Real Estate Deal Management System for The BNIC Network LLC

We are using a proprietary "closed sales system" called **The Real Estate Deal Management System (REDMS)** that uses leverage while managing and shifting risk to generate at least double-digit annualized returns.

We don't hit home runs; we hit singles and doubles…and we never ever strikeout!

How it Works

It starts with our system telling us "Deal" or "No Deal" based on 5 attributes of the property:

Purchase Price, After Repair Value (ARV), Rehab Cost (Rehab), Length of Rehab (months), and Monthly Market Rent (rent)

We first calculate the maximum purchase price for the property based on the following equation:

- **Maximum Purchase Price = (ARV - Rehab) x 70%**

Example: for a property with an ARV of $100,000 and rehab costs of $15,000, the maximum purchase price would be ($100,000 - $15,000) x 70% = $59,5000. The property also must have a **rent to ARV ratio of at least 1.6%** ($100,000 ARV must rent for at least $1,600 per month). We are focused on locating and rehabbing properties in Detroit's hardest hit neighborhoods in the following zip codes: 48203, 48204, 48213, 48228, and 48238. These are generally in C-class areas, which is our preference due to the ability of these areas to hold their rent amounts during a bad economy. Once we have a "Deal" signal from our system, we do our due diligence to verify the assumptions and use very specific processes that manage our risk for flipping a property (over estimating ARV and underestimating the Rehab costs and timeframe).

3 Interconnected Companies

The Flip Company: We use 100% financing for the purchase, rehab and closing costs, so we cover upfront out of pocket costs, points on the 2nd mortgage and 3-6 months' worth of holding costs. We come in highly leveraged with about 10% of the total project costs. We buy at a discount, rehab, and flip the property within 3-6 months of purchase. We will always generate at least a **25% cash-on-cash ROI on our cash within 3-6 months**. We attempt to sell our properties via retail channels as owner-occupied to someone who wants to live in the property. If we're unable to see the property retail over a 2-month period, then we place a tenant in the property, turning the property into a "Turnkey Rental Investment" property, and we attempt to sell the property to an out-of-state buy and hold investor. If we're still not able to sell the property with 30 days to an out-of-state investor, then we sell the property to a related buy-and-hold company. The sale is accomplished by assigning the loans to the buy and hold company, receiving our cash investment, plus a 25% cash on cash ROI. This sale of the property simply requires transferring title with low cash transfers (quick escrow, limited paperwork and takes one day).

The Buy and Hold Company: The buy and hold company pays the flip company its out-of-pocket cash costs plus 25% ROI. The buy and hold company (via the Real Estate Deal Management System) has already calculated that it can rent the property at 90% of market rent and still generate **at least a 10% cash-on-cash annual ROI after taxes**. It considers the financing costs of the assumed loans, a 10% property management fee, and deducts 5% of the monthly rent for a vacancy rate and 7% for maintenance costs and capex, which all go into a reserve account (along with 6 months' worth of reserves).

The Finance Company: The finance company (also a related company) issues the 1st mortgage loan (30-year fixed amortized assumable loan at a 10% annual rate with 4 points upfront at 70% LTV of the purchase price) and the 2nd mortgage loan (30-year fixed interest-only assumable loan at a 12% annual rate with 4 points upfront that covers the remaining down payment, the closing costs on the purchase, and the rehab costs) to the flip company (the borrower). We raise capital for the mortgages by selling 1-year promissory notes secured by the 1st and 2nd lien mortgage loans (hypothecation) that pay 6%-8% per year if secured by the 1st lien mortgage and 8%-10% per year of secured by the 2nd lien mortgage. We make money on the spread (2%-4%) and on the upfront points (4%).