

The AZREIA Advantage

Arizona Real Estate Investors Association Newsletter

"AZ Real as it Gets"

JULY 2021

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Arizona Real Estate
Investors Association

5227 North 7th Street
Phoenix, AZ 85014

480.990.7092
www.azreia.org

Option Agreements

by Mark Zinman

With home prices on an upward trajectory, we are seeing residents who have option agreements begin to exercise those options. An investor who gave a resident a lease and option 2 years ago, likely could not have projected the substantial increase in home values we have seen in the past 2 years. Therefore, it's important to remember the law with regards to leases and options.

First, as we have written about numerous times before (and we won't go into detail here) when properly written, an owner can offer a lease with a separate option to buy the property, for a set price at a set time. The option doesn't give the resident any equity in the home and it keeps the option separate from the lease. If you fail to follow these terms, what may be written as a lease with option, could be treated as a purchase contract or a contract for conveyance. Needless to say, that makes straightforward things very messy.

Second, when talking about purchase contracts as well other real estate transactions, the material terms must be provided or it won't be enforced by a court of law. In terms of an option contract, this usually means the option must identify the parties, the date the option must be exercised by, when the sale must occur by, the means by which it can be exercised, the purchase price (or an object way to determine the purchase price)

and how fees are to be split. This list is not exhaustive.

Even when the option is vague, that doesn't end the issue. It's possible that a resident could sue for damages, even if the option is not clear

enough for them to force the sale of the home through a claim of specific performance. In one such case, a resident had an option and sued to enforce it. The price in the option was to be calculated by an appraiser agreed to by both parties and the option further provided that the other terms and conditions were to be stipulated in the future. The Arizona Court of Appeals held

that the option lacked essential terms and thus specific performance was unavailable. However, the court noted that the contract was "certain enough to provide the basis for the calculation of damages but not certain enough to permit the court to frame an order of specific performance." In other words, the investor/owner may win and get to keep the property, but they may still be liable to the tenant for financial damages.

Finally, Arizona courts have repeatedly held that an option must be exercised in accordance with its terms or it won't be enforced. Therefore, if an option gives a resident two years to exercise the option, an untimely action to exercise the option may simply render the option void.

The lesson here is when you enter into a contract, make sure you write what you mean, and include the necessary terms. Once you have a valid option, follow its terms exactly.





Executive Director's Message

Learning from Others

Whether you're new to investing or you've been around the block a time or two (or twenty), each one of us learns from others. AZREIA provides an in-depth way of conveying the information you need and opportunities to help you learn from others. One of the most popular ways of doing this is providing a panel of active and successful real estate investors. A panel is precisely what we are having at our August meeting so we can learn what these real estate investors are doing to be successful in today's market.

At our meeting on Monday, August 9th, our expert panel is made up of AZREIA members who will be there specifically to share their knowledge and experiences. You will learn how different strategies work in acquiring different deals. The requirements for finding deals, and how to market them, can vary greatly between strategies, so there will be representation from the rental, wholesaling, fix and flip, and vacation rental areas of investing providing you information on a wide variety of real estate deals happening *right now*.

The ability to close deals can be challenging, especially because of the variations of requirements among strategies. However, deals are being made, closings are happening, and it is important, for you as an investor, to pick the brains of those who are doing them. If you are struggling at all with finding, structuring, acquiring, negotiating, fixing, or closing any deals, then you need to come prepared to ask the questions you need from our panelists who have done it, are doing it, and will likely do it again next week. It's important you figure out

what is working and what is not working to help you make calculated, informed decisions. Learning from their experience is invaluable so you don't make pricey mistakes! They've already made them, so let them tell you how to avoid them and save your pockets some undue burden. Better yet, they've also made the great decisions and had the lucrative ideas, too! Learn from what they did and how they did it so you can do it and reap the benefits of their wisdom. It's never too late to learn new tricks!

Our panel is one for the books. We are bringing together five all-star AZREIA members whom we believe have the extremely valuable experience you can benefit from hearing about. All our panelists have exceptional long-term experience in investing in the Arizona market as well as multiple out of state markets. On our panel is Mike Del Prete, who is consistently successful in finding deals for wholesale, rentals, and vacation rentals and facilitates the Beginning Investor subgroup. Marcus Maloney, invests locally, out of state and is a great wholesaler. Debbie Kruger is a very successful and experienced fix and flip investor. Bob Gomez is our leader of the Fix and Flip subgroup and a seasoned fix and flip investor and wholesaler. Garrick O'Connell, the Income Property Owners Subgroup leader, is a highly experienced rentals/buy and hold investor. So, join us on the 9th so you can take advantage of this opportunity to learn from these panelists!

Smarter Investing,
Alan Langston



NEW MEETING LOCATION FOR AUGUST:

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by
**Jack
Carlson**

jcarlson@unbridledwealth.com
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What if you could take the role of banker in your real estate investing? Imagine not only earning returns from your investments, but also owning the system that lends you the capital for your investments. By changing where you send your money first, you can control the environment of your investing and create a perpetual tailwind in all you do financially.

Example Illustration Designed for Infinite Banking

Whole life policy structure and design is always customized based on age, health, gender and goals. With that said, this is an example of a 40 year old male in good health who would like to gain early access to cash for investments. For this illustration, we will assume a flexible 10 year premium outlay of \$400,000 per year (This is a large \$ amount, but principally will look the same no matter the number of zero's). This premium is intentionally structured to not be a Modified Endowment Contract, allowing the gains to grow tax-free, but also have the highest early Cash Value possible. This is achieved by finding a specific ratio between what is called the Base Premium and the Paid-up-additions (PUAs). In this example (*top right*) the Base/PUA split is 20/80.

	TOTAL OUTLAY	CASH VALUE	DEATH BENEFIT
Year One:	\$ 400,000	\$ 315,000	\$ 7,000,000
Year Five:	\$2,000,000	\$ 2,000,000	\$12,000,000
Year Ten:	\$4,000,000	\$ 4,400,000	\$14,000,000
Year Twenty:	\$4,000,000	\$ 7,000,000	\$16,000,000
Year Thirty:	\$4,000,000	\$11,000,000	\$19,000,000
Year Fifty:	\$4,000,000	\$25,000,000	\$29,000,000

Access to Cash Value

The key to understanding the Infinite Banking Concept (IBC) is the understanding of how you access your Cash Value. In a traditional bank you are required to withdraw your funds eliminating the ability to earn while you use your money. With IBC, you instead take loans using your cash value as collateral. Unlike traditional loans, though, there are little to no repayment terms, no application or approvals, and no origination or administrative fees -- just a low interest rate. Most notably, because your cash value is used as collateral, the cash value continues to grow uninterrupted. Additionally, when the borrowed money is used for business or investment purposes, the interest paid is tax deductible, yet the gains on the cash value are tax-deferred and often tax-free if the policy remains in-force until the insured's death. This Cash Value can be accessed via a Cash Value Line of Credit

from a traditional bank or as a Policy Loan directly from the insurance carrier.

Positive Arbitrage Real Estate Example

Making some more assumptions, here is an example of utilizing this policy to enhance an investment and create positive arbitrage. Let's assume in year 10, the policy owner stops making any premium payment and then borrows \$4M against his Cash Value at the current Line of Credit interest rate: 3.5%. They use the \$4M to invest into a Real Estate Development project and make interest-only (tax-deductible) payments each month for 10 years on the \$4M loan.

After 10 years, they sell the asset and repay the \$4M principal balance. Not taking into account the potential Return on Investment (ROI) of the project itself and still assuming just a 5% dividend rate on the Whole Life Policy, here would be the total cash gain and positive arbitrage of the banking system:

Total Interest Paid: \$1,400,000
Tax Savings: \$490,000 (35% tax bracket)
Total Cost of Capital: \$910,000

Total Gain in Cash Value: \$2,600,000
Total Tax Expense: \$0
Total Positive Arbitrage: \$1,690,000

To learn how this strategy can work for you, reach out to jcarlson@unbridledwealth.com and schedule a free consultation. Creating a banking system to fuel your real estate investing is a long-term strategy. We look forward to being your advocate in this process as we ourselves are implementing this strategy in our personal and business lives as well.





AZREIA Advantage: Lending Expert

Qualifying Non-Taxable Income



Andrew Augustyniak
Branch Manager
Loan Officer

Call or Text: 480.735.4095
aa@peoplesmortgage.com
aa.loans.peoplesmortgage.com

by
Andrew Augustyniak

3303 S. Lindsey Rd
Bldg. 2, Suite 104
Gilbert, AZ 85297

With the Arizona market being as hot as it is, it is essential that your loan officer know every little aspect of qualifying, the loan process, or fast turn times. This is important in order to give a potential buyer even the slightest upper edge against the others. Many don't know that with certain types of nontaxable income, we are able to increase their "useable" income by percentage amount which will help in their qualifying. Below are those percentages described for the different loan types involved.

How much can you gross up non-taxable income?

FHA = 15%

Non-taxable income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- some portion of Social Security income;
- some federal government employee retirement income;
- railroad retirement benefits;
- some state government retirement income;
- certain types of disability and public assistance payments;
- child support;
- military allowances; and
- other income that is documented as

being exempt from federal income taxes.

The Mortgagee must document and support the amount of income to be grossed up for any non-taxable income source and the current tax rate applicable to the borrower's income that is being grossed up. The amount of continuing tax savings attributed to non-taxable income may be added to the borrower's gross income.

The percentage of non-taxable income that may be added cannot exceed the greater of 15 percent or the appropriate tax rate for the income amount, based on the borrower's tax rate for the previous year. If the borrower was not required to file a federal tax return for the previous tax reporting period, the Mortgagee may gross up the non-taxable income by 15 percent with evidence borrower is not required to file.

VA = 25%

Tax-free income includes certain military allowances, Social Security benefits, child support payments, workers' compensation benefits, disability retirement payments, and certain types of public assistance payments.

We must verify that the income is indeed tax-free before "grossing up." Tax-free income may be "grossed up" for purposes of calculating the debt-to-income ratio only and cannot be considered in the Residual Income. This is a tool that may be used to lower the debt ratio for borrowers who clearly qualify for the loan. "Grossing up" involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax-exempt income. Use current IRS

and state income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. Use a figure of 25 percent of the borrower's nontaxable income when "grossing up."

Freddie Mac

We can gross up **25%** with Tax Returns to show income source is tax exempt.

We can gross up **15%** without Tax Returns for Social Security Income (retirement income, disability benefits, survivor benefits and Supplemental Security) without any further documentation.

Fannie Mae

We as the lender must give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments and VA Disability.

The lender must verify that the source of income is nontaxable. Documentation that can be used for this verification includes tax returns, award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the lender may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

Always feel free to contact me directly with any questions!



AZREIA Advantage: Property Management Expert

Retire Early with Real Estate Investing



by
Ryan
Boykin

Ryan Boykin
Co-Founder, Partner
Atlas Real Estate

335 E. Palm Lane
Phoenix, AZ 85004

Office: 719.337.5317
info@realatlas.com

According to a recent study by Northwest Mutual, 15 percent of millennials expect to retire early, particularly those who were gainfully employed during the pandemic when they spent less and saved more while working remotely. Although younger workers may be 'a little more optimistic,' millennials are almost twice as likely to be considering early retirement as Gen Z and almost three times as likely as Gen X, according to the survey.

The new wave of younger workers trying to take early retirement are sometimes adherents of the F.I.R.E. movement: 'Financial Independence, Retire Early.' The goal is to save and invest aggressively—somewhere between 50–75% of your income—so you can retire in your 30s or 40s. But how many people can realistically save half to three quarters of their income?

To build a solid foundation for all of your financial goals, such as retiring young, living comfortably, pursuing new ventures, traveling, providing for your family, etc., how you invest your savings is essential to achieving your goals. One

of the best ways to build long-term wealth is to invest in real estate, and you don't have to be wealthy to get started. Through creative, informed investing, younger workers can pave a path to financial independence, hence early retirement, using the strategies below:

Be A Borrower

To start the process, you don't need to put a 20 percent down payment on a home. While 20 percent will increase your chances of getting approved for a mortgage at a great rate, you can put down less depending on the type of mortgage. Government loans help first-time buyers become homeowners; in fact, an FHA loan requires as little as 3.5% down. So, if you find a good property with investment potential, there's a good chance you do not need a huge savings account to buy it.

Live For Free by House Hacking

To ensure your monthly income exceeds your monthly expenses, consider house hacking, which works whether you own a home or plan to buy a home. In either case, rent out one or more bedrooms so that your rental income covers the cost of your mortgage each month. In essence, you'll be living mortgage-free in your own home while it builds equity.

Invest in a Rental Property

Another option is to invest in a rental property in order to *increase* your income. For instance, you could purchase a duplex or fourplex and rent out each

of the units. Since you'd be renting out entire units rather than just rooms, your asking price can be a good deal higher. As long as the location is good, you would be *making* money each month by collecting more in rent than your monthly mortgage payment. Your rental property would be a steady source of passive income that builds equity; hence, your ROI will be significant when you sell it many years down the road.

Partner up

If you are financially strapped and cannot afford even a small down payment on a property, consider partnering with someone in a mutually beneficial manner; that way, you can both reap the benefits of your combined down payment. This scenario means you will have lower upfront fees and you can divide landlord responsibilities once you start renting the property. Your mortgage will be covered by tenant payments every month, and if you buy a property in a good location, you will likely be earning additional monthly income. You'll own the property jointly with a partner while building equity in it. Note that a trusted partner is absolutely *essential* to success.

These real estate investment strategies can help you achieve your financial goals, and ultimately, give you the freedom to retire early or pursue other interests, passions or business ventures, whatever they may be.





AZREIA Advantage: Financing Professional

Where We Go from Here



David Neilson
Boomerang Capital Partners

2152 S. Vineyard #105
Mesa, AZ 85210

Office: 480.779.9779
www.boomerangcapital.com

by
**David
Neilson**

The rapid increase in home prices has garnered headlines across the country and has affected our industry in several ways. Using the Case-Shiller US National Home Price Index as indicative, home prices have risen about 15% comparing April 2021 with the prior April (the latest numbers available). Colorado and Texas home prices have risen, in-line with national averages, at roughly 15% year-over-year, while Arizona prices have risen about 22%.

We do not believe that home prices are as stretched as they were in 2006, rather we believe they are well supported by the structural demand created by millennials purchasing homes and further aided by the temporary effects of pandemic driven changes. Housing production in Phoenix has failed to keep pace with population growth. These demand issues have combined with a significant lack of new builds over the past decade to drive price increases. Contributing to the current rapid price rise was a lack of sellers; they are now coming back, driven by the elevated prices and



Source: American Community Survey 5-Year Estimates, U.S. Census

some additional comfort with interacting with the public. Foreclosures should start to come online as well, although at a very moderate historical level and the percentage changes can be safely ignored as the base is so low. With increased attention being paid to inflation, it should be noted that home price appreciation has lagged broader measures of inflation for some time but is now closing some of that gap. Finally, home prices are seasonal, rising more rapidly in the summer months and we expect this year to be no different. Indeed, lumber prices have come well off their recent highs seeming to confirm this expectation. The conclusion is that we expect the rate of increase to be unsustainable at an annual rate of 15%, but overall prices should continue to rise, albeit at a slower rate more likely in the 5% range.

Home renovation and rehabilitation have recently been receiving more focus. The Neighborhood Homes Investment

Act “calls for the creation of a new federal tax credit that will produce new equity investment dollars for the development and renovation of 1-4 family housing in distressed urban, suburban, and rural neighborhoods.” This is a developing initiative, and we expect significant similarity in coverage areas with Opportunity Zones – these are economically distressed communities where new investments, under certain conditions, may be eligible for preferential tax treatment. As discussed before, we expect that these areas under consideration for coverage by the Act, with its focus on twin tails of urban and rural, will be places of potential growth.

The drivers of the need for rehabbing houses remain well supported. The average home in the United States was built almost 40 years ago and not in move in condition regarding either aesthetics or condition and the increased demand and interest are welcome.

¹ <https://fred.stlouisfed.org/series/CSUSHPINSA>

² neighborhoodhomesinvestmentact.org



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AZREIA Advantage: Title Expert

Romance Scams



by
Jill
Bright

Jill Bright
AVP/Sr. Sales Executive

Chicago Title
Maricopa County

Phone (602) 525-0790

BrightJ@ctt.com
www.ChicagoTitleArizona.com

Finding true love can be a tricky task in today's digital age. Technology has made the ability to connect with people across the world amazingly easy. From a simple swipe on a phone or a few clicks on the computer, you can talk to anyone who shares a similar interest or simply has the desire to talk.

The connections can sustain long distances because of the numerous means of communication. While this may be a boon for singles, it makes it easy for scammers to identify potential targets.

The Consumer Financial Protection Bureau (CFPB) states romance scammers target older adults, often widows or widowers, looking for a relationship or, in some cases, who are feeling isolated and

longing for a new connection.

Our story involves an 80-year-old single woman we shall call "Susie." She had recently become acquainted via the internet with a gentleman who supposedly lived in Dubai. Over time, their long-distance relationship grew and Susie fell in love. The gentleman, now Susie's "boyfriend," said he would be retiring. They planned to move together to New Mexico and get married.

Susie enlisted the help of a real estate agent to sell her Las Vegas home. She planned to use the proceeds to start a new life. An offer was accepted on her home and escrow was opened.

At closing, Susie adamantly instructed the Escrow Officer to cut a check and not wire the proceeds from the sale, as her bank account had been frozen. Susie explained she had been sending money to her "boyfriend" in Dubai and this had triggered the bank's unusual activity alert. She did not have any immediate family and was rather alone, apart from this new beau.

Susie praised her new boyfriend, as well as their plans. Once Susie cashed out her

equity, she would be off to an extended stay hotel in Las Vegas to wait for her future husband to arrive in the states.

To the Escrow Officer, Susie seemed completely aware of the situation despite the red flags of a romance scam. The Escrow Officer was concerned about this situation and discussed it with management and the National Escrow Administration (NEA). The Company decided to withdraw from the transaction. NEA also reached out to the Nevada Aging and Disability Services Division (ADSD), a state agency that investigates reports of potential exploitation of persons 60 years and older.

The red flag warnings were present of a romance scam being perpetrated on an isolated, elderly individual.

For more information on romance scams and the warning signs, see the CFPB's article: www.consumerfinance.gov/about-us/blog/guard-your-wallet-well-your-heart-romance-scams/

Article provided by contributing author:

Scott Cummins, Advisory Director
FNTG/National Escrow Administration
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**Michael J. "Mick"
McGirr, Esq.**
Attorney at Law

Phocus Law

Phone: (602) 457-2191

Mick@
phocuscompanies.com
phocuslaw.biz

by
**Michael J.
McGirr**

Whether you are the party seeking financing for a deal or you are the party with some cash and someone is seeking to borrow that money for a deal they are working on, the topic of personal guaranties is one that you, as a real estate investor, are sure to encounter frequently. When the borrower is relatively new to investing and the lender is more experienced and developed, a formal and broad personal guaranty is often unavoidable. However, as the borrower develops and the benefit to the lender and borrower become more equal, borrowers will often seek to avoid personal guaranties. This article covers two personal guaranty 'alternatives' that both borrowers and lenders should be aware of to help bridge the gap between a lender wanting a full guaranty and a borrower wanting none.

"Bad-Boy Carve-Outs"

First, let's discuss 'bad-boy carve-outs'. While I'd love to tell you that this has something to do with the great buddy-cop comedy featuring Martin Lawrence and Will Smith, our subject matter is a bit more dry. Bad-boy carve-outs are a series of terms in a contract that would allow the lender to pursue the borrower individually when no general personal guaranty exists. In an instance where the lender wants to protect itself, but the borrower is unwilling to sign a personal guaranty, bad-boy provisions can be agreed

to, stating that when the borrower does any of the listed 'bad' acts, the borrower then becomes personally liable to the lender. Some of the common bad-boy carve-outs are:

- 1) Acts of fraud by borrower;
- 2) Financial irresponsibility by borrower; and
- 3) Acts in breach of certain terms of the loan that increase the risk to the lender.

Bad-boy carve-outs are often drafted by the lender, and then can be negotiated by the parties. Ultimately, by using bad-boy carve-outs, the lender is able to better protect itself and the borrower is able to truly control, by avoiding a specific list of "bad acts", whether or not it becomes personally liable for the debt. This is a win-win!

"Burn-Off Provisions"

Like bad-boy carve-outs, burn-off provisions can serve to balance the protection a lender is seeking with the more limited recourse a borrower desires. The concept behind burn-off provisions is that, during the lifespan of a secured loan, certain things may occur that naturally reduce the risk faced by the lender. These are often events that materially change the loan-to-value ratio ("LTV"), such as:

- 1) The payment of certain balloon payments;
- 2) The re-zoning of the secured property resulting in an immediate increase in

value; or

- 3) Progress on construction or remodeling projects.

In the case of default AFTER such an event, the lender is more likely to be able to cover the loan value through foreclosure than prior to the event. Because of this, the lender may be more willing to terminate a personal guaranty, knowing that their risk of not realizing their full investment is reduced. With all that in mind, a borrower and lender can negotiate and document, in the loan documents, certain events that will allow the personal guaranty to be terminated. These terms are known as "burn-off" provisions. Sometimes, a burn-off provision can be as simple as a milestone with regards to LTV, such as "when LTV is less than 50%, the personal guaranty will terminate." Other times, a burn-off provision can be a specific event, such as "when the property is re-zoned from industrial to residential, the personal guaranty will terminate."

As you can see, by utilizing bad-boy carve-outs and burn-off provisions, borrowers and lenders can compromise on personal guaranties in ways that accommodate the interests of both parties. At Phocus Law, we have extensive experience representing both borrowers and lenders in financing transactions, including the use of bad-boy carve-outs and burn-off provisions. We would love to help you in your next transaction!



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Written by Daniel Ortega,
Head of Retail Sales

By now, hopefully you know your investment portfolio should be diversified. And if you've been reading the work put out by Vantage and other advocates of alternative investing, you know that a Self-Directed IRA is the best way to diversify beyond the stock market.

With housing prices increasing throughout the country many investors are looking outside their current markets, even outside the country for investment opportunities. The best part, whether you're investing out of state or out of the country all of these opportunities can be funded by your IRA dollars.

The question, then, is what is the easiest and safest way to make these purchases?

That is where the IRA LLC comes into play. An IRA LLC is the ultimate diversification strategy. With this structure you can hold any type of real estate you could imagine, all while mitigating the transacting rigmarole usually attached to direct IRA investments.

You live in Phoenix, but want to buy a property in Colorado? Great! You want to buy a property in Mexico? Great! Another advantage is if you don't have any idea of what you want to invest in, or an investment hasn't come available, with this structure you can place your funds directly in the traditional stock market and liquidate required capital as you need it without any custodian-to-custodian interaction.

Benefits: With an IRA LLC, there are number of benefits that make this an easy

way for you to invest your IRA dollars. For starters, you can set up a business banking account with your LLC as the business, with the funds coming directly from your Self-Directed IRA. Then, when you're ready to spend (maybe that property in Mexico has become available), you can transact directly from your business banking account.

This can also come in handy when avoiding transaction costs from your Self-Directed IRA. In many cases, the cost of transacting with a business banking account is cheaper than the cost of conducting similar transactions directly through your Self-Directed IRA. You also have the benefits of some additional legal protections of your assets as long as you maintain independent accounts.

Challenges: With this freedom comes responsibility. Not having to facilitate every transaction through a custodian is great, but that can make it difficult to avoid the pitfalls often overlooked when managing the IRA LLC by yourself.

Also, not having a clear understanding of the rules and regulations of a Self-Directed IRA can put you, your IRA, and IRA LLC at risk. An IRA-owned LLC is also very different than the traditional LLC that you are likely familiar with. It is not recommended you try to create this LLC on your own, as there is specific language to meet all IRS rules and regulations.

This is not to scare you, but rather, to educate you that this is a great tool if used appropriately.

Here at Vantage, we specialize in Self-Directed IRAs and are familiar with the mechanics of an IRA LLC. We have resources available to you that can assist with establishing an LLC and answer any questions you might have about the structure. If you're interested in learning how an IRA LLC can help take your IRA to the next level, please contact our offices or check out our [Knowledge Center](#).

Happy Investing.

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It's Time to Review Your Portfolio's Insurance Values



by Mark Gannaway, CPCU
Arcana Insurance

If you have not reviewed your insurance values in your current portfolio in the last 6 months, you are probably underinsured and will not meet the 80% requirement to have replacement cost on your properties.

Back in the summer of 2018, I wrote an article for the *RE Journal* saying, "It's no secret, the days of purchasing single family homes for investment purposes has become extremely competitive and challenging for the average buyer. No doubt it's a sellers' market, especially in major metropolitan areas like Atlanta, Charlotte, Chicago, Dallas-Fort Worth, Phoenix, Portland, and Tampa-St. Petersburg with values appreciating in the last 12 months 8% to 25%. Overpaying for a property typically leads to an unsuccessful ending, especially if you're financing the property with a lender."

Little did I know in the middle of 2021 I would still be writing about the same topic but with an added twist, the cost of inflation when it comes to settling an insurance claim. Yes, it's still a seller's market in most parts of the country, but when it comes to building materials and labor costs, it's a nationwide problem.

For example, recently, in Frisco, Texas, admittedly one of the hottest places to live in the USA right now, a single-family resident put their house up for sale due to job transfer and received

92 offers in 24 hours. They accepted a cash offer of \$60k over their asking price. If that was an investor purchasing the home, two immediate problems come to mind, financing and insuring the investment at the purchase price. I'm sure the appraisal, no matter how generous, would not meet the lender's requirements and secondly, insurance companies may only insure the property for replacement cost, not the sales price. Insurance companies are not obligated to pay over what it would cost to "replace" the damaged property in most cases.

With hot real estate markets, comes media outlooks applauding "seller's" while hardly mentioning the negative impact, especially the increased cost of living and doing business in these communities. As I mentioned earlier, with material goods and demand for labor across this country already in high demand, imagine what it's like in a hot real estate market. Inflation rates in these areas are well above the national average.

Prices for lumber have risen 40% in the last 6 months; concrete is up 200 to 250 percent during the same time frame. And that's if you can find it. Contractors have lost most of their labor force not to contractors who will pay more but to government relief packages that match their working pay if they stay home. All these cost components have a negative impact on the cost per square foot to replace the insured damage.

To receive Replacement Cost insurance coverage, the insured property, in most cases, must have at least 80% of

its replacement cost value insured to receive this benefit. A lot of insurance companies, especially homeowner insurance companies require 90%. So, if you have a single-family residence that has a replacement cost value of \$100,000, the insured must purchase an insurance policy for a minimum of 80% or \$80,000. In this example if you insure the property for \$75,000 the insurance loss is paid at Actual Cash Value (replacement cost minus depreciation). That can add up quickly.

To increase insurance values, you will need to speak with your insurance agent and ask them what the process is to make sure you have the proper insurance values in place. And while you have them on the phone, go ahead and ask them what's the current construction replacement cost on a per square foot basis in the area where you are purchasing homes, not the sales or appraisal price, but the construction replacement cost. If they don't know, ask your contractor.

Purchasing an investment property and not being able to insure it for its full purchase price creates sleepless nights for most investors and insurance agents.

And, as always, the information provided to you above is for informational purposes only. Please read your insurance policy carefully and consult an insurance expert before buying or changing your insurance coverages.

It's also a time when I am reminded that having a good insurance company insuring my home, automobiles, business, and other investments are very important and that paying less expensive insurance premiums doesn't always equate to saving money.



Monthly Meetings

AZREIA Phoenix Meeting

Monday, August 9

In-Person 5:45 pm

Venue 8600

8600 E. Anderson Dr.

AZREIA Tucson Meeting

Tuesday, August 10

In-Person 5:45 pm

Tucson Association of Realtors

2445 N. Tucson Blvd.

Phoenix Real Estate Club

Tuesday, August 24

In-Person 6:00 pm

Grid.Works

5227 N. 7th St.

We are excited to be back in-person this month for our meetings! The Phoenix Monthly Meeting will feature an investor panel so you can pick their brains as to where they are finding their deals for their investing type! The Tucson Monthly Meeting and Phoenix Real Estate Club Meeting will feature the dynamic networking sessions they're known for! Timely, market-driven information and education makes these meetings must see. Don't miss it!

Phoenix – Current Market Trends & Activity

Updates on Market Data Analysis and the Rental Market from Alan Langston provide the absolute latest information essential to your real estate investing business.

Phoenix – Legislative Update with Mark Zinman

Join for a brief update on the conclusion of the eviction moratorium, the new process for evictions, and how to protect yourself and your property during this transition.

Phoenix Main Meeting – Finding Deals for Wholesale, Rentals, and Fix & Flips Investor Panel

We will be joined by a panel of Real Estate Investors with different investing backgrounds who are successfully finding

deals in our market to ask questions and discuss what deals they're finding, where they are finding them, and how they are continuing to be successful in such a red-hot market! Join us to learn where you should be looking for deals and to find out special tips and tricks to maneuver this market with success!

Market Update & Market News with Alan Langston

The latest Fix & Flip and Rental data along with further analysis of our Seller's market. Plus, current events and news important to your investing.

Tucson Monthly Meeting

We will be joining in-person for all the great networking sessions including Haves & Wants and a Market Update for the Tucson area.

Phoenix Real Estate Club

This is some of the best real estate networking anywhere! Meet face-to-face with other investors to find what your real estate investing business needs! Haves & Wants, structured networking activities, market discussion, and Member Deals. It all still happens!



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AZREIA Calendar of Events

Check www.azreia.org for the current schedule.

AUGUST MEETINGS

AZREIA – Phoenix – In-Person
Monday, August 9

AZREIA – Tucson – In-Person
Tuesday, August 10

Phoenix Real Estate Club – In-Person
Tuesday, August 24

AUGUST SUBGROUPS – Join like-minded investors, share ideas, network, and learn in small group settings.

- **Tucson New Investors – Online & In-Person**
Monday, August 2
 - **AZREIA Prescott – In-Person**
Tuesday, August 3
 - **Beginning Investors – In-Person**
Thursday, August 12

- **Notes – In-Person**
Thursday, August 19
- **Fix & Flip – In-Person**
Wednesday, August 25

Wholesaling Live Q&A on Facebook & Instagram

Wednesday, August 4, 2021 | 6:00 pm – 7:00 pm | **Available Online**

This is an invitation for you to ask wholesaling professionals Mike and Marcus anything you want about wholesaling real estate. We'll be streaming live on Facebook and Instagram and can assure you this will be one of the most informative wholesaling meetings you have all year! **ASK THEM ANYTHING!** You can ask them your most pressing real estate question, business question, mindset question, or any question that's been holding you back from starting your wholesale business. You can't get this type of feedback or coaching on YouTube University. **HOW CAN WE HELP YOU KICK START YOUR WHOLESALE BUSINESS IN 2021?** Make sure to follow us on Facebook and Instagram to access this live Q & A with Marcus and Mike and get your questions answered and learn how to wholesale houses with little money or risk.

Build Your Wholesale Business Step-By-Step

DAY 1: Saturday, August 14, 2021 | 9:00 am – 4:00 pm

DAY 2: Sunday, August 15, 2021 | 9:00 am – 1:00 pm

Available In-Person

You've probably heard by now the best way to make money in real estate without a real estate license or previous experience is through Wholesaling. In this class we'll break down everything you need to know to build your wholesaling business. We'll show how to find Motivated Sellers, how to talk to these motivated sellers and execute a purchase contract, how to find Cash Buyers for your properties and execute an assignment contract to ensure you lock in your assignment fee. After this class you will have a full understanding of the wholesaling process, how to build a profitable wholesale business and close a deal from start to finish, how to find motivated sellers and what to say to them without sounding like a new investor and much, much more!

UPDATED INFORMATION & REGISTRATION ONLINE AT WWW.AZREIA.ORG

LEGALLY SPEAKING

Q: I am seeing more and more tenants who have had an eviction during the moratorium because they fell on hard times. Can I change my practice and accept residents who have been evicted?

A: Absolutely – who you chose to rent to is an operational decision, as long as it's done legally. In other words, you can choose your rental standards, provided you do not discriminate against someone in a protected class. You are also allowed to occasionally change your standards based upon

changes in the market. The best example of this came out of the Great Recession. Prior to 2009, many landlords would never rent to someone who had a foreclosure on their record. So many people lost their house, though, that the market had to change and adapt. The same principle applies here – if you want to change your standard and ignore any eviction record from the pandemic, you have the legal right to do so. We merely suggest you keep a written copy of your application standard and never discriminate against someone in a protected class.

Mark B. Zinman, Attorney

Information contained in this article is for informational purposes only and should not be considered legal advice.

You should always contact an attorney for legal advice and not rely on information published here.



AZREIA Monthly Meetings at a Glance

August 9th Phoenix Meeting

- **Current Market Trends and Activity** Alan Langston will provide the absolute latest information on market data, legal updates, and the rental market essential to your real estate investing business.
- **Legislative Update with Mark Zinman** Join for a brief update on the conclusion of the eviction moratorium, the new process for evictions, and how to protect yourself and your property during this transition.
- **Phoenix Main Meeting: Finding Deals for Wholesale, Rentals, and Fix & Flips Investor Panel** We will be joined by a panel of Real Estate Investors with different investing backgrounds that are successfully finding deals in our market to ask questions and discuss what deals they're finding, where they are finding them, and how they are continuing to be successful in such a red-hot market! Join us to learn where you should be looking for deals and to find out special tips and tricks to maneuver this market with success!
- **Market Update & Market News with Alan Langston** The latest Fix & Flip and rental data along with further analysis of our Seller's Market. Plus, current events and news important to your investing.

August 10th Tucson Meeting

- **Tucson Market Update:** The latest sales volume, pricing, supply and demand numbers for both the Phoenix and Tucson markets.
- **Haves & Wants, Power Networking and Deal Sharing:** Come prepared to listen, learn and share.

August 24th Phoenix Real Estate Club

- This is some of the best real estate networking anywhere! Meet face-to-face with other investors to find what your real estate investing business needs! Haves & Wants, structured networking activities, market discussion, and Member Deals. It all still happens!

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Heather Johnson
Heather@RentPerfect.com



Clark Sanchez (Agent)
rental@clarksanchez.com



Mark Zinman
mark@wzplegal.com



Mark Steinbeck
msteinbeck@merchantsfundingllc.com



Jack Hilton
jack@hiltoncorp.com



Jill Bright
brightj@ctt.com



Andrew Augustyniak
Andrew.augustyniak@primelending.com



Mary Saer
msaer@azgat.com



Self-Directed IRA's
Daniel Ortega
Dortega@VantagelRAs.com



David Nielson
david@boomerangcapital.com



ATLAS^{AZ}
Alyssa Bieling
alyssa.bieling@realatlas.com



Michael J. "Mick" McGirr
mick@phocuscompanies.com

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