



The Passive Income Manifesto

WORKBOOK

(part 1)

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Loan Constant Exercises

Complete the exercises below. Multiple correct answers may apply.

NOTE: We recommend you watch the webinar replay for help with any questions you're unsure of. Check your email for the webinar replay link.

1. Loan constant is used as a...
 - a. Measure of risk of a loan
 - b. Measure of how much more interest I can get
 - c. Measure of how good looking I am
 - d. How low the interest rate is
 - e. Measure of how much principal and interest is in a payment

2. When trying to maximize cash flow from an investment, I would...
 - a. Maximize the spread between what the asset pays and interest rate
 - b. Maximize the spread between price of an asset and loan amount
 - c. Maximize the spread between what the asset pays and loan constant
 - d. Maximize the spread between the person sitting next to me and myself
 - e. Maximize the spread between an asset price and interest rate

3. You decide to buy a fixer-upper, fix it and sell it within 6 months. You calculate your profit could be as much as \$25,000. You're excited, and you get the property under contract. You have 2 weeks to finance this and close the deal. You have access to the following financing options. Which would you pick?
 - a. A hard money lender charging 12% and 5%, with a loan constant of 12%.
 - b. "Bank of X" has a 6% interest for 30 years, and a loan constant 7.2%.
 - c. Dude, where's my car?

4. Which of the following is correct:
 - a. The LOWER the loan constant, the more cash flow
 - b. The HIGHER the loan constant, the safer the loan
 - c. The LOWER the loan constant, the more attractive the loan for deals.



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Exercise 5:

You find a income-producing asset listed for \$1,000,000
You calculate the asset pays you 8.5% if you were to buy it all cash
You decide to borrow the whole \$1,000,000.
You find 4 sources to lend you the whole amount
Which of those 4 loans would choose for this loan?

- 1) Calculate the loan constants below
(use spreadsheet from www.NoteworthyUSA.com/george).
- 2) Which loan generates the most cash flow?

Loan 1	Loan 2	Loan 3	Loan 4
4.50%	6.7%	8.0%	6.2%
5 year fixed (amortized)	30-yr fixed (amortized)	Interest-only (10 years)	15-yr fixed (amortized)



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Exercise 6:

You decide to buy a rental property. You have the down payment. Your loan agent gives you the following 4 loans to purchase the property.

a. Calculate the following loan constants:

Loan 1	Loan 2	Loan 3	Loan 4
4.90%	6.6%	7.8%	6.0%
5 year fixed (amortized)	30-yr fixed (amortized)	Interest-only (10 years)	15-yr fixed (amortized)

b. Which loan is BEST for cash flow and why?

c. Which loan is the RISKIEST and why?

d. Which loan is the LEAST RISKY and why?



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Financial Leverage & Arbitrage

Complete the exercises below. Multiple correct answers may apply.

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1. "Financial Leverage" is...
 - a. Being nice to people
 - b. The use of borrowed money
 - c. The use of "good debt" only
 - d. The use of other people's efforts

2. To calculate a "spread," it is simply...
 - a. Cash Inflow (\$) – Cash Outflow (\$)
 - b. Cap Rate (%) – Loan Constant (%)
 - c. Cap Rate (%) – Cash Outflow (\$)
 - d. Cash Inflow (\$) – Interest Rate (%)
 - e. Cap Rate (%) – Interest Rate (%)

3. I lend \$200,000 to Bob at 12%. I borrow that same money from Jane at 7%. My spread is...
 - a. 5%
 - b. 7%
 - c. 12%
 - d. -5%

4. I buy a building for \$3M. The cap rate on it is 7.5%. My mortgage's interest rate is 5%. The spread there is...
 - a. 2.5%
 - b. 3.5%
 - c. 5%
 - d. Cannot tell
 - e. 0%

5. I find an asset that has a cap rate of 7%. I find a loan with a loan constant of 7.5%. This is called...
 - a. Neutral Leverage



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- b. Negative Leverage
 - c. Positive Leverage
 - d. No Leverage
 - e. “I can't believe it's not butter” Leverage
6. For the same asset with a cap rate of 7%, I find another loan with a loan constant of 5.5%. This is called...
- a. Neutral Leverage
 - b. Negative Leverage
 - c. Positive Leverage
 - d. No Leverage
 - e. “I wish I knew about this 4 years ago” Leverage
7. For the same asset with a cap rate of 7%, I find yet another loan with a loan constant of 7%. This is called...
- a. Neutral Leverage
 - b. Negative Leverage
 - c. Positive Leverage
 - d. No Leverage
 - e. “The cost of not knowing this information has cost me A LOT” Leverage
8. The cash flow generated from a spread can be used to...
- a. Buy other assets
 - b. Buy my toys (cars, homes, vacations)
 - c. Invest into other businesses & real estate
 - d. Help my favorite charity
9. When trying to maximize cash flow from an investment, I would...
- a. Maximize the spread between cap rate and interest rate
 - b. Maximize the spread between price and loan amount
 - c. Maximize the spread between cap rate and loan constant
 - d. Maximize the spread between the person sitting next to me and myself
 - e. Maximize the spread between price and interest rate



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Exercise 1A:

You find a cash flow asset listed for \$1,200,000
You calculate the cap rate to be 8.5%
You realize you need to raise \$250,000 in OPM
You agree to give the investors 50% of the deal
You call your mortgage broker to get financing. She submits 4 possible loans (shown below).

- 1) Calculate the loan constants below
(use spreadsheet from www.NoteworthyUSA.com/george).
- 2) Which loan generates the most cash flow?

Loan 1	Loan 2	Loan 3	Loan 4
4.50%	6.7%	8.0%	6.2%
5 year fixed (amortized)	30-yr fixed (amortized)	Interest-only (10 years)	15-yr fixed (amortized)



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Exercise 2A:

You decide to buy an income-producing property for some passive income.

You find a 4-plex listed for \$1,000,000 in San Francisco Bay Area. The listing agent laughs when you ask about the cap rate. He tells you “*4-plexes do not have cap rates! Only commercial buildings use them!*” He also tells you the property is below market.

You realize he is ignorant! You calculate the cap rate to be 2.8%. You contact your mortgage broker. She sends you a “great” loan with a loan constant of 5.4%.

You then decide to use a HELOC you have for the down payment. The HELOC costs 4.25% interest only.

Would you do this deal? Would you use a HELOC as a down payment?



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Exercise 3A:

Calculate the following. In 12 months, I buy \$2,000,000 worth of cash flow assets. I generate a 3% spread. Assume 100% LTV loan for this example. My ANNUAL and MONTHLY cash flow are:

Description	Calculation	Note	
Asset Value	\$2,000,000		(a)
Spread	3%		(b)
Annual C/F		Multiply (a) * (b)	(c)
Monthly C/F		Divide (c)/12	



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Exercise 4A:

18 individuals borrowed \$3,000,000 from me last year at 14%.
At the time, I only had \$1 so I decided not to use it for this deal since I had planned on using it for to buy off of McDonalds' \$1 menu.
\$300,000 of that came from individual private investors at 7%.
I was able to leverage that \$300,000 9 times to get the additional \$2,700,000 at 8%. All interest is interest-only.

Calculate how much cash flow I am making:

Description	Calculation	Cash Flow	
Incoming Cash Flow	\$3,000,000 At 14%		(a)
Outgoing Cash Flow	\$300,000 At 7%		(b)
Outgoing Cash Flow	\$2,700,000 At 8%		(c)
Annual C/F	$a - (b + c)$		(d)
Monthly C/F	$d / 12$		
My cash-on-cash return	$d / (\text{my principal})$		



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Exercise 5A:

After the deal above, I had some money to use.
24 individuals borrowed \$4,000,000 from me this year at 14%.
I used \$400,000 of my own money. All interest is interest-only.
An additional \$400,000 came from individual private investors at 7%.
I was able to borrow the additional \$3,200,000 at 8%.

Calculate how much cash flow I am making:

Description	Calculation	Cash Flow	
Incoming Cash Flow	\$4,000,000 At 14%		(a)
Outgoing Cash Flow	\$400,000 At 7%		(b)
Outgoing Cash Flow	\$3,200,000 At 8%		(c)
Annual C/F	$a - (b + c)$		(d)
Monthly C/F	$d / 12$		
My cash-on-cash return	$d / (\text{my principal})$		



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Exercise 6A:

You find a good apartment building listed on Loopnet.com (website for commercial real estate). It is listed for \$2.4Million. The cap rate is listed for 8%. Upon further due diligence, you realize it really is a 7.8% cap rate. You call your mortgage broker. He gives you the loan with the lowest loan constant of 5.8% fixed. This loan requires a 20% down payment.

So far, does this sound like a deal you would continue pursuing? Why/ Why not?

The spread of 2% is against what dollar amount?

Calculate the cash flow from the 2% spread on the amount you calculated above?



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