Real estate finance in india pdf

Owner financing can be a powerful tool to get real estate transactions closed. For the owner, it potentially allows her to benefit from a long-term cash flow stream, while deferring capital gains tax. In turn, buyers receive alternative financing that may be more affordable or more flexible than bank financing. However, there are downsides to owner financing that affect both the buyer and seller. Many owner-financed property sales are structured with balloon payments and don't last long enough to be paid in full like traditional 30-year mortgages. The eventual balloon payment brings back some of the issues that drive people to seek owner financing in the first place. For the owner, it generates a large lump sum of cash, much of which will be subject to the same capital gains taxes that owner tried to avoid by financing a property sale. If the buyer used owner financing because he couldn't qualify for a bank loan, the balloon payment will require him to go back to a bank. If he can't get a mortgage to replace the owner financing, he could lose everything he spent on the property, and the owner could end up regaining ownership. Banks frequently prevent potentially unwise transactions. For example, if a buyer isn't creditworthy, a bank won't lend to him. With owner financing, the owner could end up lending to a buyer who won't meet his obligations. Banks also protect property buyers from sellers by not making loans for properties that don't appraise at the price the seller wants. With owner financing, the appraisal process often gets sidestepped, potentially causing a buyer to overpay. In a traditionally financed transaction, the buyer and seller usually separate very quickly after the closing. With owner financing, both parties remain in contact for years. The owner knows that if the buyer fails to meet her obligations under the financing agreement, he must be willing to repossess the property. At the same time, because some owners remain attached to the property to protect their collateral, some buyers find that owner financing interferes with their "quiet enjoyment" of the property. Owner financing structured as a contract for deed, also known as a land contract or an installment sale, has unique problems. In a contract for deed, the buyer makes payments to the owner so that when she fulfills the contract, she earns the title to the property. Until the buyer pays off the contract, the seller technically still is the owner of the property. This puts the buyer in a dangerous situation, because if the seller fails to fill any of his obligations as owner -- like making property tax payments or payments on existing mortgage -- the buyer could lose her interest. At the same time, since the seller remains on the title for the property until the contract is completed, he retains some liability for anything that happens at the property. February 23, 2021 5 min read Opinions expressed by Entrepreneur contributors are their own. If you're considering a real estate career, you may also be wondering how to finance it. The majority of residential sales professionals, commercial agents and property managers are self-employed independent contractors who earn commission-based incomes that vary from month to month. Building up your business and income may take some time.Typical real estate startup costs vary by state and the arrangement you have with a sponsoring broker. For instance, they may cover some amount of insurance, office supplies and advertising. Your upfront costs may include:Pre-licensing class Exam and licensing Association membershipMarketing and brandingContinuing educationComputer equipmentCustomer management softwareMiscellaneous business utilitiesIf you don't have ample financial runway to pay startup costs and cover your budget for at least six months, your real estate business could crash and burn quickly. As the owner of your business, you're solely responsible for its success or failure. Consider using one or more of these eight funding options to increase your chances of success.Related: Want to Make More Money in Real Estate Development? Use AI.1. Maintain an income bridgeIf you have a job, don't be in a hurry to quit. Use your current income to help get your real estate business off the ground. Or you might start a side hustle and save the money you earn for your new venture.Another option is to work part- or full-time in your chosen real estate field. For instance, if you want to go into sales, you could work as an assistant for a successful agent. That would allow you to maintain an income and learn about your future career.2. Use your savingsTapping your savings is the easiest way to finance your real estate career. It may take longer to save enough money to get started, but the upside is that you won't give up any control or accumulate debt.3. Liquidate valuable assetsIf you're willing to sell valuable assets, such as real estate, vehicles, jewelry, antiques or investments, they could be a funding source for your real estate career. While retirement account balances might look tempting, be aware of the downsides of tapping them. With most retirement accounts, such as a 401(k) or IRA, you're restricted from taking early withdrawals and penalized if you're younger than age 59.5. For traditional accounts, withdrawals are subject to income taxes plus an additional 10% penalty. If you have a Roth account, they offer more flexibility for withdrawing contributions that were previously taxed. However, draining your retirement account is typically a bad idea because it jeopardizes your future financial security.4. Borrow from yourselfWhen you don't have any savings or assets to fund your real estate business, another option is to borrow from yourself. For instance, you might use the equity in your home to qualify for a home equity line of credit (HELOC) or a home equity loan. They typically require at least 20% equity but come with low interest rates.Credit cards charge relatively high interest rates, but offer an easy way to finance the expenses required to launch your business. If you will carry a balance for the foreseeable future, use a personal or business card with the lowest rate possible so you can reduce interest charges. Getting a low-rate personal loan may be another option to fund your real estate career.If your retirement plan allows a 401(k) loan, you can borrow up to 50% of your balance up to $50,000 with a five-year repayment period, including interest. Again, tapping a retirement account should only be a financing option of last resort.5. Take a loan from friends or familyMany small business owners get started by taking funding from friends or family who can give you a loan. While they may offer flexible repayment terms or a low-interest rate, this option comes with risks if it jeopardizes your relationship.Carefully consider what would happen if your real estate venture fails or it takes you much longer than expected to repay the loan. It's essential to document the terms of a loan from family or friends, so there aren't any misunderstandings later on.6. Apply for a business loanMany banks and credit unions offer business loans to start or expand your venture. Getting a business loan may require you to have good credit, collateral and a business plan with income and expense projections. Or you may need a co-signer with good credit who agrees to be fully responsible for the debt.If you need a loan with fewer financial requirements, consider applying for a Small Business Administration (SBA) loan. They guarantee repayment to institutions that underwrite loans for entrepreneurs, making you a less risky borrower. SBA.gov has a list of lenders that offer SBA-guaranteed loans.7. Get a business line of creditA business line of credit from a bank or credit union allows you to tap funds up to a limit when you need them for your business. As you repay amounts withdrawn plus interest, your credit line increases to the original amount, which you can continue to use. A credit line is one of the most flexible ways to fund your startup but qualifying may require good credit or collateral.Related: 7 Quick Ways to Make Money Investing $1,0008. Get partner financingSuppose you're interested in having a partner or working with a complementary business, such as a mortgage broker, who could benefit from your real estate business. In that case, they could be a funding source and may also offer services, expertise or a network that would boost your success.   Once you know you want a real estate career, start calculating your startup expenses and saving money. Do your homework to figure out which funding sources you can rely on to launch your new business successfully. Two are better than one, right? If the acquisition and rehab costs of an investment property are beyond your scope, you can consider bringing in an equity partner to help finance the deal.While the partnership can be structured in many different ways, it's typical that a partner is given an ownership percentage of the project's return on investment. Of course, there are advantages and disadvantages of working with a partner that you'll want to consider carefully before jumping in.Portfolio loansConventional loans have strict underwriting guidelines and it can be difficult for real estate investors and the self-employed to qualify as borrowers. Many credit unions and some banks offer portfolio loans with more flexible terms and less strict qualifying standards. That makes portfolio loans an especially valuable method of real estate financing for investors.The interest rate can be even more favorable than having a bunch of one-property loans. However, not all banks offer these and you'll want to carefully compare terms and rates among several portfolio lenders. Seller/owner financingIf a seller owns a property outright, they may finance it for you. You make the payments to them instead of a financial institution. If the seller has a mortgage on the property, that loan must be paid back in full before title can change hands unless there's a clause that you can assume their loan.Every home is unique, so every owner financing agreement is unique. You make arrangements to pay the owner in installments, typically of principal and interest. The specific terms of the loan, such as the interest rate, length of the loan, and down payment are all negotiable with the seller.   Life insurance loanIf you have a permanent or whole life policy, you can borrow against the policy's value -- typically up to 90%. The insurance company uses the policy as collateral for the loan. I borrowed against the cash in my whole life policy to fund the rehab of one of my buy-and-hold properties. I was pleasantly surprised at the benefits of this type of real estate financing: It's easy and quick to get funds, as there's no underwriting process to qualify for. The amount borrowed doesn't show up anywhere in your credit report, so it has no effect on your debt-to-equity ratio.You don't need to make regular payments. Interest accrues each month, but there's no repayment schedule you need to adhere to. The interest rate is very competitive; typically a percentage point above prime. Real estate crowdfundingCrowdfunding is a way of getting small amounts of capital from a large number of individuals. There are a number of crowdfunding platforms that loan money to real estate investors, including Roofstock, Patch of Land, Sharestates, Fund That Flip and LendingHome.These platforms loan money to residential and commercial real estate rehab investors of all sizes, though some may only offer real estate financing to experienced investors. Compare different options to find out which is best for you.Think carefully about real estate financingAs a real estate investor, you can find money to support your projects from many sources. What's best depends on factors specific to the property and your financial situation, including the amount of money needed, your investment strategy, your exit strategy, your creditworthiness, and your experience.While borrowed money lowers the amount of personal cash needed, you still need some cash -- and that's a good thing. Buying a home with no money down led to the housing bubble that collapsed. Investors need skin in the game, too. Becoming overleveraged means putting at risk the loss of the asset, your creditworthiness, and your reputation.

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