Fix and Flip General Information

LIFE CHANGING Lending
MORTGAGE
TRADITIONAL* FIX AND FLIP*NO DSCR*
DSCR LOANS*

AXEN Mortgage

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About Company

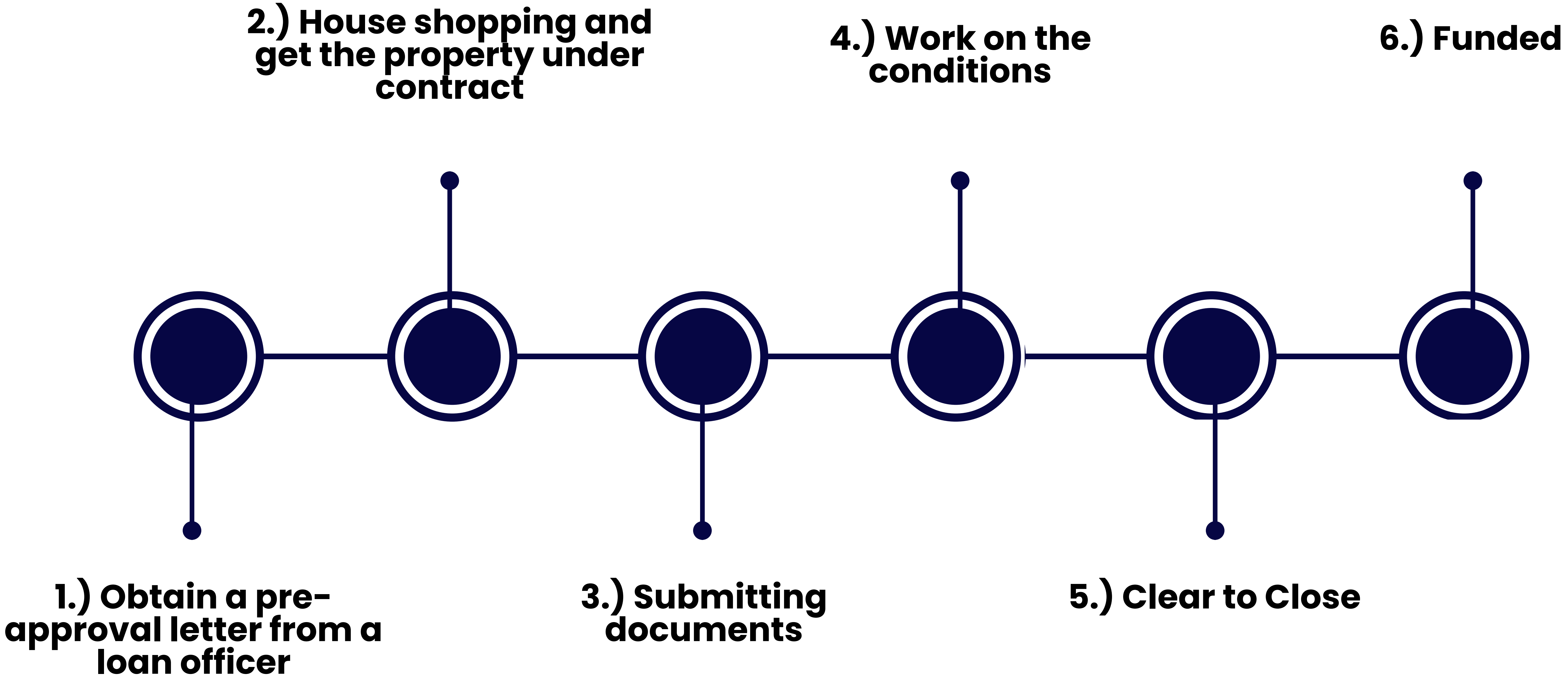
At Life Changing Lending, we treat each customer as an individual, not a number. We don't place you into a loan profile formula created by the banking industry. We use "common sense" and will help you obtain the best loan possible. We represent a wide range of "A" rated lenders with first quality rates to private "hardship" lenders.

We work with more than 100 investors. This allows us to get you the best rates on all types of loan programs including: 30yr mortgage, 20yr mortgage, 15yr mortgage, 10yr mortgage, 1yr ARMS, 3yr ARMS, 5yr ARMS, Conventional, Jumbo, Home Equity Lines, VA and Commercial. Whether your situation calls for Full Documents, No Documents, Non-Owner Occupied (Investor) or Multi-Family, we'll fit your needs!

Ryan Jones
Owner

Klint McKinney
Owner

Fix and Flip Loan Process



Property Type

Single Family Residential: A single family residence is a home that has no connected or shared walls with another building. It also sits on its own lot.

2-4 Units: A designation for different types of residences. 2-4 stands for duplex (2), triplex (3), and fourplex (4). Du, tri, and four all describe how many residences are in a single building. You will see 2-4 Plex when searching for property types a lender will offer loans on.

Typical Loan to Cost Formula

80%

Purchase + Rehab

X

80%

90%

Purchase + Rehab

X

90%

95%

Purchase + Rehab

X

95%

Example of a Typical fix and flip loan

Scenario

Purchase Price: $100,000

Rehab Amount: $50,000

ARV: $300,000

Experience: 10

Credit Score: 700

Interest Rate: 12%

******Lender will choose the lower amount between LTC and ARV***

Example of a Typical fix and flip loan

Calculate Loan to Cost
($100,000 + $50,000) X 95% = $142,500

Calculate the initial advancement to the seller
$142,000 - $50,000 = $92,000

Calculate the down payment
$100,000 - $92,000 = $8,000

Rehab Required to start the project (Usually at 25%)
25% X 50,000 = $12,500

Liquidity Required:
$9975 + $12,500 + $8000 + 4275 = $34,750

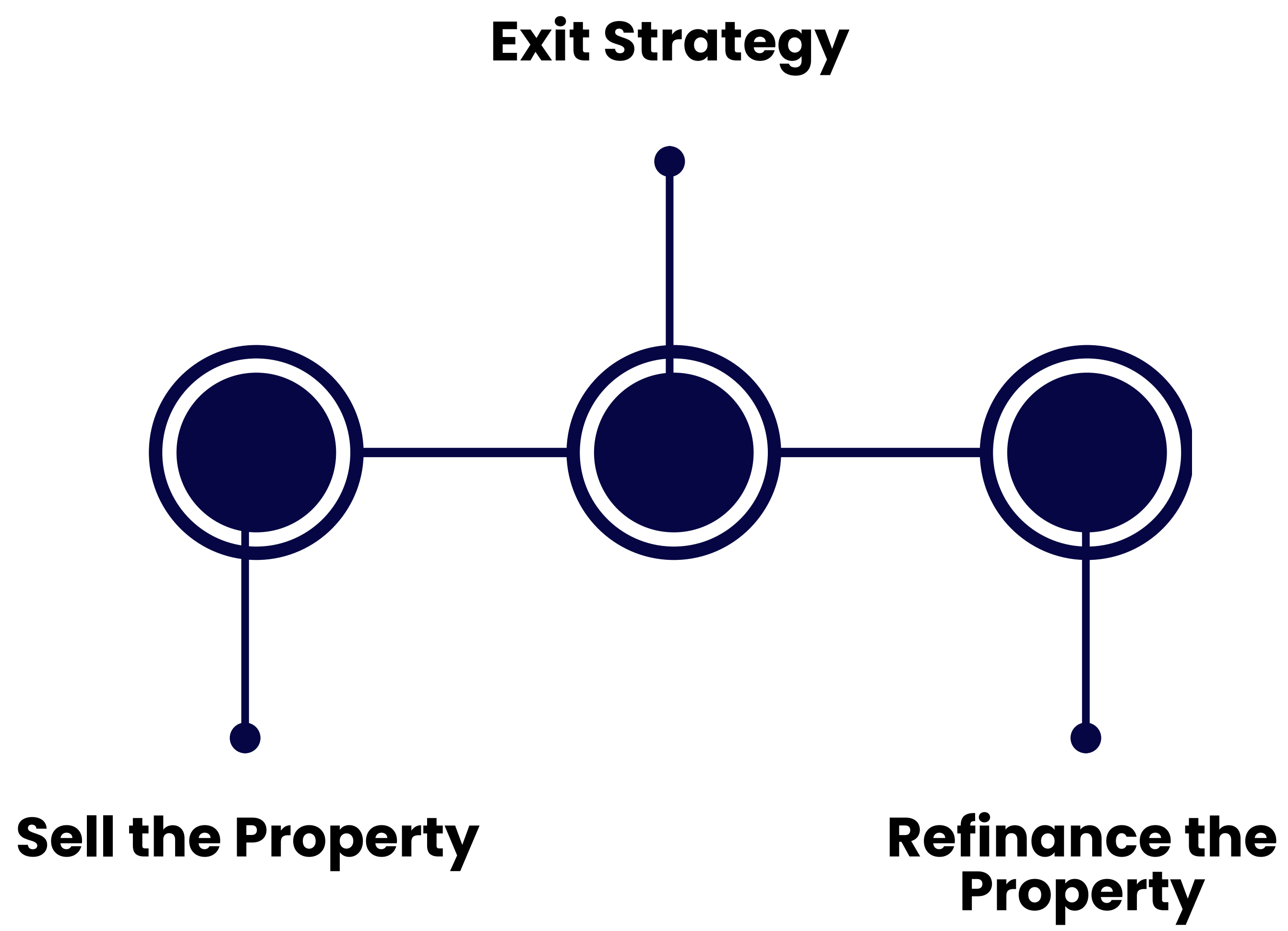
ARV Calculation (70% or 75%)
$300,000 X 70% = $210,000

Reserve usually 3 or 6 months
{($142,500 X 12%) / 12} X 3 = $4275

Holdback for Rehab
$50,000

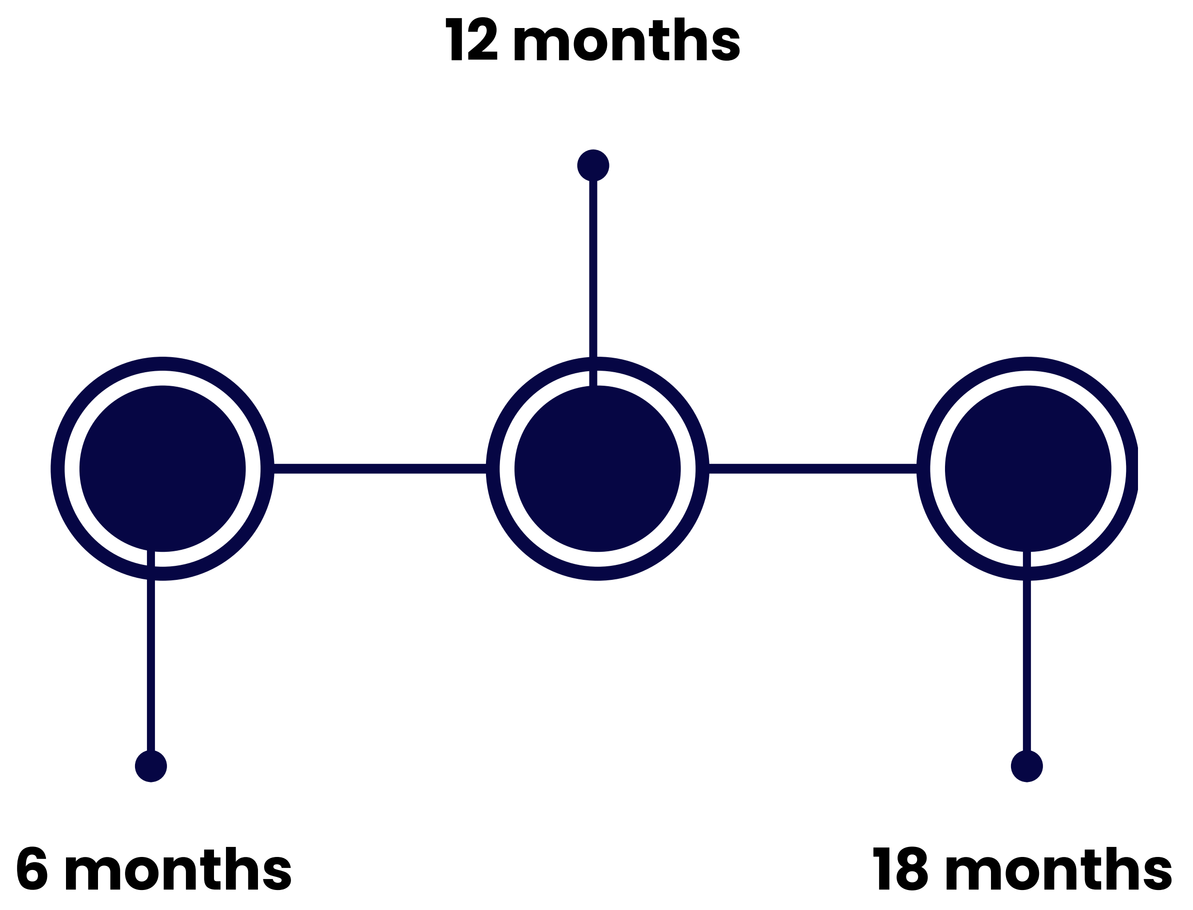
Exit Strategy

How you plan to pay back your loan at the end of the agreed upon term.



Term

how long you have to repay the loan



Typical Loan Parameter

Loan to Cost: Up to 95% LTC

Term: Up to 24 months

Prepayment Penalty: none

Minimum Loan Amount: $50k

Maximum Loan Amount: $2.5 Mil

Borrower Types

- Individual
- LLC
- Corporation
- Partnership
- Foreign National / ITIN

Initial Documents

- Application
- Last 3 months of Bank Statements
- Two forms of Active Government ID
- Scope of Work
- Title Company Contact Information
- Insurance Agent Contact Information
- Purchase Contract

How to Get Started: Property Walkthrough Checklist

Step 1: Gather Necessary Tools and Materials

Before heading to the property, ensure you have the following tools and materials on hand:

- Clipboard or notebook: For taking notes during the inspection.
- Measuring tape: To record accurate room sizes and dimensions.
- Camera or smartphone: To capture visual documentation of the property's condition.
- Sketching materials: Graph paper, ruler, and pencils to create floor plans and sketches.

How to Get Started: Property Walkthrough Checklist

Step 2: Conduct the Property Walkthrough

During the walkthrough, pay close attention to the property's various aspects and take note of the following:

- Structural elements: Inspect the foundation, roof, walls, and any potential structural issues.
- Mechanical systems: Check the HVAC, plumbing, and electrical systems for necessary upgrades or repairs.
- Interior and exterior conditions: Observe the condition of each room, including walls, ceilings, flooring, doors, and windows.
- Cosmetic details: Identify areas that require new paint, fixtures, or other cosmetic improvements.

How to Get Started: Property Walkthrough Checklist

Step 3: Compile Visual Documentation

As you proceed with the walkthrough, use your camera or smartphone to capture visual evidence of the property's current state:

- Take photos of each room: Capture images of any areas that require repair or improvement.
- Exterior shots: Photograph the front and back of the property, as well as the surrounding landscape.
- Structural concerns: Document any visible issues such as cracks, leaks, or foundation problems.

How to Get Started: Property Walkthrough Checklist

Step 4: Get Accurate Measurements
Record precise measurements of the following:

- Room dimensions: Measure the length and width of each room for accurate planning.
- Doorways and windows: Record their dimensions to plan for potential replacements.
- Ceilings and walls: Measure any areas that require repairs or paint.

Step 5: Prioritize Repairs and Improvements
With all the information gathered during the property walkthrough, prioritize the repairs and improvements:

- Identify critical repairs: Address safety issues and structural integrity first.
- Evaluate cosmetic improvements: Determine areas that will enhance the property's overall appeal.

How to Get Started: Property Walkthrough Checklist

Step 6: Review and Analyze Data

Once the property walkthrough and inspection are complete, review and analyze all the collected data. Organize your notes, photographs, measurements, and sketches in preparation for the SOW creation.

Step 7: Begin Crafting the Scope of Work

With a comprehensive understanding of the property's condition and required repairs, begin crafting the Scope of Work. Describe each repair and improvement in detail, including materials, finishes, and any specific instructions for the contractors.

Scope of Work
(See the attachment)

Components of A Well-Crafted Scope Of Work

Project Overview

Begin your SOW with a detailed project overview. Describe the construction project's goals, the work to be done, and the desired deliverables. Include insights into the quality of materials, room additions, conversions, redesigns, and future work on the fix and flip property. This section sets the stage for the entire SOW and provides a comprehensive understanding of the project's scope.

Management Team

A well-organized fix and flip project requires a capable and reliable management team to oversee its successful execution. When creating your Scope of Work, it’s essential to list the key individuals or contractor team who will manage the project. Here’s how to do it effectively:

- Identify the Management Team: List the names and roles of the individuals or contractor team members responsible for managing the project. Common roles include General Contractor, Project Manager, or Site Supervisor.
- Provide Contact Information: Include the contact information of each team member, such as phone numbers and email addresses. This facilitates seamless communication throughout the project.
- Verify Licenses and License Numbers: Ensure that each team member possesses the necessary licenses and certifications required for the specific scope of work. Verify their license numbers to ensure compliance with local regulations and building codes.

Having a competent and experienced management team in place is essential to keep the project on track, maintain quality standards, and address any challenges that may arise during the fix and flip journey.

Detailed List of Repairs

To ensure a successful fix and flip project, consider organizing your list of repairs by Trade Category, such as Demolition, Framing, Rough Electrical, Rough Plumbing, Drywall, and more. This simple yet effective step brings numerous benefits:

- Accurate Price Breakdowns: Categorization allows contractors to provide precise price breakdowns for each repair category, enhancing cost estimation and budgeting.
- Clear Project Budgeting: By understanding how much is allocated to each Trade Category, you can strategically allocate your budget and prioritize essential repairs.
- Efficient Payment Schedule: Creating a payment schedule based on completed work in each category incentivizes contractors to complete tasks promptly.
- Minimize Misinterpretation: A detailed list of repairs for each Trade Category ensures clear communication and minimizes the risk of misunderstandings.

By following these practices and creating comprehensive lists of repairs categorized by Trade Category, you set the stage for a well-organized, cost-effective, and successful fix and flip project.

List of Materials

When creating your Scope of Work, it’s crucial to classify them into Rough Materials and Finish Materials and designate responsibility for purchasing materials. This distinction simplifies the procurement process and ensures smooth project execution. Here’s how to handle material management:

- Rough Materials: Rough Materials are essential elements that might be concealed within walls or used to install finish materials. They include MEP Rough-In Materials (wiring, conduit, piping, ductwork, etc.), Rough Framing (studs & drywall), and Installation Materials (mortar, screws/nails, etc.).
- Finish Materials: are the visible fixtures and finishes that enhance the property’s aesthetic appeal. They encompass Cabinets/Countertops, Floor Finishes (carpet, floor tile, wood flooring), Wall Finishes (paint, wall tile, woodwork/trim), and Fixtures (light fixtures, plumbing fixtures, etc.).

Outline the materials falling into each category and decide whether you or the contractor will handle the purchase. By clearly outlining material responsibilities in your Scope of Work, you streamline the material acquisition process, optimize project efficiency, and set the stage for a successful fix and flip venture.

Budget and Costs

A well-prepared budget is the foundation of a successful fix and flip project. It allows you to have a clear understanding of the project's financial requirements and helps you make informed decisions throughout the renovation journey. Here's how to create an estimated budget and costs for each step of your fix and flip project:

- Room-by-Room Breakdown: Once you have a detailed list of repairs and improvements, break down the budget room by room. For each room, consider the materials, labor, and any specialized services required for the renovation. Take into account both visible finishes and the underlying structural and mechanical components.
- Materials and Labor Costs: Research the current market prices for materials and get quotes from contractors for labor costs. Be as specific as possible in describing each repair to leave no room for misinterpretation. This level of detail ensures that you have accurate estimates for each task.

- Contingency Fund: In any renovation project, unforeseen expenses can arise. It’s essential to include a contingency fund in your budget to cover unexpected costs. Many experts recommend setting aside around 10-15% of the total budget for contingencies.
- Permitting and Fees: Don’t forget to include any necessary permits and fees in your budget. Different cities and regions have varying requirements, so ensure that you have all the necessary permits in place before starting the work.

Once you have all the cost estimates, review the budget thoroughly to ensure that it covers all aspects of the renovation. Make adjustments as needed to keep the project within your desired financial boundaries

Project Schedule

- A well-structured project schedule is a crucial tool for managing the timeline and ensuring a smooth and successful fix and flip project. Here’s a step-by-step guide to creating a realistic project schedule:
- Task Identification: Begin by listing all the tasks required to complete the renovation, both for the interior and exterior aspects of the property.
- Sequencing Tasks: Determine the logical order in which tasks should be executed to ensure optimal efficiency. Some tasks may depend on the completion of others, so proper sequencing helps avoid bottlenecks.
- Estimating Task Durations: Realistically estimate the time needed to complete each task. Consider potential delays and challenges that may arise during the renovation process.

- Establishing Milestones: Set key milestones for critical stages of the project. These milestones act as checkpoints to track progress and ensure the project stays on schedule.
- Considering Lead Times: Take into account the lead times for ordering materials and fixtures. Ordering in advance can prevent delays in the construction process and keep the project moving smoothly.
- Buffer Time: Allocate buffer time in the schedule to accommodate unforeseen circumstances or potential delays that may occur during the project.

By following these steps diligently, you can create a realistic project schedule that helps you manage your fix and flip project efficiently and successfully. Regularly update and communicate the schedule with your team to stay informed and adapt to any changes that may arise. Flexibility and proactive management are key to achieving your project goals within the designated time frame.

Once the renovation phase is underway, it’s essential to monitor progress, address any unexpected challenges that arise, and make necessary adjustments to keep the project on track. Regular communication with contractors and stakeholders helps maintain alignment and ensures that the project stays within budget and timeline.

Draw Schedule

Key Things about Draw Schedule

- The payment schedule should be detailed in the agreement, and it should include all labor and material costs.
- The payments are usually progressed based on the completion percentage of each construction stage.
- There are typically five to six stages, and each has an associated draw payment.
- Lenders require an inspection of the work for the payment to progress to the next stage.

Five Draw Schedule Questions to Ask Your Lender About:

- How many draws are required?
- How do they verify the work is completed?
- How long does it take to receive the draw?
- How much do they charge to process the draw request?
- What are their requirements to release a draw?

Key Benefits of Draw Schedule

- Predictable budgeting: A draw schedule offers predictable budgeting, which is essential when undertaking a construction project. The homeowner can plan accordingly, while the contractor can manage their resources well.
- Transparency: A draw schedule provides a clear payment plan to all parties involved in the project. Homeowners can understand where their money goes and how much work is completed. As a result, there is transparency and accountability for all involved.
- Risk management: For contractors, a draw schedule provides a clear risk management strategy. They receive payments for completed work, and it is easier to identify areas of concern. This way, they can quickly address issues and stay on schedule.
- Staying on schedule: A draw schedule helps keep the project on schedule. As a contractor receives payment for work done, they are motivated to complete the work on time and within budget.

Draw Process

Step #1 in the Draw Process

The first step of the draw process is simple enough: reach out to your loan originator and request a draw inspection. You should not need to send over any invoices or receipts.

Step #2 in the Draw Process

The second step in the draw process is to set up a draw schedule. This gives you the ability to call in as many or as few draws as you need. The reimbursement is paid out for work completed on the rehab project at the time the inspection occurs.

Draw Process (Continue)

Step #3 in the Draw Process

Within one business day, an inspector should reach out to you to schedule an inspection at your fix and flip property and evaluate the work done based on the rehab budget submitted by the borrower prior to the appraisal.

Keep in mind that the draw reimbursement is for work that is completed and not for materials ordered. Additionally, items must be installed to receive credit for the reimbursement.

When you use the right lender, reports are typically turned in one business day after the scheduled inspection. Depending on when received by your lender, funds may even go out the same day!

The draw inspection fee is then netted out from your reimbursement wire, so there are no further out-of-pocket costs for an inspection.

Five Draw Schedule Questions to Ask Your Lender About:

- How many draws are required?
- How do they verify the work is completed?
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Fix and Flip Terminology

Fix and Flip Terminology

Capitalization rate in real estate is used to measure the length of time it will take for an investment to pay itself off. This amount is found by taking the annual net operating income and dividing it by the cost or value of the property. This rate provides an estimated property value based on net operating income.

Comparables: To determine a sale price, sellers measure similar properties against each other by comparing property characteristics. Factors include square footage, layout, amenities, and additions to the property that make it stand out from other homes. Comparables can also include city housing market research and neighborhood home sale data to increase the amount of usable data.

Scope of Work: a detailed outline of all planned construction and renovations of a project.

Fix and Flip Terminology

Escrows: Escrow is used in real estate transactions. When purchasing property, a third party receives and distributes funds and/or documents between the primary parties where distribution depends on the agreement between the two transacting parties.

FICO Score: The credit score, developed by Fair Issac Company (FICO), that determines a number based off of credit reporting agencies. This score is used to determine borrower risk when loaning funds. Credit scores are calculated using information like the age of credit accounts, payment history, and more. Ranging from 300 to 850, this number affects loan approval, interest rate, and loan terms for the borrower.

Fixed Rate: An interest rate that doesn't change over the course of the entire loan.

Guarantor: A guarantor is a person who guarantees to pay someone else's debt if the loan defaults. A guarantor might be necessary if someone who has a low credit score is trying to get a loan.

Fix and Flip Terminology

Insurance: A contract that provides financial protection and/or reimbursement for losses paid by an insurance company. There are different types of policies, and property investors may have to obtain different homeowners insurance to qualify for a hard money loan.

Interest Rate: An amount charged, as a percentage of the principal loan, to a borrower by a lender. The percentage can vary depending on the loan terms. Every month, the Interest Rate is applied to the principal amount and that sum is added to the total loan.

Loan to Cost (LTC): Loan-to-Cost is the ratio comparing the loan amount of the project to the total purchase price of the property. The higher the LTC, the more risky the project will be. A high LTC can affect other factors of the loan and even loan approval.

Fix and Flip Terminology

Loan to Value: Loan-to-Value is the ratio that calculates the value of the loan to the home's value. You can find the LTV by dividing the loan amount by the appraisal value. LTV is important because a lower LTV rate can result in a lower rates compared to a higher risk LTV.

Net Operating Income: Net Operating Income is the annual income that is generated from a property. NOI is found by taking the sum of all income and subtracting any expenses. Net Operating Income is also used to find out the Capitalization Rate for a property.

Origination Points: A variable percentage that is added to a loan for the work in the loan process by a lender. Origination points can differ based on risk, credit history, and loan amount.

Fix and Flip Terminology

Prepayment Penalty: Bridge loans normally have a 12-month term. Depending on the contract, you may not be able to pay off the loan until those 12 months are complete. If you pay before the loan maturation date, you may be charged a prepayment penalty because you paid before the time specified in the contract.

Planned Units Development: A planned unit development is a community of homes. These can include single-family homes, condos, and commercial property; but commonly consist of single-family homes. PUDs can also include community amenities like parks, private neighborhood entry, and hired security. PUDs are operated by a homeowners association (HOA) which requires a monthly fee that pays for these amenities and services.

Fix and Flip Terminology

<u>Purchase Price</u>: The purchase price is the mutually agreed price between the seller and buyer.

<u>Rehab Holdback</u>: A rehab holdback is a process where the rehab/renovation funds are held and then released to reimburse a borrower for documented and approved construction work.

<u>Refinance</u>: A refinance is where you take a current loan and replace it with a new loan with new terms. The new loan will pay off the existing loan. Many homeowners refinance their home to get better interest rates on mortgages.

<u>Renovation</u>: A renovation is when you strip an area down and replace it with something brand new. An example is completely redesigning a kitchen, removing all cabinets, fixtures, and appliances and installing all new cabinets, all new fixtures, and appliances. In the end, the kitchen will have an entirely different look.

Fix and Flip Terminology

Return On Investment (ROI): Return on Investment is a measurement of profitability calculated by comparing how much money was invested into a project compared to how much profit was created after the project was sold.

Return on Revenue (ROR): Return on Revenue is a " measurement of profitability calculated by dividing net income by revenue." Net income is revenue after expenses are subtracted. ROR is useful to determine a company's profitability.

EMD: "good faith deposit," is an amount of money that the homebuyer gives when signing a sale contract on the home or property they wish to buy.

Experience: projects completed in your name that included rehab and a sale or refinance

Fix and Flip Terminology

Loan to Purchase: the purchase amount we fund towards the purchase

Loan to ARV: the ratio of the loan amount (plus any other debt on the property) to the after-repair value (ARV) of the property

Draw Schedule: an agreement between a borrower and a lender on how to manage construction reserves held by that lender. It documents:

- The total amount of money held in reserves
- The number of draws required to disperse it
- The amount of money released in each draw
- The conditions under which the lender releases it.

Business Entity

A business entity is an organization that exists separately from an individual for tax purposes. In real estate, the most common are Limited Liability Company (LLC), Limited Partnership, or S Corporation. Other entities include Corporations, General Partnerships, and Revocable Trusts.

- An LLC is a business organization that limits the personal liability of its members. It can provide legal advantages similar to a corporation and tax advantages of a partnership.

- A Limited Partnership is a business organization where an individual or party that participates as a minority investor and is limited by legal agreement. A Limited Partnership member can't participate in any management of the business and only has liability in the capital invested.

Business Entity

- An S Corporation is business organization with 100 or fewer stockholders that decides not to be taxed as a regular corporation. There are other requirements to establish as an S Corporation.

- A Corporation is a business organization that's formed as a separate legal entity where ownership is proved with stock shares.

- General Partnerships is a co-owned business, with more than one owner, that has not filed papers to become a corporation or LLC. Even if you haven't filed papers, there will still be city or county requirements that have to be met. You might also have to register a fictitious business name with your county.

- A Revocable Trust is a trust that can be changed depending on the grantor. A grantor is the person who is either the creator of the trust or the options seller. A real estate revocable trust manages assets for the owner over time.