

KNOWING IS NOT ENOUGH; WE MUST APPLY. WILLING IS NOT ENOUGH; WE MUST DO.  
—GOETHE

TO KNOW AND NOT TO DO IS NOT YET TO KNOW.  
—ZEN SAYING

EXPERIENCE IS KNOWING A LOT OF THINGS YOU SHOULDN'T DO.  
—WILLIAM S. KNUDSEN

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## *EXPERIENCE IS THE BEST TEACHER*

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Any good teacher knows that the ratio of teaching effectiveness is one by hearing, ten by seeing and one thousand by doing. Translated, that means the best way to teach is to get the student as close to the actual experience as possible. That's why I had them do cold calling on the telephone instead of just teaching them about telephone technique. That's also why I took them jogging—instead of lecturing them on the benefits of exercise.

And now I wanted them to experience the negotiating process.

After sprucing up from our morning jog, we jammed into the rented yellow Cadillac and made our way to visit a property owned by a flexible seller whom Mary had turned up through her phone prospecting the night before. As we drove to our appointment, I filled them in on what to expect.

“What happens when we go inside, Bob?” Mary asked.

“You take charge, Mary. It's your don't-wanter. My own preference is to wander around the house alone, but some sellers like to show you through to point out special features. While you inspect the house you try to assess the seller's flexibility in price and terms.”

“We already know he's indicated a flexibility in terms,” Mary reminded us. “His ad said he wanted five hundred dollars down. And he said on the phone he was willing to carry financing.”

“In the jargon, ‘terms’ is another way to say financing. It includes down payment, interest rate, monthly payment and the length of the loan. As buyers, we want to negotiate the best terms possible. We do this by offering lower interest rates and longer payback periods. This makes for lower payments. You might start the process by saying, ‘Your ad indicated some flexibility in financing. What did you have in mind?’ Notice I avoid mentioning

numbers. If he mentions numbers, you can indicate your position by wincing or saying, ‘That’s a bit steep, isn’t it?’ From there you can move on to price. How flexible can you be on the price?’ If he balks on price, you might say, ‘Could you be more flexible on the price if I gave you more down or a fast closing?’ You’re trying to gauge the seller’s flexibility.”

“Another way to do this is to talk in terms of the seller’s equity. This seller has a price of about forty thousand dollars and loans of twenty-one thousand. Subtract the latter from the former, and that leaves an equity of nineteen thousand. You might test the seller’s firmness by saying, ‘Let’s see, if the price were thirty-eight for a quick closing, the loans are twenty-one, that means your equity is about seventeen, which you have agreed to carry, right?’ If he says yes, then you say, ‘Suppose, instead of carrying the financing, you were cashed out. Would you take twelve or thirteen thousand cash for your equity?’ I first try to establish the fact that the seller is willing to carry financing with a small down. Then I try to see if he will discount his equity for cash. The lower the price, the greater the profit. But all negotiations are different. If this seller seems flexible enough, we’ll make him an offer.”

“Where will I get an offer form?” Mary asked, concerned.

“You have forms in your MasterPlanner. I’ll help you fill it out. Do you have a checkbook with you?”

“Uh, yes.”

“Do you have five hundred dollars in your account?”

She shook her head. I could tell she was embarrassed.

“How about one hundred?”

“I don’t think so.”

“Fifty?” I asked, a bit embarrassed for having asked.

“Maybe twenty,” she admitted.

“This is wonderful,” I said in an attempt to be positive. “OK. Give him a hundred-dollar check and in the bottom left-hand corner write ‘to be cashed at closing.’ If he asks about that, I’ll come to your rescue with an answer like ‘That’s the way she always buys property.’ But let’s see how far you can go on your own.”

As we drove through the neighborhood, I pointed out the clues to look for. We spotted several for-sale-by-owner signs. Nora was concerned about the number of houses for sale. I told her that in some cases, this can work to the buyer’s advantage because the more competition the more flexible the sellers have to be.

“Here’s the house,” Philip said as we pulled up across the street from a cookie-cutter suburban home with a For Sale sign on the front lawn. The neighboring houses were well cared for. We quickly cased the house. It had a one-car garage. The lawn was green and mowed, with well-placed flower beds. I pointed out the gutters and cautioned them to look closer for peeling paint and water damage. Before we went to the door, I encouraged them to scour the inside of the house for problems—leaky faucets, water stains on ceilings and floors, rotting floors, especially around the toilets, worn carpets and other wear and tear.

Mary rang the doorbell. The seller, a thin man in perhaps his early forties, came to the door, gave us an information sheet on the home and invited us in.

All of the preliminary clues—the well-manicured lawn and the well-thought-out information sheet—were indications that the seller was well organized and in no hurry to sell.

Steve looked down the information sheet and spotted something. “You have an appraisal at forty-four thousand dollars?” he asked.

“We had a contract to sell this house. Got to the point that a bank set up the paperwork and did the appraisal. But the buyers couldn’t qualify.”

I raised my eyebrows so that Mary could tell that this was an important piece of information. Steve broke the silence.

“Neat little yard you got back here.”

“Nice house,” Mary added, obviously impressed with the cleanliness. “I can tell you put a lot of work into it.”

“Yeah,” the seller replied, “it’s also got a new air conditioner and a new roof.”

“Then why do you want to leave?” I said, fishing for information.

“We’re buying a bigger home.”

“Are you anxious to move?”

“Not really. We’re ready but not anxious.”

Here was another clue. We continued to look through the upper floor. Then we went down in the basement, where the seller showed us the new air-conditioning system. Mary noticed some water problems, and the seller explained that he had removed a tree in the backyard and that ever since, when it rained, the water poured into the basement through a window.

“Do you have that solved now?” I asked.

“Not yet.”

“So it will need to be repaired again.”

“Yeah.”

“Tell me about the offer that didn’t go through,” I asked.

“It started out at forty two five, and they wanted us to pay the closing costs, so we raised the price to forty-four. But then they couldn’t qualify for the loan.”

Have you already made arrangements for financing the new house you bought?” I continued. “Are you just waiting for a sale on this house before you move into that one?”

“We already put some money down. I need seven thousand dollars down from this home to cover closing costs. Plus my wife wants to buy all new drapes and furniture and everything.”

“But didn’t your ad say you only needed five hundred dollars down?”

“Well, I figured the buyer could get a new ninety percent loan. It’s appraised for forty-four thousand. So you’d be able to borrow at least thirty-nine thousand. You’d only have to put five hundred down. Thirty-nine five is a damn good price. The guy across the street bought his house two years ago for thirty-nine thousand, and he doesn’t have central air or a garage.”

I returned to his first point by saying, “You know, it’s hard to qualify for new loans these days.”

The seller agreed. “You almost have to be gold. But if I can’t sell it myself, I’ll list it again. And if it doesn’t sell, I’ll just refinance it myself and rent it out for enough to cover the payments.”

“How do you feel about being a landlord?” Mary astutely asked.

“That’s my last resort. I’ve rented stuff before, and it’s a big hassle.”

Mary changed the subject. “Mind if we look more upstairs?” The seller went upstairs, leaving Mary and me alone to review some of the facts we had gathered.

“Did you notice he wasn’t very flexible?” I asked.

“He wasn’t? I couldn’t tell,” she said, shaking her head. “He didn’t want to carry any financing. Wanted us to get a new loan. Said he’d keep it if he couldn’t sell it. That doesn’t sound very flexible to me. Did you notice how I kept mentioning the problems he has—as a way of reminding him that his property is less than perfect? That has a way of bringing the seller back to reality. It was real smart of you to mention landlording. That got him thinking. If you had to score this seller’s flexibility thus far, what would you give him? A one, two or three?”

“He’s between a one and a two.”

“Good guess. Wants his price and his terms. Closer to a one. But let’s not give up yet. Let’s see if he’d take a substantially lower price for quick cash.”

We made our way back upstairs. Philip and Nora were asking questions about the area, the garage, the hardwood floors. At the proper moment Mary approached the seller.

“I want to ask you what would your equity be in the house if you sold for thirty-nine thousand dollars?”

“Let’s see...” The seller scratched his head. “At thirty-nine thousand it would probably be eighteen thousand.”

“Okay. If you could get twelve or thirteen thousand cash within, say, thirty days, would you be willing then ...?”

“Twelve or thirteen what?”

Mary became flustered at not knowing what to say next. She changed the subject. Then she excused herself and whispered to me, “He doesn’t really understand and neither do I.”

I decided to step in. We found the seller in the kitchen, where he was explaining how it was only eight years old.

“Excuse me, sir,” I said. “Getting to the bottom line, if you could cash out quickly, would you be willing to come off your forty thousand price? You never can tell how long it will take you to find a buyer.”

“No. I’ll just wait till I can get thirty-nine five.”

“Even so,” I countered, “sooner or later it’ll cost you an extra thousand or two.”

“No, I’m not going to drop my price much.”

“Well, what price would you come down to?” I asked.

“Not below thirty-nine five. Why should I?”

I knew that I was just arguing now for the sake of arguing. Obviously, the seller wasn’t the slightest bit flexible. Normally, I would have politely excused myself and been on my way to the next, perhaps more flexible seller. But for the benefit of my watching Challenge team, I continued, “So you’re saying, ‘I’m firm on my price, and I’ve got to have all cash.’ Is that what you’re trying to say?”

“Yes, but this house is a good deal. Even at thirty-nine thousand. I’ve checked most of the homes around here...”

“Tell you what,” I said finally. “We’ll send you an offer in the mail. If you haven’t been able to sell, in a few months, our offer might start to look a lot better.”

“Sure. Definitely, as a last alternative.”

“Thanks,” Mary said as we left. “I appreciate your time.”

We all got in the car, and as we drove off we processed the experience together.

“OK,” I asked them, “was he a don’t-wanter? Obviously not. He wouldn’t come off either his price or his terms. Take it or leave it. Mary, I thought you told me last night that he was willing to carry financing.”

“That’s what he told me . . . at least that’s what I thought he said.” She was learning to be more careful in her analysis.

“We took an hour and a half to inspect this property,” I continued, “but it was a valuable experience—good practice. Now you know what a cubic zirconium looks like.”

Nora had a brainstorm. “Well, right now he’s a zircon, but a couple of months down the road, he could become a diamond.”

“Right. Never can tell when the wind will change. Mary should still send him an offer. But can you see that we could have saved a lot of time and gas money by asking better questions over the phone? I try not to inspect a property until I’m certain the seller is a genuine don’t-wanter. If a property fits within my very narrow set of parameters, I proceed further. If not, I keep looking. It’s that simple. Let’s score this one, shall we?

Seller flexibility?	One.
Location?	Two.
Financing?	One.
Price?	Two.
Condition?	Three.
Total:	nine.

“What do you think?”

“Well,” Philip observed, “he was selling below the appraised value. Couldn’t we have profited from it?”

“Not unless we could buy it at least twenty percent below market. The seller claims it’s worth \$44,000, but what if it’s only worth \$42,000? Then it’s only ten percent below market. We need to get the price to \$35,000 or lower—twenty percent to thirty percent off.”

“I’m still not sure of what to ask,” said Mary.

“Just remember the five questions of value—flexibility, location, financing, price and condition. With practice, you’ll become as confident as you were yesterday morning picking a diamond out of fifty pieces of glass.”

The next experience I had designed for them was to take them to a title company and walk them through a simulated closing on a house. Within a matter of weeks each of them would be required to sit at a closing table, white-knuckled and nervous.

It was time for a dry run.

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In the center of downtown Clayton, on a corner across from the park where we had jogged that morning, is a brown, two-story brick building with white trim. Emblazoned on the front in big black letters are the words “Ticor Title Company.” The Challenge team arrived just after lunch and was greeted by Nancy, a senior closing officer for the firm. She ushered us into a quiet conference room in the back on the main floor. We sat around the conference table.

“Nancy,” I explained, “is an expert in closing property. She makes sure all of the details come together smoothly.”

She took my cue. “This is a closing room,” she began. “As soon as you have a signed contract between you and a seller, you bring it, and any other pertinent information, to me. We’ll sit down here and create an escrow account for this transaction. We call this ‘opening escrow.’ That’s just a fancy term for starting a file of all of the necessary documents to close the transaction—the sales contract, the earnest money and your loan commitment letter if a new loan is required.”

“Nancy, if I could interrupt for a second,” I said, “we haven’t yet discussed the details of an earnest—money agreement. Earnest money is your deposit to hold the property. If we back out, the seller keeps our money, in some cases, as damages. Nancy will hold this deposit until the closing. If there is any dispute between you and the seller about the earnest money, she’ll keep it until things are resolved.”

“Correct,” Nancy said. “Now, let me tell you about title insurance. Ticor is in the insurance business. We insure titles. The policy that we issue guarantees that there aren’t any defects in the title to the property you are buying. For instance, suppose an heir, who was thought to be dead, turns up ten years later claiming an interest in the property that you now own. Since we insured your title, it’s our problem to work things out with the heir. Or suppose Mary and John Doe own a piece of property as husband and wife. If John deeded his interest to another party without Mary’s consent, this would become a cloud on the title of the property. And you wouldn’t want to buy that property until that situation had been resolved. So we search the entire chain of deed. We report any clouds, liens or judgments against the property on what we call a title commitment. And if there’s anything on the title commitment report that you or the lenders don’t like, we work toward solving these things before closing.”

“Just as everyone needs life and health insurance,” I added, “every buyer needs property insurance. Nancy guarantees us that the property we are buying actually belongs to the seller.”

Nora joined in. “That reminds me. Someone once sold me some property he didn’t own. When I went to the title company to search the title, I learned that of the ten lots he was selling, he didn’t actually own them all. He’s still got \$295 of my money.”

“I’ll help you avoid that mistake in the future,” Nancy said.

“What kind of costs might be expected at a closing?” I asked.

“To handle the paperwork, the closing costs run anywhere between thirty-five and one hundred dollars. The next cost would be for the title insurance. The premium for title insurance is based on the selling price of the property. It’s not like car insurance, where you have annual premiums. For instance, on a hundred-thousand-dollar house, the approximate premium would be a one-time six-hundred dollar charge. Even after you sell the property, you are still insured for the period of time that you owned the property.”

“In some states, the buyer pays for the title insurance,” I said. “In other states, it is customary for the seller to pay this. In still other states, only attorneys are allowed to handle closings and check title. Nancy, how is this handled in Missouri?”

“The seller pays it.”

“Good. Now, there are other miscellaneous closing costs associated with buying property. This might include fees paid to banks to make loans, appraisal fees, insurance and tax impounds, miscellaneous transfer costs.”

“Correct,” Nancy said. “You’ll find that the largest costs in any real estate purchase are generally the loan closing costs on new financing—points and lender’s fees.”

“To clarify,” I said. “A ‘point’ is an up-front fee charged by the bank for the privilege of borrowing their money. One point equals one percent of the face amount of the loan. There are usually one to four points involved with any new long-term loan. So on a fifty-thousand-dollar loan one point would be one percent of fifty thousand, or five hundred dollars; two points would be a thousand dollars; three points, fifteen hundred dollars, and so on. Most of the time the buyer pays these points—except on some government-backed loans. But remember, everything is negotiable. There are always creative ways to come up with closing costs without having to pay them out of your own pocket.”

“Now,” Nancy continued, “let’s cover two very important documents. The note and the trust deed. Here I have a standard St. Louis County note.” She held up a piece of legal-sized paper for us to see. “When filled out, it shows the amount of the loan that is being made to you, the interest rate, the amount of the monthly principal, interest and payments, and when the payments are due. This note in turn is secured in the state of Missouri by a deed of trust. A deed of trust actually secures the amount of money that the lender’s lending you on this note with the property that you’re buying. In other words, if you don’t pay that note, the trustee for the bank will foreclose on the property.”

“To say it in fewer legal terms,” I added, “A note is an I.O.U.—‘I promise to pay you this much.’ The seller says, ‘I believe you but just to be sure I want you to sign this other piece of paper called a trust deed, or mortgage.’ It says, ‘If you don’t keep your word, you’ll have to give the property back.’ There are other ramifications, but this is the general picture. Speaking of foreclosure, there were people who this very day, about an hour ago, lost their property.”

“Yes,” Nancy said, “it happens almost every day, at noon, on the steps of the courthouse.”

“Why?” Steve wondered.

“They didn’t live up to their agreement with the lender,” I answered. “They didn’t make their monthly payments—due to divorce, neglect, bankruptcy, unemployment, all kinds of reasons. Dealing in foreclosures is tricky, so I’d be careful,

“Let’s review, then, what we’ve learned,” I continued. “We learned that a title company officer, such as Nancy, can help us walk through the myriad details that accompany the purchase and sale of a piece of real estate. I’m sure that most of these details, such as trust deed, settlement costs, and title insurance, went right over your heads. It’s all rather confusing at first. But so was baking a cake your first time or learning how to drive a car or preaching your first sermon. It always looks so much worse to the beginner. After your first property,

you'll wonder what you were so afraid of. Nancy is an expert at this. Let her be your guide. That's what she gets paid for. Nancy becomes a vital part of your network. It is as if this were your own office and Nancy were on your staff. And you don't have to pay her until she performs. She even tries to make it easy for you to use her."

### THE RESULTS OF INITIATIVE

Some years ago, three brothers left the farm to work in the city. They were all hired by the same company at the same pay. Three years later, Jim was being paid \$500 a month, Frank was receiving \$1,000, but George was now making \$1,500.

Their father decided to visit the employer and find out the basis for the unequal pay. The employer listened to the confused father and said, "I will let the boys explain for themselves."

Jim was summoned to the supervisor's office and told, "Jim, I understand that Far East Importers has just brought in a large transport plane loaded with Japanese import goods. Will you please go over to the airport and get a cargo inventory?"

Three minutes later, Jim returned to the office. "The cargo was one thousand bolts of Japanese silk," Jim reported. "I got the information over the telephone from a member of the crew."

When Jim left, Frank, the \$1,000-a-month brother, was called. "Frank," said the supervisor, "I wish you'd go out to the airport and get an inventory of the cargo plane which was just brought in by Far East Importers."

An hour later, Frank was back in the office with a list showing that the plane carried 1,000 bolts of Japanese silk, 500 transistor radios, and 1,000 hand-painted bamboo trays.

George, the \$1,500-a-month brother, was given identical instructions.

Working hours were over when he finally returned. "The transport plane carried one thousand bolts of Japanese silk," he began. "It was on sale at sixty dollars a bolt, so I took a two-day option on the whole lot. I have wired a designer in New York offering the silk at seventy-five dollars a bolt. I expect to have the order tomorrow. I also found five hundred transistor radios, which I sold over the telephone at a profit of \$2.30 each. There were a thousand bamboo trays, but they were of poor quality, so I didn't try to do anything with them."

When George left the office, the employer smiled. "You probably noticed," he said, "that Jim doesn't do what he's told, Frank does only what he's told, but George does without being told."

The future is full of promise for one who shows initiative.

—Anonymous

“Absolutely,” Nancy agreed. “We try to make it as convenient for the customer as possible. This is our main office here in Clayton; we also have a city office downtown and offices in West County, South County, North County, Charles County and Jefferson County.”

“All successful people rely on a network of experts to call on when necessary” I said. “You have already begun to establish your own success network. You have me, you have Nancy, and you will be adding bankers, accountants, real estate people. This will become your own mastermind group. And having such a mastermind group is essential to all success. It is a wealth secret.”

## **WEALTH SECRET NO. 10. A NETWORK SAVES LEG- WORK.**

“That’s it for now.”

### **HOW TO FIND THE RIGHT EXPERTS**

If you plan to be successful you will need a group of experts to guide you.

Attorney  
Accountant  
Property Management  
Mentor  
Realtor  
Banker

The key attributes are knowledge and creativity. You are looking for creative blue-vasers, just like yourself, who will persist until they find solutions even to the most difficult problems. These are rare talents, and when you find a particularly creative expert, add his name to your growing network. The following tips will guide you in finding creative local experts to guide you.

1. Word of mouth: by far the most effective method. Ask successful local investors which experts they have found effective. One creative professional can usually recommend other experts to round out your network.
2. Attendance at creative financing seminars: Those experts who frequent seminars are usually interested in self-improvement and enhancing their creativity. Ask for their cards.
3. An investor/expert: Someone who not only provides client services but also invests for his own portfolio is going to be more understanding of your needs and desires. You can find such individuals at local investment club meetings. For names and addresses of the presidents of investment clubs in many major American cities call my toll-free number, 1-800-345-3648.

