Get Started

OK, before we get rolling here, going through lease purchasing and discussing some of the highlights of the fascinating Texas Property Code (big yawn), I want to explain what this reference booklet IS, and what it ISN'T. First, what it is MEANT to be.....The purpose of this booklet is to simply provide some open discussion regarding some of the background about lease options, what caused Texas to draft statutes regarding lease options, and also discuss the original bill that seemed to have been the source of many rumors, and discuss the changes and some of the highlights of the final bill that was signed into legislation in 2005. This booklet only covers the highlights of lease options WHICH ARE LESS THAN 36 MONTHS IN LENGTH!! Now, what this booklet is NOT meant to be. This booklet is not meant to be a law guide, or a thorough legal doctrine on all aspects of real estate or conveyance of real estate. It is not meant to be the final legal word on lease options. It is not meant to try to cover every possible scenario or situation that you may encounter, or dream up in your head. It is not meant to answer every "Yeah but, what if..." scenario you come up with. It is not meant to give legal advice, or stand as legal advice on its own merit. If you want legal advice, here you go...retain counsel. There, there's your legal advice. Now.....on with the show....

In 2005, the Texas Legislature convened and passed a number of highly important bills, or at least we assume they were highly important, and one happened to be HB 1823. (the Senate bill being SB 629) which introduced new state laws regarding lease options. If you were involved in real estate in Texas at that time, you would have thought that Armageddon had begun, and life on this round planet as we know it was soon to come to an end. Rumors went rampant. Investors curled up in the fetal position in their closets. Some attorneys said lease options were illegal. (However, oddly enough, they would gladly sell you their "land trust" course for a modest fee..ahem..) Since 2005, other states, such as North Carolina, and Massachusetts (OK, seriously? Who the hell can spell Massachusetts right the first time?!) have introduced and passed legislation regarding lease options, but guess what? You don't hear about those states or the statutes, do you? So what made Texas such a demon when it came to lease options? Why is it people that aren't even involved in real estate think lease options are illegal?

Well, let's get to that in a moment.....first though....a twister with a twist...

May 28th, 2000, Ft. Worth Texas. Living in North Texas you get used to the spring storms and the occasional tornado that pops up (...or...pops down, I guess). In May of 2000, a very unusual event occurred, in that a tornado actually went through downtown Ft. Worth damaging some of the large building and destroying an area of houses on the East side of downtown. As a lifetime resident of North Texas, I don't ever remember a tornado hitting downtown, so it was very dramatic to watch it unfold on TV and see the footage. Of course, you are supposed to go to an inside room during a tornado, but I find that if you instead go to the living room that has big tall windows, and watch the footage on TV, it is much more exciting.

There was a small area of lower income houses that were destroyed by the tornado, and these houses were primarily owned by an investment company. The investors had sold the houses on contract for deed and part of the payment the buyers were making was going towards the insurance premiums. A little problem though. The investors weren't taking those funds and buying insurance. So the houses are gone, and the buyers who thought they were paying for insurance now didn't have houses. Not good. So, Mike Moncrief, the then State Senator for District 12, drafted legislation to try to help protect people that enter a contract for deed purchase.

(A quick side note for those that care.... The Bank One building was damaged to the extent that it was closed, and there was debate on whether to tear it down, which left one of its tenants, the Reatta Restaurant with no place to operate. An investment group bought the Bank One building and revamped

it into some of the first condos in downtown Ft. Worth, (overpriced if you ask me) the Reatta moved into the building that for years was Caravan of Dreams, and the area of houses by downtown that were affected now has a number of lofts and restaurants. If you come to Ft. Worth for training, I always offer to buy any attendee a shot of Don Julio 1942 at Reatta. I realize this has nothing to do with lease options, but...thought I'd toss it out there.)

So, what does the little funnel have to do with lease options? Well, not a whole lot...directly, but I think any good read should have a natural disaster to help build excitement. I mean, think about it. You are reading a booklet about lease options and property code....how exciting can that be? I figured you'd want something to spice it up. Actually, there is a reason I mention the twister which eventually opened the doors for an area to develop great restaurants, bars and lofts. As we move along further, we'll discuss how the Code that applies to lease options, is written within the same Code (Title 2 Chapter 5) that also applies to contract for deeds, including a portion of the Code that discusses the consequences for failure to comply. People tend to talk about lease options as if the sky is/was falling, yet, some of the code already applied to contract for deeds, so it isn't as if everything drafted in the Code was completely new.

Before we delve into the Code, (ooohhh..the excitement is building isn't it?) let's first take a quick look at how laws come to be. Typically, two ways that laws get their start.

- 1) Something pisses an elected official off
- 2) Cat juggling

Let's start off with number one. Joe Smith is an elected representative. On his way to work, he passes by a billboard that has a clown on it. When Joe was just a young tike, he was involved in a terrifying situation with a group of clowns. Although he went to therapy for years after, ever since then, just the sight of a big red nose, or a large group of people crawling out of a small car, or even a hideous lady with a really bad make up job causes Joe to have flash backs and start twitching and breaking out in a cold sweat. So Joe decides to introduce legislation that would ban billboards from having clowns on them. He works with members of the Clown and Commerce Committee to vote on it, and fast forward it also going through the other House and going for a final vote, it then gets signed into law.

Then of course, there's cat juggling. Cat juggling? Yes. If you have no clue what I'm referencing, it's only one of the greatest movies of all times. The Jerk. After Steve Martin's character, Navin R. Johnson, has made quite a bit of money with his optical holder device (I think it was actually the Opti-Grab) people come from all over to hit him up to support their cause to try to get money from him. One guy describes the horrific activity going on in his homeland (I think it was Mexico) and he pleads his case and shows a black and white movie to Navin of...cat juggling. Steve's character is outraged that such an atrocity exists and he immediately writes a check to the man for his cause to stop cat juggling. Now, of course cat juggling wasn't a problem, but he got Steve Martin's character to listen to him and believe there was an issue that needed to be addressed. That's kind of how I look at the other common way that laws get their start. Lobbyist work the politicians over to plead their case for this or for that, with the hopes that the lawmakers will have legislation introduced to support their cause. Whether it be cat juggling or maybe clowns unions.

So what led to all the hoopla regarding lease options? There were a couple of main things that were happening, not just in Texas, but in all states. Now, keep in mind, there is nothing inherently wrong or deceptive with lease options, and for that matter, there is nothing inherently wrong with owner financing, foundation repair, or used car sales. It just comes down to the people involved. Pick a field, and there will be a bad seed somewhere. So back to what was going on. The obvious thing, is that there were immoral property owners or investors that lease optioned properties that were either in default on the mortgage, or that they allowed to go into default during the lease option period. Well, that's not very moral is it? People would put down the money for the option fee, and some of these people might be coming from across the border from our neighbor to the South. They would make their

payments to the owner every month in good conscience, but after a few months or so, they would get notices of foreclosure posted on the door, and would eventually lose the house to the mortgage company, because the owner wasn't making the payments on the house.

Another issue that would come in to play, (although far less common) were investors that would clear a swath of land and build cracker jack houses (maybe that's just my term, but I'm referring to houses that were very simple and all basically all the same looking house, almost like a military base) and lease option them. The Optionees would go to exercise their options, only to find out the land had not been platted, and nobody actually knew whose land was whose, and the land owner(s) sure didn't want to spend the large amount of money to have multiple lots platted just because one person decided to exercise their option.

Now, again, I want to reiterate, there is nothing inherently wrong with lease options. They can actually provide a great option and opportunity for those that can't obtain permanent financing, just as an owner finance can, but it's just the random bad seed that causes issues. But, up to 2005, the Property Code did not address lease options. It addressed leases, with Chapter 92 (Residential Tenancies) and it addressed transactions for the transfer of property such as contract for deed with Title 2 Chapter 5 (Conveyances), but not lease options.

So let's see what we have here. We have people putting down money on houses that are in default or built on property and lots that weren't platted, in particular people in South Texas. So there were a very very SMALL number of people that were taking advantage of others, and the people that showed the "horrendous cat juggling" film of the lease option problem was the Texas Low Income Housing Information Services which some say has been intertwined and worked with a little group known as ACORN. They step in to approach legislatures because so many lower income families and Hispanics were being taken advantage of and they present their "cat juggling" to help "protect people" from lease options. The main players were State Representative Dutton from Houston, and State Senator Lucio from Harlingen. Rep. Dutton on the House side works with State Senator Lucio on the Senate side to draft HB 1823 and SB 629 respectively to rid Texas of this evil type of transaction.

Here's a typical problem with cat juggling and trying to stop cat juggling. You have people that aren't necessarily well versed in the field of the "issue" that they are trying to solve, and are relying on the education they've received from the people that told them there were "issues", which means that it's not uncommon for the cat juggling to turn into throwing the cat out with the bath water, if you will. That's what happened with the original bills in my opinion.

In the documents you'll see a copy of the original House Bill and the Senate Bill. Now, I don't want to go through the original bills in horrifically boring detail, but I do want to make strong note of the section that DID throw the baby (or cat, depending on your take) out with the bath water in the ORIGINAL bill. Pull up the original HB1823 bill. Now, go to the third page and look at Sec. 5.085. The ORIGINAL bill stated that you could not do a lease option on a piece of property if there was a lien on the property. The only exception was, get this, if the lien was placed on the property due to the actions of the purchaser. (the Optionee). So if the purchaser had contractors come in and do a bunch of work but didn't pay them, the contractor could of course put a lien on the property. Here is where a large majority of the rumors stem from. With just this one section alone, the legislature was throwing out the baby with the bath water. The goal of addressing lease options was to try to prevent people from being ripped off, but with this single section, it would have made it so that very, very, few houses (almost none) would be able to be offered as a lease option, which means the people that really needed something like a lease option, the people the bill was meant to help, would no longer even have the ability to purchase a home by lease option. The people that really benefit from a lease option need time to get things in order, time to get their credit in place, time to arrange financing or get past issues from the past, and the lease option is a great way to help them obtain home ownership. But the original bill would have taken that option away.

As word got out to investors in Texas about what was going on in Austin, and the original bill was loaded to the internet for everyone to read, there was panic in the streets it seemed. Groups of investors went to Austin to personally meet with their representatives, big grassroots campaigns started to flood the offices of our officials in Austin with reasons to take another look at this bill, or revise it, or toss it out, to vote "NO" on the bill. A group of investors in North Texas were able to get State Senator Carl Parker of Beaumont to try to go to bat for us. For the first time ever I actually contacted my representatives via phone, fax, and e-mail.

I'd like to think that all of our efforts paid off at least to some extent, because the bill DID get amended by Dutton and Lucio and other representatives including State Senator Royce West from Dallas, and I've also included the amendments which were presented on the floor of the 79th Legislature for you to review in the Texas documents. (My understanding is that Sen. Parker was a key player in getting us the 3 year lease option amendment.)

****Side note here...my State Senator, Jane Nelson voted "no" on the bill. Thank you Jane!**

Now, there were other items that were addressed in the bill, such as, you can not withhold rent credits due to a late payment. The purpose here of course, is that if someone is 1 day late on their payment, you can't withhold, or not credit them with a rent credit. If they were late by one day for say, 6 of the months, they likely would not be able to close, because they are relying on the rent credits to assist with closing costs. Again, there were other items in the final bill that transferred from the original bill, but the major hurdle, 5.085 was amended for the final bill, which we will cover in more detail later.

Another important section that was amended was Section 2 of the bill, for Section 5.062 on subsections (a) (b) and the addition of subsections (e) (f) and (g). (See? This is getting so exciting to read already isn't it? Maybe we should go back to natural disasters...) Again, we're about to get much deeper into the bill, and we will discuss these items very soon.

As I prepared to write all of this, I realized there were a few ways to try to lay everything out, and after some deliberation, I made a very strong 40 Creek Double Barrel on the rocks with a splash of water and...just a splash...not too much...and decided the best way to approach this is to have you:

- 1) Print out the "Original HB 1823"
- 2) Print out the "Amendments to SB 629"
- 3) Print out the " Final Version of HB 1823"
- 4) Print out the "Title 2 Chapter 5 Conveyances"
- 5) Pour yourself a strong 40 Creek Double Barrel with a splash of water..not too much water....

Now, we're going to focus on the final bill, and we'll look at Title 2 of the Code to see how the bill comes together with Property Code regarding conveyances, but I think it's good to have the original bill and amendments printed off to reference to if you want to see what was changed. Keep in mind that part of the confusion of this bill, if not a large part, was caused by the fact that the statutes for lease options were written into Title 2 Chapter 5 in the Property Code which cover conveyances, including contract for deed agreements. So people might read the bill, and have a difficult time deciphering what was referring to a lease option and what was regarding a contract for deed. This is very important to understand! HB 1823 was not JUST about lease options. It also addressed changes regarding contract for deed and conveyances! Many of these changes had NOTHING to do with lease options! This is a major source of some of the rumors that are out there.

When the final bill was signed, I did something completely unheard of. I read it. Not only did I read it, I marked it up with a pen making notes on what applied and what didn't apply to a lease option.

Shocker! So, with the scanned copy of the final bill you have, you can actually see little notes on the side that I made at 2 AM one morning after the bill was passed. Really...I remember staying up that late. Don't worry that you can't make out my notes, as we'll go through them. So, with your Canadian Whiskey ready, let's move on to the bill.

HB 1823

Starting on Section 2 (2) where it states "an option to purchase real property that includes or is combined or executed concurrently with a residential lease agreement, together with the lease, is considered an executory contract for conveyance of real property". Reading this, one could determine that the code does not apply to a lease purchase, only a lease option. So if you signed a lease with a purchase agreement, you might think the requirements in the bill don't apply. Well, although that might depend on how the law is deciphered, a lease purchase would be considered an executory contract by the definition of an "executory contract", and in my opinion, for what it's worth, a lease *purchase* fits the bill for an executory contract far more than a lease *option*. But, maybe it's just me.

Jump to (C)(e) that references the sections that do NOT apply. 5.066, 5.067, 5.071, 5.081 and 5.082 DO NOT apply to a lease option. Although I'm not going to discuss these sections in detail (because they don't apply and I don't want to cause confusion) I think it's very much worth your time to glance at these sections on your print out of Title 2 Section 5. The reason is because there were rumors about reasons why you couldn't do lease options, and again, some of these rumors were regarding sections of the Code that do NOT apply to lease options. You'll see my hand written notes where I've marked off this section, and also written a note to myself to read these sections. Now, continue to (C)(f). Only the following sections apply to a lease option **if the term of the contract is three years or less**. That is important to know. If you do a lease option for more than 3 years, OR if you renew the terms of the lease option so that it extends beyond 36 months, other sections of the Code come into play. Essentially, a lease option longer than 3 years of length is treated identically as a contract for deed. Since I don't do lease options for that long, I'm only going to focus on the laws regarding lease options LESS than 3 years in length.

- (1) Section 5.061 (Definition)
- (2) Section 5.062 (Applicability of the Law)
- (2) Sections 5.063-5.065 (Notice, Remedies, and Rights to Cure)
- (3) Sections 5.073 except for Section 5.073(a)(2) (Terms and Prohibited Waivers)
- (4) Sections 5.083 and 5.085 (Title and Liens)

So let's first look at 5.061 and 5.062. 5.061 is very short and defines the term "default", so not much there. 5.062 is in reference to what types of transactions will apply and which ones won't. First, let's look at the copy of the Property Code regarding Conveyances, Section 5.062 (c). If you have heard that lease options LONGER than 6 months are illegal, this is the source of that. 5.062 (c) states that this subchapter *does not apply* to an executory contract that provides for the delivery of a deed within 180 days of the date of the final execution of the executory contract. 180 days of course equates to "6 months" by most standards. Why does the law make reference to 180 days here? This goes back to contract for deeds. In TX, if the seller of an owner finance is not going to deliver the title within 180 days, it's considered a contract for deed. Also keep in mind, that there is a temporary lease that agents sometimes use. Although, the current TAR 1910 (TAR 1911 for buyers) is for temporary leases up to 90 days, in my opinion, I believe they didn't want sellers that were entering into a temporary lease to allow for funding or closing etc., to have to follow the rules of a standard lease option.

Now, let's move to Sections 5.063-5.065 regarding notices, and remedies on default. These sections are regarding the remedies and rights to cure upon default. So, in English, these sections are

what the seller must do if the buyer is in default, and what the buyer must do to cure. 5.063 states specifically that the seller must give a notice in 14 point type to the buyer that they are in default, and if the buyer does not comply with the terms of the contract the seller will take possession of the property. A sample copy of a Notice of Default is included in the documents that you can reference to as well. With a lease option, the seller must give a 30 day notice to the buyer to cure. If the buyer does not cure the default by the 30th day, the seller may begin eviction. The notice must specifically state certain things, such as:

- 1) identify and explain the remedy the seller intends to enforce
 - 2) if the purchaser has failed to make a timely payment, then specify the delinquent amount
 - 3) any additional charges such as late fees or attorney costs
 - 4) the period and term in the contract the charges relate to
 - 5) the action required by the buyer to cure the default
- 5.064 states that a seller has remedy for a buyer defaulting if they comply with 5.063 and 5.065. 5.065 is regarding the buyer's right to cure, and interestingly enough, it begins with

"Notwithstanding an agreement to the contrary..." Hmm...so does that mean, the seller and buyer could have an agreement contrary to 5.065 and be within the law? I sometimes think that there are nuances written into law on purpose. I mean, think about it. Attorneys write the laws, and if there is ambiguity in the law, and items that are up for interpretation, it keeps other attorneys in business. As long as there is room for interpretation, lawyers will have jobs I guess. Anyway, the buyer according to this section has the right to cure the default within the 30 day period that the seller gave.

Section 5.066 does not apply.

Section 5.067 does not apply.

Section 5.068 does not apply.

Section 5.069 Does not apply. (I think it's odd that 5.069 does not apply, as this section requires a seller's disclosure.)

Section 5.071 does not apply, as it references finance terms, which of course, there are no finance terms on a lease option, such as interest rate etc.

Section 5.073 DOES apply. It states that the seller may not impose a late payment that exceeds 8% of the monthly amount or the administrative cost of imposing the late fee. So you want to keep your late fee less than 8% of the monthly amount.

Section 5.073(a)(2) does not apply.

Section 5.073 (3) and (4) state that the seller can not impose a prepayment penalty and that the seller can not withhold an option fee for a late payment. If the buyer was late on a payment you can't withhold a rent credit at the time of purchase, nor can you withhold the option fee paid at the time of purchase.

Section 5.073 (5) prohibits an increase in the purchase price or impose a fee for requesting repairs.

Section 5.074, 5.075, 5.076, 5.077, 5.081 and 5.082 do not apply.

Section 5.083 does apply. It states that the purchaser can cancel the contract for improper platting. This shouldn't really be an issue, unless you are lease optioning property located on farmland that was cleared with a John Deere and then had a bunch of little frame houses thrown up.

Section 5.084 does not apply.

Section 5.085 does apply. This is of course the Big Kahuna. The big insurmountable obstacle isn't it? Well, let's look at it. First...you may want to refill your 40 Creek Double Barrel.

Section 5.085 FEE SIMPLE TITLE REQUIRED; MAINTENANCE OF FEE SIMPLE TITLE.

This section is the source of so many rumors, because, in my opinion, of two major reasons.

- 1) The original version was amended prior to signing.
- 2) Lack of understanding of the term Fee Simple Title.

We'll get into the amendments in a moment, but let's start with the definition of fee simple title. It does not mean that there is no lien on the property. Keep in mind, with real property, there is a mortgage, and there is title. A mortgage creates a lien on the title, even though you may be on title. Fee simple, or fee simple absolute, is a common law term to define a real property owner's absolute rights and would transfer to heirs in estate, and *does not cease with a mortgage*. Some people have incorrectly interpreted that fee simple means there is no mortgage. This is not correct.

HOWEVER, keep in mind what this DOES mean. It means if you are going to be the seller of real property using a lease purchase, you will need to be on title! There are 3 types of lease options, or ways a lease option is structured.

- 1) There is a standard lease option between a seller (Optionor) with a property and a tenant/buyer (Optionee). Here there are two parties involved. Simple and easy.
- 2) There is a lease option assignment, commonly referred to as a cooperative assignment. This is where an Optionee assigns their rights, title and interest to another Optionee, who is the Assignee of course, and now the Assignee (tenant/buyer) has the option on the property.
- 3) There is a sandwich lease option. Here, the investor negotiates a lease option with the seller, then, negotiates a lease option with the prospective tenant/buyer. The investor receives the rent from the tenant/buyer, and when the tenant/buyer exercises their option, the investor makes the difference between the option price they have with the seller, and the option price with the tenant/buyer. This requires a double closing.

With Section 5.085 requiring the seller to have fee simple title, the 3rd type of lease option above is eliminated. The original seller, the owner of the property, would likely have fee simple title, but the second seller (the one that is in the middle of the "sandwich") would not have fee simple title, and therefore per the law, would not be able to execute a lease option on the property.

Now, on to the "liens". The original version of 5.085 stated that the property must be free of any liens. Period. This would have meant that there could not be a mortgage on the property. This of course would have excluded most properties from being viable for a lease option. Of course, as you can see on the amendments that were introduced, Section 5.085 was highly amended prior to the final bill. So let's take a look at what the final bill states.

First though, how are you doing on your beverage?

Section 5.085 (b) states "This subsection does not apply to a lien or encumbrance on the property that is:

- (1) placed on the property because of the conduct of the purchaser.
- (2) agreed to by the purchaser as a condition of a loan obtained to place improvements on the property, including utility or fire protection improvements;

This part of 5.085 means there can be a lien on the property if the purchaser has essentially had work done on the house and the work, or improvements caused there to be a lien placed on the property. In essence, the reality is, if this were to be the case, this likely means the purchaser hired a contractor to do work on the house then didn't pay the contractor, which means the purchaser is a loser and the contractor had to place a mechanic's lien on the property. This isn't good for the seller of course, because if the purchaser doesn't have the morals or ability to pay a contractor for work done, what are the odds that they will be able to be in a position of finance to purchase the property. If they don't purchase the property or move, the mechanic's lien stays and now the owner has a lien on the property for work they never requested or possibly ever wanted done. Now, having said all of that, in 10 years I have never seen a lien placed on a property due to the purchaser's actions. Not saying it can't or won't happen, but, I've never had it happen....knock on wood.

5.085 (3) placed on the property by the seller prior to the execution of the contract in exchange for a loan used only to purchase the property if:

Read that again. This means a mortgage. Now, with the disclosures on the lien.

(A) the seller, not later than the third day before the date of the contract is executed, notifies the purchaser in a separate written disclosure:

- (i) of the name address, and phone number of the lienholder or, if applicable, servicer of the loan;
 - (ii) of the loan number and outstanding balance of the loan;
 - (iii) of the monthly payments due on the loan and the due date of those payments; and
 - (iv) in 14 point-type that, if the seller fails to make timely payments to the lienholder, the lienholder may attempt to collect the debt by foreclosing on the lien and selling the property at a foreclosure sale;
- Now, the above section is pretty easy to decipher. The seller must provide the mortgage information and a separate notice (in 14 point type) that tells the purchaser that if the seller doesn't make the payments the house can be foreclosed on....duh.

Included on your contracts is a lienholder information page that can be completed with the required information, and there is also the notice in 14 point-type. Apparently purchasers in Texas have really bad eyesight, so there are some notices that are required to be in 14 point-type.

(B) the lien:

- (i) is attached only to the property sold to the purchaser under the contract; and
- (ii) secures indebtedness that, at no time, is or will be greater in amount than the amount of the total outstanding balance owed by the purchaser under the executory contract;

So the lien can only be attached to the property and that the lien is not more than what the option price is on the contract. The last part means the seller can't have a mortgage balance of say, \$200,000 and execute a lease option with the option price of say, \$180,000. This would mean that if the optionee exercised their option, the seller would need to have the ability to come to close with a chunk of money, otherwise the optionee has lost everything.

By disclosing the mortgage information, if the potential optionee sees the scenario above, they realize that the seller would have to be in a position to come to close with funds. The potential optionee can then decide that's not a risk they want to take, and not move forward on the contract.

(C) the lienholder:

- (i) does not prohibit the property from being encumbered by an executory contract; and
- (ii) consents to verify the status of the loan on request of the purchaser and to accept payments directly from the purchaser if the seller defaults on the loan; and

You would want to review your loan documents, but most lenders would allow a lease purchase, or a wraparound etc, but keep in mind the due in sale clause. The lender has the right to call the note due, based on the due on sale, but really the only time this would be expected, is if the interest rates were a fair amount higher than the rate on the underlying mortgage. I have never heard of any lender calling the entire loan due based on the due on sale. Never. Whether there was a wrap or lease option etc. Also, some people have stated that the law requires the lender to approve the buyer. This is not true. Nowhere in the statutes does it state anything remotely like this. At all. Some have also said the statutes require the lender to give you notice in writing that they would allow you to do a lease option on your home. This is also something that is nowhere to be found in the law. You can check your loan docs and verify that on the Deed of Trust it doesn't state anything about not allowing you to do a lease purchase on the house, and if in doubt...call the lender. Can you imagine if you called the lender, and asked the random "customer service rep" "Hey, we are moving, and I was going to lease my house out, but the person leasing will probably want to buy it. Is that OK?" The customer service rep will think you have the IQ of a fingernail clipping.. "Uhhh....OK..."

We'll review some of the areas of the contracts later, but they do include an Authorization to Release Information document, which would be supplied to the lender. Many lenders do have their OWN Auth to Release form that they use, so you or the owner can get that from the lender they do.

Given the world we live in where everything can be found on the internet, an easy thing for the seller, it would seem, would be to also create a login and password for their online mortgage information, on their lender's website, and just give that to the buyer. There. The buyer can check on the mortgage right there on the internet at any hour they chose. Also, the lenders really don't care who makes the payment in most cases, so long as it's made. If the buyer were to see online that a payment was late, they have complete access right there online, and could even make a payment if need be. Of course, if the seller is late on a payment, and the Optionee has to make a payment, the next section would come into play.

(D) the following covenants are placed in the executory contract:

- (i) a covenant that obligates the seller to make timely payments on the loan and to give monthly statements to the purchaser reflecting the amount paid to the lienholder, the date the lienholder receives the payment, and the information described by Paragraph (A);
- (ii) a covenant that obligates the seller, not later than the third day the seller receives or has actual knowledge of a document or event described by this subparagraph, to notify the purchaser in writing in 14-point type that the seller has been sent a notice of default, notice of acceleration, or notice of foreclosure or has been sued in connection with a lien on the property and to attach a copy of all related documents received to the written notice; and
- (iii) a covenant that warrants that if the seller does not make timely payments on the loan or any other indebtedness secured by the property, the purchaser may, without notice, cure any deficiency with a lienholder directly and deduct from the total outstanding balance owed by the purchaser under the executory contract, without the necessity of judicial action, 150 percent of any amount paid to the lienholder.

OK, whew! Time for a reload on the 40 Creek! In the contracts that we'll cover, we'll make note of the covenants that are written into the contracts that are in reference to this subsection. Item (i) means the seller must give monthly statements to the buyer, the information of those statements are included in Paragraph (A) (i)(ii)(iii) and (iv) above. The seller can print off a simple notice or monthly spreadsheet with the information and include the notice in Section (A) (iv) along with the lienholder information page provided in the documents. Again, I would probably combine this with the online access. I think the key is to provide more than required. Actually, the key is to keep the payments current and ALSO provide more than required.

The potential repercussions of violating this section are covered in 5.085 (c). A violation of this section is a false, misleading or deceptive act or practice within the meaning of Section 17.46, Business & Commerce Code, and is actionable in a public or private suit brought under Subchapter E, Chapter 1, Business & Commerce Code.

If a seller violates 5.085, the purchaser can file suit, rescind the contract, and request the return of all of the payments made under the contract as well as reimbursement for any improvements they've made. Under the DTPA, Deceptive Trade Practices Act, the fines could be quite stiff, if found guilty by the jury. This is one area that really scares people. The penalties if the seller violates 5.085. There is rampant fear that if a seller does a lease option, then they will likely get a deadbeat loser buyer (known as a professional tenant in the world of rentals) and use it to try to live for free, and hopefully be owed additional monies under the BCC. Our documents go above the requirements of the law, AND to be honest, we avoid loser people and loser houses. It makes life much easier to stick with nice houses and nice people, and provide the required documentation as required by the law. This makes sense for ANY area of real estate or business.

In the next section, we'll look at some of the items in the contracts that are in place to be within compliance of the Code. But first....another dose of 40 Creek.

The Contracts

You'll find 2 sets of sample contracts for your reference on the training site.

***It's important to realize that even after I've gotten tweaked and revised contracts back from our attorney's, I've ALWAYS gone back through them to see if there were items that needed to be adjusted, or looked for typo's etc. Maybe I'm just anal that way, but I like to have things nice, neat, and tidy. I will always recommend that you should take any contracts that you purchase or receive or consider using, to an attorney that absolutely specializes in the field that the contracts cover, in this case of course, real estate. Then I recommend going back through them *again* once your attorney has.

Rather than going through every single item in the contracts, I'm only going to focus on the items that relate to or make reference to the disclosures and compliance of Texas Property Code as referenced by HB 1823. I'm going to use the "Contracts for Lease Option Assignments" as my reference in the following discussion, so the item numbers mentioned will reference those contracts.

Landlord/Optionor's Acknowledgments

Items 1, 2 and 3 are in reference to the disclosures and covenants as specified in Section 5.085, in particular, (D) (i)(ii) and (iii). You may want to take note of Item 1, at the end of the paragraph where we've added that a property can not be included in bankruptcy during the term of the Agreement. The Code does not require this or state this, but I like to go beyond what the law requires if we can, and let's be honest. If a property is in bankruptcy, the payments may still be current on it, yet the outcome is uncertain regarding the bankruptcy.

Residential Lease Agreement

Item 7. Late fees. According to Section 5.073, the late fees can not exceed 8% of the monthly amount.

On the sample contracts, you'll see the late fees set at \$25 a day for 3 days, but you can adjust this as you see fit, so long as they do not exceed 8%.

Items 8 and 33. These aren't required by the Code, but they do make reference to consequences for the tenant's failure to comply with the terms of the lease, and you will see that these items mention the Notice of Default, which is required to be served as Section 5.063, 5.064 and 5.065.

Item 40 is not specifically required, but does state that the Landlord agrees to comply with all laws regarding required disclosures, including mortgage information etc.

Option To Purchase Real Property

Item 8 again makes reference to remedies upon default of the purchaser, (the "Tenant/Optionee") and the Notice of Default.

Item 15 is not required either, but it again makes all parties aware and on notice of the Landlord's responsibility to make all payments on the property and that if the payments lapse, the Tenant/Optionee may seek legal action.

Item 16 again states the compliance with Code regarding conveyances as already stated in the Landlord/Optionor's acknowledgments. I realize this may be overkill, but disclose, disclose, disclose.

Notice of Lienholder Information

This is a sample of the lienholder disclosure page that provides the information as required by Section 5.085 (A) (i)(ii)(iii) and (iv). This includes the mortgage company information, the loan information and balances, as well as the 14 point type notice to the purchaser regarding the fact that if the seller doesn't make the mortgage payments, the lender may foreclose. This sheet also contains HOA information

(which is not necessary on this sheet) that I think is important for a purchaser to have. Granted, if an HOA violation takes place, the seller will be notified, but I think it's good for the purchaser to have this information.

Make note that per Section 5.085 (D)(i) this statement is to be provided to the purchaser each month, ALSO, make sure the purchaser has received this information at least 3 days PRIOR to the execution of the agreement, per Section 5.085 (3)(A).

Authorization to Release Information

This release is the seller giving the lienholder authorization to release loan information to the purchaser. Again, I would suggest the seller combine this with giving the purchaser online access to the mortgage information, so they have complete access just as the seller would.

Notice of Default

The sample notice is required by Section 5.063 to be sent via registered or certified mail with return receipt requested. It is also required to be in 14 point bold face or uppercase letters.

The notice must identify and explain the remedy the seller intends to enforce, and if the purchaser has failed to make a timely payment, the amount that is owed, and any additional fees such as late fees or attorney fees and the time period that the charges relate to, as well as the term of the contract that was violated.

The notice is comprised of 2 pages, because 5.063 states that the notice is on a separate page, so here you'll see the notice on one page, and the details of the terms that are in violation on the separate page.

In Summary

I have no issue declaring that HB 1823 was not well written, and that it does still go overboard some, although it does not throw the baby out as the first draft did. The truth is, the law is not going to prevent bad people with no morals from taking advantage of people, whether it's with lease options or other methods. Bad people will do what bad people want to do. I think that the EXTREMELY FEW "bad people" that were using lease options as a tool to take advantage of others, just as a bank robber uses a gun as a tool, will still take advantage of others, and continue to be bad people. Speaking of bank robbers, there's a perfect example of laws that don't stop crime. There are laws that make robbing a bank a crime. Yet, to this day, do you realize there has only been one type of person to ever rob a bank?

A thief.

Go figure. Crooks are crooks, and laws don't change them. They may prevent good people from doing bad things, (although it's not the laws so much as morals that do that), but they don't prevent bad people from doing bad things.

"79th Legislature." *Texas Legislature Online*. State of Texas, 04/28/2005. Web. 04/28/2005. <<http://www.capital.state.tx.us>>.

"savetexasrealestate." *Latest Revisions of The Bill*. Texas Real Estate Investors Association, Inc, 06/04/2005. Web. 06/04/2005. <<http://savetexasrealestate.blogspot.com/>>.

Business Structure

I used to be adamant about having an LLC before you start doing deals. I'm not as stuck on that as I used to be, but at the very least get a DBA before you do deals. But, the bottom line, to be honest, is this is a business not a hobby. If you aren't willing to spend the money to set up the business, then should you really be in business? Besides, you don't want contracts out there in your name.

You can get a LLC through your state's secretary of state and there are online sites such as Legal Zoom but keep in mind what they charge is on top of the state's fees.

I recommend contacting attorney Bob Bloom in Dallas to consult with setting up your LLC properly, and making sure it's the type that is going to fit your business and what you need. Bob's number is 972-489-9482. If you mention my name you will get a free consultation with him, but you need to mention my name.

One of the things you'll want to consider before filing for your LLC, is who your registered agent will be. The SOS will need this information to complete the filing for you. The registered agent is the person or entity that will receive all legal notices for the company including notices from the comptroller or lawsuits. Some people will put themselves as the registered agent simply because they aren't aware of what the registered agent is. Your attorney may be your registered agent, but you will want to discuss with your attorney if he or she serves as a registered agent, and the fees for the service. Not all attorneys will serve as a registered agent, as they may not have the time to forward all of the documents the agent on file receives. There are also companies in most states that will serve as your registered agent. Your attorney may very likely be able to recommend a company.

In Texas, there is a company called Lawyers Aid Service in Austin that can not only serve as your registered agent, but can also file the LLC for you.

<http://www.lawyersaidservice.com/>

If you are not in Texas, you should still be able to easily find companies like Lawyers Aid Service that can provide a similar service.

The purpose of the registered agent is that will be the contact should an attorney or someone be needing to send you certified information or serve your company. Let's face it. The purpose of the LLC is for protection and some form of separation. By having a company or firm be the registered agent, then it helps to provide just that. Plus, if you are in Costa Rica for 3 weeks, you don't have to worry about getting a default judgment against your company because you were out of the country. The registered agent will have the contact information for your attorney on file.

Once you have your LLC filed with the SOS, the next step is to obtain your EIN, Employment Identification Number. You'll need to contact the IRS for this, which you can go to their website at www.irs.gov or call at (800) 829-4933. You will need your EIN for a variety of things, such as opening your business bank account, or for any credit information or applications. Think of it as your business' social security number. The IRS website also has a variety of information on topics that can be helpful to the small business owner.

As I mentioned in the Introduction, this manual, nor any other manual can not possibly cover every possible scenario of a lease option. But the intent of this manual is to be combined with the training videos at www.LeaseOptionClasses.com and together you will have more than enough information and knowledge to get lease option deals done!

Print out the 30 Day Action Plan and EXECUTE IT! Week by week.

With this manual, the training videos, and the documents at your disposal, you have everything you need to succeed.

Again, as I emphasized before, make it a priority to get to a 3 day bootcamp! This is where you will see it all come together and see us do live deals right there in front of you! You get to come for free, so it's kind of a no brainer. See where the next bootcamp is and get registered at www.LeaseOptionClasses.com then go to Upcoming Events.