

# Single Family Homes for Profit Newsletter

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## Insuring Your SFH Investment

**In an ongoing effort to coach you properly, part of this issue will cover some the elements of insuring the SINGLE FAMILY HOUSE (SFH) you hold for investment.**

It is one thing to learn how to acquire, manage, hold, rehab & maneuver your houses after the deal to fit the best financial performance. But all this education and skill development will disappear before your eyes if and when an uninsured event occurs at one of your investments houses.

This issue will discuss the basics of HOW TO INSURE your single family houses properly so as to minimize your exposure to an uninsured loss. This newsletter will touch on the following:

- 1) *Why should I know this area of the house business?*
- 2) *What nomenclature should I understand?*
- 3) *How do I insure houses correctly?*

Before starting, don't forget that the advantage of being a subscriber to the Single Family Houses for Profit newsletter is that you can send an email to [jim@realestateforprofit.com](mailto:jim@realestateforprofit.com) or [randy@realestateforprofit.com](mailto:randy@realestateforprofit.com) at any time and ask the question of your choice. We will do our best to respond quickly and with the information you need to answer your question.

### *1) Why should I know this area of the house business?*

Now let's get started with the first subject. Insurance is a boring subject for most of us, but a necessary evil to deal with if we want to shift the catastrophic risk away from our assets.

Over the last thirty years we have seen many HUGE gaps in the average investor's insurance program. Some with NO property or liability insurance, others with improper amounts of coverage (called limits) on property (the physical coverage for

your buildings) to low limits of liability (insuring the bodily injury or property damage caused to a third party visitor to your property).

Have you seen the headline "Building owners thought they were insured but weren't!" or "Child falls from a tree and is paralyzed for life!". These two events can happen to you. When they do, if you are not properly insured, you could end up losing everything financially. Can you imagine spending your whole life accumulating a real nice portfolio of houses and have one event (uncontrollable by you) take away all your wealth?

### *2) What nomenclature should I understand?*

Here are the basics:

- A. Named Insured
- B. Additional Named Insured
- C. Limits & Deductibles



## Insuring Your SFH Investment (cont.)



### Named Insured

This element of the insurance policy states to the insurance company WHO IS INSURED. It is very important to have the person or entity who owns the property listed as part or all of the NAMED INSURED on the insurance policy. The insurance company will pay only the named insured as stated on the policy. So if you own the house in your name and have placed the house in a land trust. Make sure you add the land trust as part of the named insured description on your insurance policy. Here is how it should be reported to your insurance broker after forming a land trust:

Land Trust, Under Trust  
#123 dated 6-9-03

And all trustees, directors  
and beneficiaries

### *Additional Named Insured*

This position on your insurance policy is for people or entities with an interest in your house. This might be a second mortgage holder, a first mortgagee, or another person or entity that shares ownership with you. It's

highly recommended you have all owners and or beneficiaries of the land trust, listed as part of the NAMED INSURED, on the homeowners policy.

### Limits & Deductibles

Sometimes we have a tendency to sluff off these two areas of our insurance policy thinking that they are not important. Well, my friend, they are very important to the insurance company and thus should be very important to you. Limits – means the amount of dollars of insurance you carry on the house. This is important because if you carry less than the replacement cost, for example \$100,000 when the current replacement cost is \$150,000 the insurance company will penalize you severely at the time of a fire, wind storm, or other insured peril. You must carry a percentage (80%, 90% or 100%) of the current **REPLACEMENT COST** to have full coverage. This feature of an insurance policy will be discussed later in another issue. Suffice it to say, this is important to you at the time of a loss or claim. Insure to current **REPLACEMENT Value!!!!**

Your deductible should be the dollar amount of loss tolerance you can afford at the time of a claim. If you have a \$100 deductible now you might want to change to a \$1,000 to save premium expense. If you calculate the premium savings over time with the statistical potential for a claim, you may find that a five year period without claims could save you a lot of premium. Remember, that statistically, the greatest probable time of a claim on your rental house is within the first twelve months of ownership. Get past the first year and you have a good statistical probability (not a guarantee) of not having a loss.

### *3) How do I insure houses correctly?*

This newsletter is not the “end-all” insurance course in a few pages of focus, but will give you a starting point to develop your knowledge in a very important area of your house business.

We suggest you take the time to complete a checklist as follows with each insurance renewal date and at the time of acquisition of each property:



## Insuring Your SFH Investment (cont.)

### INSURANCE CHECKLIST

Ask yourself these questions:

House Address:

\_\_\_\_\_

\_\_\_\_\_

Date the insurance to start or renew: \_\_\_\_\_

Who are the named insureds?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Who are the additional named insureds?

\_\_\_\_\_

\_\_\_\_\_

What is the Replacement Cost of the house?

\$ \_\_\_\_\_

What dollar amount for the insurance replacement of the house should you report to your insurance co?

\$ \_\_\_\_\_

What deductible can I afford at the time of claim?

\_\_\_\_\_ \$250 \_\_\_\_\_ \$500  
 \_\_\_\_\_ \$1,000 \_\_\_\_\_ \$2,500

Be mindful of the elements of the insurance policy that protect you and your financial interests in the house. Take the time to complete the checklist for your own records. Report the named insureds, additional named insureds, building limit, and Deductible selection promptly to the insurance company and in advance of the date needed.

Once all the above have been completed, then request an **INSURANCE BINDER** or **CERTIFICATE OF INSURANCE**

from your insurance agent or broker. Then set up a file for your insurance on this rental house and mark your calendar for receipt of the insurance policy. A month to six weeks is quite sufficient time for the policy to be printed and mailed to you. Don't rely on the insurance agent/broker or the insurance company to remember to send you your policy.

In summary, know how to be one step ahead of your insurance broker. The house is your investment and only you will be the most interested in insuring it properly. Remember, you are paying an insurance premium so the insurance company is at risk for the big claims/losses NOT YOU! Even with insurance premiums on the increase it is still a great buy to insure the catastrophic exposures of owning an investment house.

## Real Estate Quiz

Selecting the RIGHT house for a long term investment: True or False

A. Buy houses on corner lots  
True or False

B. Buy houses with no garage  
True or False

C. Buy "all electric" homes  
True or False

D. Buy houses with only one bathroom  
True or False

E. Buy houses on the main streets in your town  
True or False

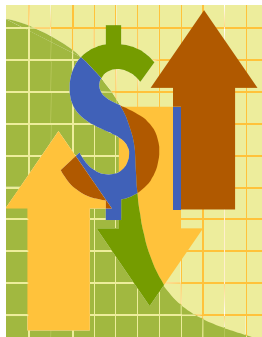
F. Finance the house conventionally with no seller financing involved  
True or False

G. Buy houses that are 15-40 years old to minimize maintenance and increase the ability to get seller financing/concessions  
True or False



G. T  
D. F, E. F, F. F,  
A. F, B. F, C. F,

## To Buy or Not to Buy in This Market



Recently a friend of ours called us to ask whether he should be buying or selling his property in this slow market. He had read where a financial advisor sold his personal residence in 2006 and has been renting every since. The advisor indicated that he will rent for the next year or two before buying again.

What is interesting about this story is that the advisor quoted several statistics about why real estate is a bad investment now (collapse of the sub-prime lending market, foreclosures at a all time high and projected to go higher, mass speculating in the rental housing market, lack of affordability in the SFH market, inflated appraisals, tightening of lender's standards, over stock of new construction, etc).

While we do not necessarily disagree with the over-all condition of the market right now, it is important for our subscribers to take a long term view of their SFH investments.

We have been investing in SFH's for 38 years now. We have seen it all! Markets go up and markets go down. We intend to make money through SFH's no matter

what the market conditions.

There is no better case for knowing your local market than what is currently perceived as the national market. In fact, there is no national market for single family homes. All SFH markets are local in nature and are effected by local conditions (employment, cost of living, amenities, size of payrolls, economic stability, property tax structure, etc.).

This is why it is critical that you invest in an area where you know all about the local economy and market conditions. And an area that is GROWING.

Let us now look at some of the reasons why we might want to continue buying SFH's in good areas.

The rental market is getting better by the month. As the previously mentioned "advisor" said, he will remain a tenant for another year or two. This is good news for all of us landlords that have not received significant rent increases the last five years.

As we are all aware, when houses are appreciating rapidly...rents are not. Well, the worm has

turned! The next few years may not produce much appreciation (percentage wise), but your cash flows are about to rise!

Case in point: We were recently contacted by a friend who cannot continue to afford his \$220,000 house. He has already talked to his lender about a short sale. He called us to find out if we had a rental available for his family.

Just so happens that we have a nice home available for immediate occupancy (in other words it has been vacant for a while). The normal rent on this house is \$1,045 per month. However, after finding out that our friend is paying over \$2,000 per month for his house, we quoted him \$1,100 per month. His response? "That sounds GREAT...i can easily do that compared to what I have been paying.



## To Buy or Not to Buy Continued

**Prior to the recent run up of home prices, houses use to rent for about 1% of their value.** We think that we are headed back to that rule of thumb. In our market this means that we have a 40% increase in rents headed our way (isn't life great?)

Another great benefit to the current market is the ability to garner seller financing. If you perfect this talent you can make a comfortable living buying, selling or lease-optioning (no matter what the market is doing). We cover many seller financing concepts in our Get Rich Buying Houses Seminar (next class is August 17-19).

While it is true some parts of the

country are extremely over stocked with inventory and their values are declining (i.e. Florida, California, Phoenix and Las Vegas), we do not invest there. Therefore, those markets do not matter to us.

Interest rates are still at historical lows and the demographics of the areas we invest in are solid. The baby boom's children (the echo boom) are now entering and graduating from college at a huge rate. A vast majority of these echo boomers were raised in single family homes and they will want to buy and live in single family

homes when they are able.

Our recommendation is to continue buying nice houses in nice neighborhoods to rent to nice people. Even if these houses never go up in value your tenants will pay them off for you and make you rich!

Also, consider buying houses that are not too large and are energy efficient. The big expensive homes being built today will one day become multi-family units out of financial necessity.

## Options Continued

**The last issue of our Single Family Homes for profit newsletter discussed the advantages of Selling Property on a Lease-Option.**

Before continuing with the statistics on how many tenants actually exercise their option, I will review some benefits.

What are the primary problems of owning and managing a portfolio of Single Family Home?

1. Occupancy
2. Turn Over Expense
3. Finding good tenants
4. Selling Costs
5. Time Commitment
6. Repair and Maintenance costs
7. Bookkeeping

8. Acquisition expenses
9. Financing
10. Cash Flow (to your pocket)

The lease option solves most of these problems for you. This strategy contemplates that the tenant will eventually become the owner. If the tenant's performance is satisfactory (he pays the option deposit, makes timely rental payments, take care of the minor maintenance,) he earns the right to exercise his option and buy the house. If not, he forfeits a majority of the deposit.

As an incentive to leave the house clean and in good repair, I agree to return to the tenant what would have normally been required as a

damage deposit. So if the tenant cannot exercise the option (and we do not renegotiate with him), he at least has an incentive to leave the property in good shape (and cooperate with showings to prospective new tenant/buyers) for the next tenant/buyer. You might want to consult with your attorney regarding the legality of all of this, but from a practical standpoint, it works!



**Question:** I have obtained a final judgment in a small claims case. The defendant has made it clear that he will not pay willingly. Can you please explain to me my rights and outline a basic collection procedure?

**Answer:** Good luck, you are going to need it! Not only will you need some luck, but more importantly you will need some perseverance. The legal system is skewed in favor of the defendant with many opportunities to take advantage of his creditor.

Once a final judgment is obtained, Illinois law provides several methods for collection. If the debtor owns real estate (but does not hold title in the name of a land trustee), the creditor can record a memo-

randum of judgment, as provided for by 735 ILCS 5/12-101. This lien may then be foreclosed on and the realty sold to satisfy it, subject, of course, to the rights of prior lienholders, such as mortgagees.

If the judgment debtor is employed, a wage deduction may be filed, requiring the debtor's employer to deduct specified amounts from wages earned and pay them over to the creditor to apply to the judgment.

If others hold property of the judgment debtor, you can use a non-wage garnishment to require turnover of the property to pay the judgment. You can use garnishment against such things as the debtor's bank accounts or liability insurance policies.

When the judgment creditor

does not know what assets or income the judgment debtor may possess, he or she can use a Citation to Discover assets to find out. The citation may be directed either to the debtor or to others who might know about the debtor's property, employment, etc.

The bottom line to all of this is that getting the judgment can be the easy part. Collecting on the judgment can be time consuming and costly.

**Editor's note: It is our goal that you learn more money making real estate information from the Hughes Brothers. Therefore, we have expanded this newsletter from four to six pages.**

Listen to Jim Hughes on the radio every Monday from 12-1pm. WBIG 1280 AM. The program is called, "Profit on the House"

Got a real estate question? Visit our **Discussion Forum** at [www.realestateforprofit.com](http://www.realestateforprofit.com).

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Upcoming Hughes Brothers events:

August 17,18th, 19th 2007 **Get Rich Buying Houses & Short Sales**

September 15th **Land Trusts Made Simple –Basic One Day Training**

October 20 & 21 **Get Rich Buying Houses—2 day training**

November 17th **Privacy and Asset Protection—One Day Training**

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