

The LLC Method



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You'll Discover...



- LLC Method Origin
- LLC 101
- Anatomy of an LLC
- Setting up an LLC
- 3 Step LLC Method
- Finer Details of LLC Method
- MUCH, much more...



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LLC Method Origin

- Barry Lyon purchased a townhome for \$140,000 with a \$100,000 hard money loan.
- Buyer/Title Holder and Borrower was Barry Lyon, LLC
- Rented for \$1,200; payment was \$1,200.
- Barry needed \$4,000 (would sell for \$120,000 if vacant)
- What did I do?



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LLC Method Origin

- ❑ Paid Barry \$4,000 for his membership in Barry Lyon, LLC (title stayed the same)
 - ❑ LLC Purchase Agreement and a Bill of Sale (and my Operating Agreement)
- ❑ Title stayed the same so no official “closing”, no title insurance, property insurance stayed the same.
- ❑ Changed registered agent and manager with Florida Division of Corporations



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LLC Method Origin

- Left property manager in place and waited until lease expired 8 months later
- Listed for \$115,000, multiple offer situation, \$124,000 buyer
- LIGHT BULB MOMENT...
 - Buyer didn't haggle after inspection because "seller is losing money"
- I made \$14,000 profit plus obtained a \$16,000 tax deduction



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Game Changer

- You can name an LLC anything. Why not name it the same name as the seller?
- The outside world may not pick up on the fact that title had changed to an investor
 - Buyers
 - Buyers' Agents
 - Buyers Mortgage Lenders (FHA underwriters)
 - Insurance depts of Mortgage Companies
 - HOAs
 - Friends & Family of the Seller



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Additional Benefits

- Replacing the old property insurance policy on Subject To deals could finally be done.
- No transfer taxes when recording the Quitclaim Deed
- No HOA transfer fees (they don't know that the title changed hands)
- You can “close” extremely quickly; as soon as title commitment is done.



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LLC 101

- ❏ LLC = Limited Liability Company
- ❏ Alternative legal entity to a Corporation
- ❏ Limits liability of its members (aka owners)
- ❏ Easier to set up and maintain than Corp
- ❏ More tax treatment options than Corp
 - ❏ Sole Proprietorship (flow through; no tax return)
 - ❏ Partnership (tax return; K1s to the partners)
 - ❏ S-Corp (tax return; distributions to stockholders)

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Anatomy of an LLC

- ❏ LLC Name & Address
- ❏ Registered Agent: Official secretary
 - ❏ Organizer: Person who set it up
- ❏ Manager: Signs on behalf of the LLC
 - ❏ Manager Managed or Member Managed
- ❏ Member(s): Owners/Stockholders (can be a person or another entity)

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LLC Set Up

- File an LLC Articles of Organization with state's division of corporations (online).
 - Complete an Operating Agreement at same time, DocuSign can be used since no notary is needed
 - Stays in your file folder and is NOT filed anywhere
- Very fast and easy set up by yourself.
- Filing/yearly fees vary from as low as \$125 up to \$800 in California



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3 Step LLC Method

- STEP 1: Prior to closing, set up an LLC with a name that matches the current title holder and current owner is the Member.
- STEP 2: When you are ready to close, transfer title to the property into the new LLC
 - Quitclaim Deeds look “normal” for situations like this
 - Get new insurance policy in place at the same time you are recording the Deed
- STEP 3: Buy LLC Membership from Seller





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Forms Checklist




STEP 1: LLC Set Up

-  Articles of Organization (*filed by organizer*)
-  Operating Agreement (*signed by original member*)

STEP 2: Title Transfer

-  Quitclaim Deed (signed by current title holder)

STEP 3: LLC Membership Purchase

-  LLC Purchase Agreement & Bill of Sale
-  Real Estate Power of Attorney (if HOA)
-  Mortgage / Deed of Trust & Promissory Note (if owner financing seller's equity)

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Pre-Closing Steps

- Review Title Commitment
- Home Inspection
- Set Up LLC
- Get Insurance Lined Up
- Create Deed



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Title Commitment

- ❏ Closing without title insurance can be dangerous if there are title issues.
- ❏ What does a title insurer need to see in order to issue title insurance?
- ❏ Clarifies Current Owner's Ability to Transfer Title
 - ❏ Divorce
 - ❏ Inheritance
 - ❏ Trustee of a Family Trust

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Inspection

- Informs you as to what you are about to be taking over.
- Definitely Get a Home Inspection when...
 - Down payment is involved.
 - You plan to renovate and resell retail



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LLC Set Up

- Choose State
- Go to Secretary of State / Division of Corporations Website
- Search Records for Name Availability
- Locate “Articles of Organization”



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LLC Set Up

- ❑ LLC Address? Address of the Property
- ❑ Registered Agent? You
- ❑ Registered Agent Address? Your mailing address
- ❑ Organizer (if any)? You
- ❑ Organizer Address? Your mailing address
- ❑ Member: Seller



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LLC Set Up

- Operating Agreement

 - Registered Agent? You

 - Registered Agent Address? Your mailing address

 - Manager: You

 - Member: Seller/Borrower



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LLC Set Up Recap

Document # 1: Articles of Organization

- ❑ LLC Name: Borrower, LLC or whatever you want
- ❑ LLC Address: Property Address
- ❑ Registered Agent? You
- ❑ Registered Agent Address? Your mailing address
- ❑ Organizer (if any)? You
- ❑ Organizer Address? Your mailing address
- ❑ Member: Seller/Borrower

Document # 2: Operating Agreement

- ❑ Isn't filed with the State, stays in your records.
- ❑ Registered Agent? You
- ❑ Registered Agent Address? Your mailing address
- ❑ Director: You
- ❑ Member: Seller/Borrower



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Insurance

- Use an Insurance Broker who can write policies with several different carriers
- Match Policy Type to the Situation
 - Landlord
 - Vacant
- Named of the Insured: The LLC, not you or anyone personally.
- Get Mortgagee Clause from Lender



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Creating Your Own Deed

- ❏ Previous Deed of Record
- ❏ Search recorder's records for Quitclaim Deeds recorded recently (or Warranty/Grant Deeds)
- ❏ Use the recently recorded Deeds as a guide.
- ❏ Once draft is finished, send to recorder's office for approval / feedback.




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Transferring Title

Bind New Insurance Policy

-  If property taxes and insurance are escrowed, have insurance agent send lender Dec Page.

Get Quitclaim Deed notarized by current title holder

Record Quitclaim Deed

-  In-person, if possible
-  Show Operating Agreement to prove why transfer taxes are not required



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Purchasing LLC Membership

- This is the “closing”
- LLC Purchase Agreement & Bill of Sale
 - Seller is paid at this point (if any)
 - Post Closing Occupancy Agreement?
 - Get everything else you may ever need from the seller at this time.



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Purchasing LLC Membership

- ❏ W9 (if paying the seller more the \$600)
- ❏ Authorization to Release Forms on all liens
- ❏ Limited Power of Attorney Forms on all liens
- ❏ Limited Power of Attorney for Real Estate (if HOA)
- ❏ Online Access to Mortgage Account
- ❏ Escrow Acknowledgment



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Seller Questions

- Is this legal?

 - Review recorded Deed of Trust / Mortgage

- Why is the LLC my name?

- What happens if the mortgage payment isn't paid?

 - For worried sellers, consider adding sentence in LLC Agreement that LLC will be responsible for making payments on any loans encumbering any property the LLC owns.



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Selling to an Owner Financing Buyer

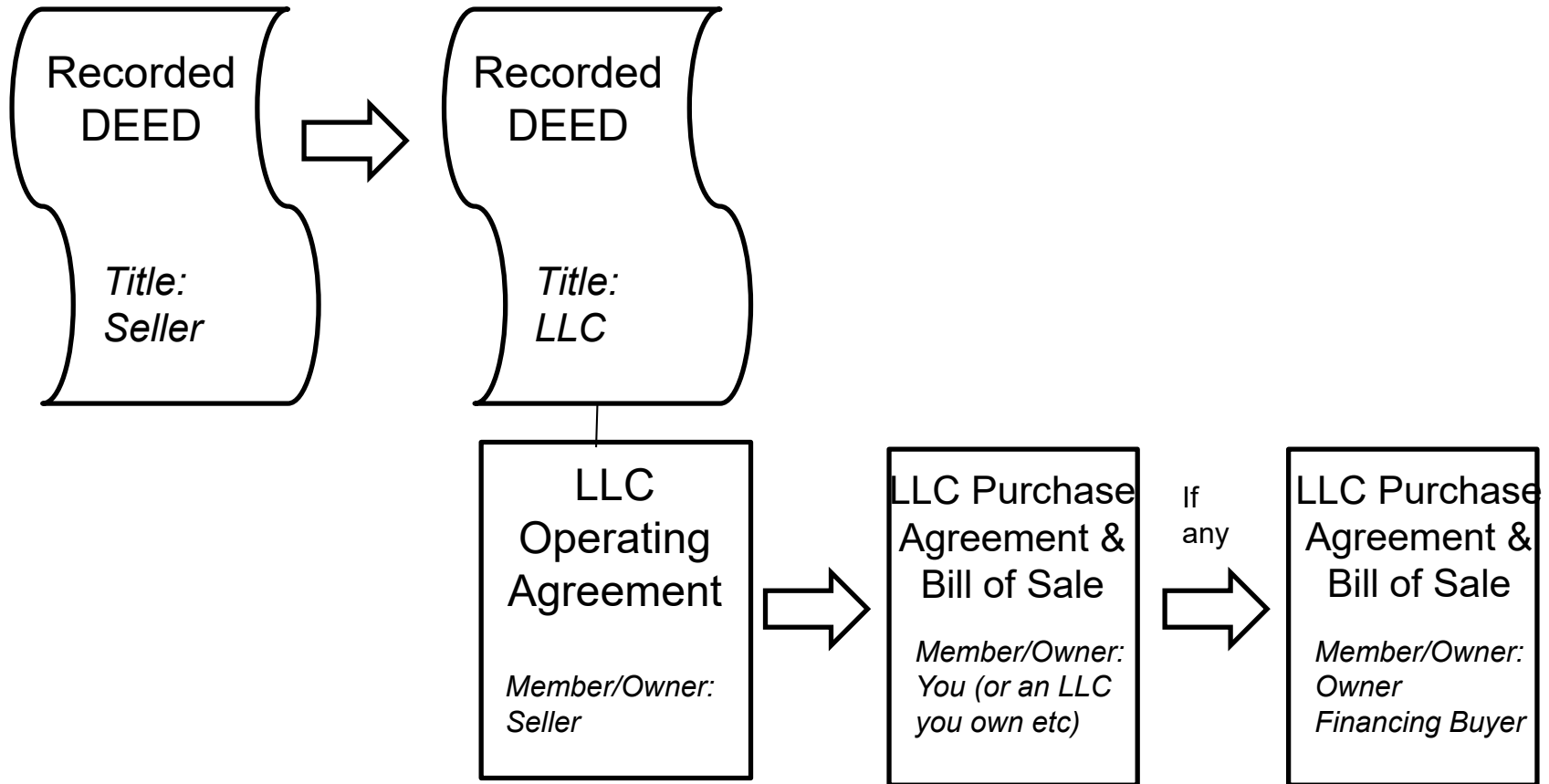
- ❑ Sell your LLC Membership to the new Owner Financing Buyer
- ❑ Use the Owner Financing specific Bill of Sale
- ❑ Remain the Manager of the LLC (operating agreement doesn't change)
- ❑ If the owner financing buyer owes you more money, set up a Promissory Note and a Mortgage/Deed of Trust (and then record it)



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Illustration



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Buyer Questions

- ❑ Why can't the property be titled in my personal name?
- ❑ Why can't I get title insurance?
- ❑ Why can't I use State Farm for property insurance?



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Collecting Money

- ❑ Closing company may ask for your LLC's EIN
 - ❑ Get an EIN number on IRS.gov (select taxed as a sole proprietorship)
- ❑ Closing companies typically won't wire proceeds to a different LLC bank account
- ❑ If proceeds are by check, if below \$10,000, may be able to mobile deposit (BoA is great)
- ❑ Or, we can send a payoff of the entire amount and then pay you what you are due.



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After Deal is Done

- File LLC dissolution form with division of corporations
- Since you chose to tax as a sole proprietorship, no tax returns are needed and all income and expenses flow through to the Member (either you personally or one of your other LLCs)



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Title Problems

- Get clarity through research and try to overcome the problems BEFORE recording the Quitclaim Deed.
- Close a Subject To deal with a Closing Company when the title is cloudy (if they will even do it)
 - Bankruptcy
 - Inheritance
 - Divorce



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LLC Method with a Closing Company

- Set up LLC whereby YOU are the original Member as well
- Only the LLC name being the same as the seller makes it part of this “LLC Method”.
- Can be applied on every flip you do.



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Questions?



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