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TUESDAY APRIL 1, 2008

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Should I Save A Huge Down Payment Before I Invest In Real Estate?

In 2007, I presented at a real estate seminar in Atlanta, Georgia. The most common questions at the seminar were; how much money should I have to invest in real estate? And, Should I wait until I have a large down payment before I invest? As I mentioned in my previous writings, it's about education. Good education is the reason people make rich financial decisions. Lack of education is the reason people make poor ones. After a brief explanation to those curious minds they all wanted eagerly to invest in real estate. A person from the audience stood up and asked, "Is \$25,000 a good down payment to purchase an investment property of \$200,000?" My answer was yes. Twenty-five thousand dollars is about 12.5% of \$200,000. Another person stood up and asked, "I don't have any money at this time. Should I wait until I have lots of money to start investing?" My reply was absolutely not! The difference between a \$25,000 down payment and a \$0 down payment is a small amount in monthly payments. Everyone in the audience stood shock with both eyes and mouth open. Then I explained. Let me put these numbers to work for you.

Example 1

Property Cost \$200,000

Down Payment \$0

Amortization 40 Years

Interest Rate 5%

Term 5 year close

Monthly Payment \$964.39

Example 2

Property Cost \$200,000

Down Payment \$25,000

Amortization 40 years

Interest Rate 5%

Term 5 year close

Monthly Payment \$843.84

The difference in monthly payments between these two examples is **\$120.55** per month. My question to the audience was, "How long would it take you to save \$25,000?" Most of them could not even answer. So let's assume it would take an individual about 5 years to save \$25,000. Meanwhile if you purchase a property with a zero down payment you would see an increase in equity every year over the 5-year period. In Greater Toronto Area (GTA), we are seeing an average of 3-4% annual increase in property value, which would bring you to an increase of \$6,000 - \$8,000 per year in equity times 5 years and that would give you about \$30,000 - \$40,000 increase in property value. Please don't forget you would have paid down 5 years of your mortgage principal to well over \$9,000. After this brief explanation everyone wanted to start investing in real estate. As stated in the example, it's better to start investing with whatever amount you have. Start building equity today, while paying down your mortgage principal. One simple strategy to real estate investing is timing -- timing is everything. The faster you start the more equity you can build in your investment portfolio. The time to take action is now.

Here's to your success,

Frank Corbin
Real Estate Mentor
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