PROFIT FROM REAL ESTATE IN 2017

KEEPING IT SIMPLE

Making money from today's rebounding real estate market.

Reality TV Star and Real Estate Investor

DOUG CLARK

Keeping It Simple

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Chapter 1 The Beginning

So, you want to be a real estate mogul? You want to scoop up properties for pennies on the dollar and sell them for cash in 24 hours. You want to duplicate that effort twice per week so after one year you'll have made $10 million in pure, easy, laid-back profits all while you're lying on Waikiki Beach with your minions doing all the legwork. Is that right?

If you've heard of real estate investment strategies on the radio, TV or the Internet, I'm certain you've heard of something similar. Make a million dollars today! Easy money! Can't miss!

If this is what you're looking for, then I'm sorry to say that in reality, it doesn't happen that way. Yes, there are people that make a lot of money investing in real estate in a variety of ways from getting their real estate license and selling homes to investing in foreclosures to buying fixer-uppers. Real estate provides a breadth of opportunity for financial success.

It takes effort and not only effort but the right effort. There's no "secret sauce" here; and any book or seminar claiming otherwise is simply trying to mislead you for other purposes. If you want to find the secret sauce--again, I'm sorry to disappoint.

But, if you *do* want to seriously consider how to profit from real estate, then there's no need to try and figure it out on your own. We've done that for you in this book. Yes, there are steps you need to take; and no, there's no magic to it, but we can say that if you follow the information in this book, you will make money investing in real estate. Period.

How much you make really depends upon you. Do you want to work full time or part time? Do you want to work by yourself, or recruit a team to work with you? Are you thinking of buying a rental property for long term income, or are you exploring the practice of "flipping?" This book will identify proven strategies and formulas that real estate investors have used for decades. And it will help you to avoid the mistakes of many real estate investors like those who speculated in real estate in the years 2002 to 2007.

Then

During that brief period from the early to late years of the last decade, America experienced one of its most violent swings in economic climate ever seen; one perhaps even *greater* than the Great Depression.

Early in 2003, the real estate market began to change and to recover after the economic slowdown the country experienced following the "dot com" boom and bust. The economy began to improve and consumers overall felt better about their fortunes. At the same time, the lending landscape began to change as well.

New players in the real estate finance arena began to appear. Some of the most well-known names on Wall Street began to invest in the real estate market in a big way. Why?

Home ownership reached levels never before seen in America, with nearly two out of every three citizens fully participating in the American Dream by owning their own home. New mortgage programs began to hit the market, allowing certain buyers to qualify for a mortgage where they could not qualify before.

The initial culprit was the subprime mortgage industry. Subprime lenders provided loans to borrowers with less than perfect credit. Historically, subprime lenders had always been players in the mortgage market, helping those who needed to repair their credit to buy a home. However, subprime lenders always required larger down payments from borrowers in return for providing subprime mortgages.

Investors on Wall Street began to notice this activity and started buying these subprime loans from lenders. *After all*, since real estate values continued to climb, if borrowers ever got into trouble they could always sell their homes to someone else.

More money began to flow into a Wall Street with an appetite for real estate loans. New mortgages were introduced to the lending landscape by mortgage companies with brand new names. Credit standards were gradually reduced. Borrowers could be qualified for a mortgage with credit scores as low as *350*.

Soon, these specialty lenders relaxed their guidelines even further, providing mortgages to borrowers who could not, or *would not* document their income or bank account. Consumers with *no job at all* and/or with little or *no* down payment could qualify for a mortgage. This triggered a massive investment in real estate with buyers acquiring a property then flipping the property for a profit 90 days later, only to repeat the process all over again. Real estate "investors" and lenders alike were making unheard of returns on their ventures.

Fannie Mae, Freddie Mac and FHA, stalwarts in the mortgage arena for decades began to lose market share to these new players. They decided, unfortunately, to compete with these new subprime lenders in a market they had never known.

Early in 2007, a few cracks started to appear. In places like Florida, Nevada and California, as well as across much of the country, home prices began to subside. No longer were homes appreciating at 20-percent or more month-after-month. Soon the prices were flat. And finally home prices began to plunge.

Borrowers with no income and bad credit found they couldn't sell their property at any price, much less for a profit. Mortgages began to go into default. Lenders scrambled to divest their bad loans, but there were no more buyers.

Real estate values fell swiftly and with no mercy.

Real estate "investors" lost *millions*. But, really were they investors? They had no plan. They had no resources. They just danced to the music until the music stopped and all the chairs were taken away.

Now

Let's now look past all that and evaluate the current market. If you're considering investing in real estate, there may be no better opportunity in your entire lifetime. Is that a cliché? Haven't you heard that before? Didn't anyone learn *anything* from the housing crisis?

Step back for a moment and survey the real estate horizon.

Home prices have stabilized all across the country. Yes, there certainly are areas where real estate is still falling, but even in

those neighborhoods values aren't falling as quickly nor as severely as they once did.

Recent home price surveys from the National Association of Realtors and the renowned Case Shiller Index have reported that home prices from coast to coast appear to have bottomed out. And not just on a month-to-month review, but also from year -to-year.

Interest rates are also at, or near record lows, and have been so for more than a year. Economic conditions show that the economy is growing, but only slightly so. There is no red-hot stock market on the horizon. This means rates are likely to remain at relative lows for some time.

How so? Let's compare 2006, with today both in terms of home prices and interest rates, and see what a person could buy then as compared to today.

According to the U.S. Census Bureau, the median home price in 2006 was around $250,000 . The average 30 year fixed interest rate during the same period was about 6.50%. A borrower needed to make about $4,500 per month to qualify for the mediane priced home.

Using those numbers and the common debt to income ratio that lenders use to qualify borrowers, with 20 percent down; a couple making $6,000 per month could buy a home for just over $367,000 .

What about today? Now with $6 ,000 per month using today's interest rates, a couple can buy a home for more than $500,000 . This is using the *exact same* income!

Let's look at a borrower who makes only $3,000 per month. It is possible for this person to borrow $195,000 . With 20 percent down, that's a sales price of $245,000 !

That's why we say that this might be the best time ever to invest in real estate! Property values are on their way up and interest rates remain historically low. There's *no* hype here. The numbers illuminate the facts.

And finally, banks that own real estate are more open to offers than they ever have been before. Short sales, a process where a bank accepts less than what is owed on a property, are becoming a staple of the lending industry. Banks need to get rid of their real estate holdings quickly and they are willing to accept *all* offers.

In addition, lenders are still working with borrowers to modify mortgages and to create repayment plans for homeowners who are having difficulty paying their mortgage and avoiding foreclosure. Foreclosure activity is still strong and real estate investors provide a true "win-win" when buying homes from distressed sellers.

Finally, lending has begun to thaw.

When the housing crisis hit with full force, mortgage companies closed their doors almost daily. Banks failed. Lenders didn't want to issue a mortgage for fear of having to buy it right back from whomever they sold the loan to.

Mortgage programs helped fuel the financial crisis of the last decade. Many issued so-called "no documentation" loans, loans

for those with bad credit, no money down, or a combination of both.

Now, mortgage lenders all underwrite the very same loan programs. Lenders know what to approve *and* what to avoid. Today, you can expect to provide a traditional lender with your tax returns, your bank statements, and a review of your credit report. Lending is operating again like it did before the Great Recession.

The private money market has also become a player in real estate financing. Private money plays by its own rules and becomes active in real estate markets when value and opportunity is discovered.

Private money is less interested in a person's credit report, and more interested in whether or not the borrower can acquire, repair, and sell a distressed property in a relatively short period of time.

In short, financing options are waking up after a long, *long* nap.

Investing in real estate involves employing various, proven methods. You can flip. You can hold, or invest in tax liens. You can even buy and sell trust deeds. Consumers today who look for investment opportunities look for returns. They typically are reluctant to explore investment real estate to avoid the potential calamity so many felt just a few years ago.

That's *good* news for you! The opportunities are there. Are you ready?

Chapter 2 Getting Started

Real estate investing can be an intimidating process if you're just starting out. Buying a piece of real estate has lots of moving parts with language all its own. But, that's the case with anything new, is it not? The very first time for *anything* provides new experiences, emotions, and actions. So, what can you do to get started in the world of real estate?

Mental Preparation

Yes, that's right--mental preparation. Getting started with anything new requires a positive mindset from the very beginning. Investing in real estate can make you thousands upon thousands of dollars, and you don't have to have an advanced degree to earn it. In fact, you don't even have to have a job right now, or even have lots of money in the bank. Real estate provides an opportunity for wealth like no other.

This venture isn't something in which you have to invent the wheel all over again. It has already been invented! You just have to follow the necessary steps, make adjustments when needed, and continue along your journey.

You'll also find that there are different ways to profit from real estate investing. You are likely to find the niche that you like best and make it your very own.

Where do you see yourself in five years? Do you own lots of rental properties? Have you bought an apartment building? Are you a regular flipper with the ability to quickly analyze a potential deal?

Whatever your taste, real estate provides multiple ways to make money. You can be an expert at one, two, or *all* of them.

You can decide to embark upon this journey on your own, or you can find a partner or two, or even three. And, unless you're an expert in all things related to real estate, your rewards will be greater when you partner with others.

The Players

As a real estate investor, there *are* plenty of moving parts. From attorneys to title work to sub-contractors, you'll have lots of plates to spin. However, instead of spinning those plates yourself, why not pass those plates to professionals who work in the business every day?

When getting into the world of real estate, you need to surround yourself with likeminded individuals who are experts in their field. That's the beauty of forming a team; you don't need to be an expert real estate attorney, you just need to know one or two. When evaluating a potential remodel, do you think it would be of benefit to know a good general contractor? Of course it would. How about an electrician? How about a lender? How about a real estate agent?

There's no need to try and do everything yourself! Even if you did try alone, you won't achieve the level of success that you seek or expect.

Real estate involves more than just a few individuals. There is you, the investor, and then there are the ones you surround yourself with in order to help you achieve the level of success you desire. Let's look at everyone involved in a typical real estate transaction.

- Real Estate Agent
- Attorney
- Property Manager
- Lender
- Contractors
- Inspector
- Appraiser
- Bird Dog

Real Estate Agent

Unless you are a full time licensed real estate agent, one of the important parts of your success is having a real estate agent on your team. Real estate agents run the gamut of services and in this profession you will find all levels of experience.

Some agents specialize in luxury real estate while others concentrate on first-time home buyers. But overall, what do real estate agents really do?

Listing

One of the benefits of having an agent is the ability to list your properties for sale on the multiple listing service, or MLS. The MLS

is a subscription-based service where licensed real estate agents place their client's properties for sale.

When you log onto the Internet to look for property, you can find no end of sites showing real estate for sale. But before those homes graced the pages of any website, they were first placed into the multiple listing services.

When your property is placed in the MLS, it can be viewed by not just those in your community, but by other buyers literally from around the world. You *want* that kind of exposure, and having a real estate agent on your team can place your property in front of as many eyes as possible.

Searching

A real estate agent can also help you find properties for sale both on the MLS, as well as listings that have not yet hit the market. Real estate agents are constantly networking with each other and with those outside their profession too. They use many methods to get a bead on the next hot area, the best deal, or great investment opportunities. Many times an agent will let other professional agents know that a property will soon be on the market, but is not yet listed.

Such a property is called a "pocket" listing because the agent keeps the listing in her "pocket" before placing it in the MLS. Often homes are sold that are never placed in the MLS.

REO Departments

Real estate agents are also employed at banks and mortgage companies. Why? When lenders foreclose on properties, they take them back from the original owners and place them in their inventory. Such properties are called Real Estate Owned, or REO properties.

Banks use real estate agents to help them prepare their foreclosed properties for sale, to list the homes in the MLS, and to negotiate the sales.

How do you find a good agent?

If you're a licensed real estate agent and are in it full time, then this section may not apply to you in the beginning. However, when you become a full time real estate *investor*, you'll need help from another experienced real estate agent.

Unless you live in a remote village somewhere in Western Canada, it's likely that at least once per week you get a postcard in your mailbox from a real estate agent. It's even more likely that you'll receive more than just one postcard from agents in the area bragging about a home they recently sold in the area and reminding you that should you ever decide to sell, they'd be happy to help.

Your refrigerator has a magnet from a real estate agent about upcoming sporting events or you may have a calendar hanging on your wall from an agent. That's what agents do; they're experienced marketers. They know that you may not be buying or selling today, but you're likely to be doing so sometime in the future. They want to be the names on the tip of your tongue when you ask yourself, "I wonder what I could sell my home for?" A

common phrase in the real estate industry is "Don't be a 'secret' agent!"

Another unique trait real estate agents have is the number of designations you see on their business card or on their websites. Do any of these ring a bell? ABR; ACRE; CRE; CRS; GRI; SRES; QSC; or maybe E-PRO? Do you have any idea what they mean?

The next time you have the opportunity to look at an agent's business card, see how many acronyms they claim. These all represent a particular level of education and qualification that the agent has achieved by taking a series of educational courses or through other means.

And what about all the clubs they're in? Millionaire's Club, President's Platinum Club, President's Gold, Silver or Bronze Club, Top Producer, or Buyer's Agent clubs are just a few of them.

The point with specific designations and clubs realtors belong to is to highlight the notion that agents, and rightly so, market themselves as being the best in their trade. After all, who wants to work with an agent who proclaims something like, "Contact me when you're ready to sell your home; I'm lousy!"

So how do you find a good agent to help you buy and sell real estate?

With all due respect to new agents in the business, you don't have time to train newbies. The way to find one of the best agents in the business is to find someone with *lots* of listings. A real estate agent that is entrusted to sell not just one home, but *multiple* homes at any one time didn't get there by accident.

A busy real estate agent has been in the field working full time for several years, earning a place in the upper echelon of successful agents. A good agent knows how to market, relate to people, and negotiate expertly.

A solid agent will become one of your most valuable and trusted team players.

This isn't to say that a brand new agent or one with only a few years of experience isn't any good, or doesn't deserve any shot whatsoever at your business. It's just saying that you don't want to invest your time and effort in training real estate agents; their own real estate office will do that for you.

If you do find a less experienced agent who wants to work with you, see if they're interested in being a "bird dog" who hunts for and brings deals to you directly for your evaluation.

Attorneys

Using an attorney during the course of a real estate transaction will depend primarily on the region in which you are buying and selling real estate. While an attorney can help buyers and sellers protect themselves during a contract negotiation, attorneys in different parts of the country are involved in different ways.

Certain states require that an attorney prepare closing papers for a real estate closing. In Texas, for instance, an attorney reviews all loan documents before a closing can take place. In other places, like Illinois, attorneys are responsible for holding the actual closing.

How do you find a good attorney? If attorneys in your state are the ones who handle closings, you not only want a firm with experience, but someone who has existing relationships with successful real estate agents.

When speaking with real estate agents, ask who they recommend for a closing attorney. Good agents demand performance from all their affiliate partners. Attorneys who get referrals from real estate agents have established themselves as pros in the business.

A good closing attorney knows how to fix things when problems arise at the settlement office. Perhaps there's an issue with the title report that needs to be fixed, or the buyer's spouse is suddenly out of town and a Power of Attorney needs to be quickly prepared. Good attorneys can save deals when needed, and that means saving *you* money at closing time.

In other areas, closings are held by escrow agents who perform the similar functions of a closing attorney by making sure the sales take place as defined in the sales contract, and comply with lender's instructions and the disbursing of funds.

Property Managers

When you buy your first property to hold and rent, suddenly you're a landlord. What does a landlord do?

First, a landlord screens potential tenants and accepts a rental application. You'll need to order and check the credit reports of your potential tenants and speak with their previous landlord if they've rented before.

You'll also collect the rent each month, and if the rent is late, you'll be the one to make the phone calls asking about the late rent. If your tenants simply quit paying, you'll be forced to evict them from your property following the laws of your state.

To be a landlord means being a handyman around the house. If the hot water heater goes out, it's your job to go buy a new one, to replace the old or defective unit. If there are pests you'll need to have the property treated for bugs. If the toilet is backing up, you'll have to fix it or call a plumber.

Oh, and problems with your property don't happen on your schedule; they happen on theirs. Your phone might ring on a Sunday afternoon while you're on the golf course. The call then may be from a screaming tenant about a backed-up shower drain.

Or you can hire a property manager.

A property manager is responsible for handling the day-to-day activities of your real estate portfolio. A property manager will collect rent from your tenants; screen new tenants; and prepare the property for renting. They will take care of any physical problems with your investment too, such as a garbage disposal that doesn't work, or a leaky faucet.

Property managers can manage single units, multiple units, or take care of entire apartment buildings. They provide a variety of services that you can select from on an a la carte basis.

Your property manager takes care of your property for you so you can do other more profitable things, such as scouting new properties or enjoying a day off on the golf course.

A good property manager will have an experienced team on their staff. There are minor jobs that don't require a lot of experience, for example, cutting and raking the grass. There are also other jobs that do require experience like those done by electricians or plumbers.

Don't expect a property manager to directly employ *all* necessary skills, but he or she should have access to, and experience with the established professional trades in your area. A list of whom to call is an essential tool for property management.

Lenders

You want to employ the services of a traditional mortgage company or a bank, as well as identify a private lender to help you finance your transactions when needed.

Traditional financing describes mortgage loans needed to purchase real estate to be held for the long term. It is provided by banks, mortgage companies, and credit unions. These lenders can also provide short term funds to repair or remodel existing real estate.

Private financing involves non-traditional lending, such as acquiring distressed properties, or other real estate considered not eligible for traditional lending. Private lending will help prepare a property for longer term, more traditional financing.

How do you find a good lender?

You may first start with your local bank, or the lender that provided you with your previous mortgage. Loan officers who

work for banks and mortgage companies spend considerable time marketing their services just as any good real estate agent does.

If you have no idea where to find a good lender, ask friends, family members, and co-workers for referrals. You can also find some of the best lenders in the business by speaking with a top producing real estate agent.

Loan officers source most of their business from real estate agents. After all, agents help people find homes to buy, and those people will likely need financing. Ask your agent for the names of at least three loan officers for you to interview.

Contractors

A contractor will help you in two ways: estimating remodeling/repair costs and also in performing the actual repairs needed.

When buying real estate to flip, the profit from the transaction is the difference between what you paid for it and what you sold it for, minus the costs involved in preparing the property for sale.

A good contractor will help you determine whether or not a flip will be profitable; or if its' better to walk away; and let someone else deal with the potential money pit. The best benefit is having someone you can trust to competently and efficiently make necessary repairs to a property to increase its appeal, as well as the final selling price.

How do you find a good contractor?

If you've remodeled your house in the past, you can start there, that is as long as you're happy with the results. If not, then it's important to find a professional, reliable contractor before you buy your first investment property.

One way to find a few candidates is by visiting your local hardware or materials store. Places such as Lowes or Home Depot cater to the professional contractor or subcontractor, and have a department dedicated to them.

Contact the manager of the contractor department and even the person who manages the checkout register reserved for professional contractors. Ask around and let people know you're in the market for a reputable contractor and other licensed professionals, and that you need them on your team. Let contractors and professionals you find or are referred to know that you're a real estate investor. Describe what you will ultimately do for them; that you may keep them employed evaluating, remodeling, and repairing properties you buy.

Good contractors constantly have working jobs. That means they're in the materials stores often, at least once per week, and sometimes once per day. Find the names of contractors who visit often; call them and start interviewing.

You'll also want to find the names of subcontractors and specialists in trades such as electrical, plumbing and carpentry. There will be times when you won't need a contractor to oversee an entire rehab. In fact, you may find that you need occasional, trade-specific work, such as someone to install new countertops, tile flooring, or drywall.

Your materials store will have a few names for subcontractors as well. So will your general contractor who should also have a

regular team at hand for new jobs as they arise. To find other subcontractors, ask other subcontractors. Subs have experience working with other trades. When you're fortunate enough to find several subs who have worked multiple jobs with one another, not only do you have your bases covered, you've got a team that works well with one another. This is invaluable. Don't despair if it takes time to develop.

Title Agent

A title agent is your friend at the title insurance office. Each piece of real estate in the United States has its ownership transferred, recorded, and tracked with a chain of title. From the original seller of the property to you, and ultimately to whom you sell the property to, the list of ownership will be tallied and recorded.

Title insurance is an insurance policy that protects the lender, the seller, and the buyer against previous claims of fraud of prior ownership. When there are existing liens or other forms of recorded interest on a property, the title agent will determine whether any existing claims are legitimate. If they are, they must be satisfied before the property can be sold.

How do you find a good title agent?

Find a good title agent by getting referrals from those who use this group the most; lenders and good real estate agents will know who to call.

Lenders require a title report to be examined before a loan can be made. Some title agencies employ marketing representatives

whose sole job it is to identify mortgage companies and to solicit their business.

A title report will identify the transactional history of the property, recording all those who have bought and sold the very same real estate that you buy and sell. The title report will also provide a list of any parties with a legal interest in the property that must be satisfied before the property can change hands.

For example, a seller of the property once had some roof repair work done and had a dispute with the roofing contractor. The contractor filed a mechanic's lien on the property claiming the owner never paid what was owed. Or the seller owes back property taxes, or owes money to the IRS, and there are tax liens on the property.

In either case, all existing liens must be satisfied and removed before real estate can be transferred to another party.

A good title agent will identify any potential problems with a property and have them resolved so that the property can be sold.

Inspector

Perhaps one of the more important players, right up there with your real estate agent, is your property inspector. A property inspector is experienced in examining your potential purchase from top to bottom. A property inspector can tell you what needs to be replaced and what doesn't; and dig for unseen problems that may be lurking like a faulty foundation or a furnace that is about to go bad.

Your property inspector will walk with you through your property in places you won't usually go, such as in the attic, up on the roof, or underneath your pier and beam foundation. Their job is looking for potential problems.

The inspector will literally review hundreds of items in a checklist noting whether or not the item reviewed is in working order, needs fixing, or is not in line with the current building code. Depending upon the size of the property, an inspection will take three to four hours for most jobs.

The inspector will jiggle doorknobs, check light switches, and run the dishwasher through a full cycle for some of the minor queries; and perform more important checks on the chimney flue, foundation, electrical, and plumbing components.

In some states the inspector is also licensed to perform pest inspection to look for invading pests, as well as wood-destroying insects like termites and carpenter ants.

How do you find a good inspector?

Property inspectors solicit the bulk of their business from real estate agents. When a potential homeowner makes an offer on a home, the agent typically provides the contact information for at least two licensed property inspectors. The inspector will immediately visit the property, inspect it, and report the results back to the agent and the buyer.

If there are any major issues, the buyer may back out of the offer, or adjust their offer to the seller to reflect any needed repairs that need to be made to the property.

You should have at least one experienced inspector on your team. Use the inspectors that successful real estate agents use every day.

Appraiser

An appraiser is a licensed professional experienced in evaluating the current market value of real estate. An appraiser will review recent sales in the area surrounding your property, and compare them with what you intend to pay.

Banks rely on appraisers to help them validate the current value of a property as they evaluate a mortgage request from a borrower.

An appraiser can give you a good idea on the current condition of real estate in a particular area. Appraisers will review not just recent sales in the area, but also overall trends of a particular neighborhood. One of the items an appraiser will address is whether property values are increasing, decreasing, or stable.

How do you find a good appraiser?

Contact a loan officer and find out who they use. Today, appraisals are ordered through independent appraisal management companies. When a lender needs an appraisal, the lender contacts the appraisal management company who in turn places the appraisal order directly with the appraisal company.

Loan officers and lenders do, however, have relationships with appraisers and know the names and contact information of good appraisals in your area. To find a good appraiser, find a good lender.

Bird Dog

Called a “scout” in some parts of the country, a bird dog is an individual who is constantly on the lookout for new properties that you might be interested in purchasing. A bird dog will find potential properties and make an estimation on the acquisition, remodeling, and selling costs for you to review.

For instance, a bird dog works a particular neighborhood and is familiar with recent sales in the area and with the neighborhood overall. One day, he sees that an owner places a “for sale by owner” sign in his front yard. A bird dog will approach the seller and ask if the seller will pay the bird dog if he can find a buyer for his property. When a buyer is produced, the seller can pay the bird dog his fee.

When a bird dog brings a deal to a real estate investor, the bird dog can also be compensated by you, the investor.

Bird dogs may also be future real estate investors who can get an idea of what it takes to be a real estate investor without any of the risk by simply finding, evaluating and delivering deals to an investor.

How do you find a good bird dog?

Good bird dogs are often new real estate agents. If you think about it, what better way to learn first-hand about property evaluation, real estate, and real estate investing than by being a real estate agent acting as a bird dog?

A bird dog can identify a property that is currently undervalued, determine how much it would cost to prepare the property for a

sale, how long the preparation would take, and what the home might sell for after your purchase.

A team works because all the players benefit by working in their own best interests. When you put a real estate agent on your team, that agent doesn't make a dime from you until you buy and then sell a property. It's in their best interest to find those deals for you by contacting you first the moment a new property hits the market.

The same is said for your contractor and subcontractors. They too can help you find more deals as well. How? Let's say that a homeowner wants their house painted and contacts a painter.

The painter visits the house, makes a bid, and is awarded the job. The painter gets to know the owners, and it soon comes out in a conversation that the owners are actually thinking of selling their home, so a new coat of paint is in order.

The painter then says, "I know someone who might be interested in your house today, as is, and can close fast. Do you want their contact information?"

Who wouldn't say yes to that? That person is you, and what just happened is that your team member found you a new deal before the home ever hit the multiple listing services.

Every member of your team should always be on the lookout for new opportunities for you to invest in because when they do, they make money. In turn, you promise your team members they will get all of your business. That is nothing less than a true win-win.

And speaking of all of your business, by committing to one real estate agent, one lender, or one contractor for your deals, don't you think you should get a discount? Of course you should.

Don't expect an agent or a plumber to give you must of a discount on their commission or services until you've produced a deal for them. But once you've proven that you're a true player, you can expect lower prices for their services which means more income per deal for you.

Creating your team is not a requirement for investing in real estate. If your goal is to buy the rental home down the street and to become a landlord, then perhaps all of these players aren't necessary for your single transaction.

However, if you want to make the kind of money you *really* wish you were making and you see that investing in real estate in today's market is literally a once in a lifetime opportunity; then forming your team will help you become more successful at a quicker pace.

Chapter 3 The Search- Finding the Prize

Now that you've begun to build your team and are ready to start investing in real estate, the first question you might ask is, "Okay, I'm ready: where do I find my next deal?"
The fact is that there are multiple ways to find investment real estate using various methods, but if you're going to buy low and sell higher then you need to find property for sale that's listed below market. Most real estate is purchased as an owner-occupant or primary residence. This means whoever buys a property intends to live in it.

Buying homes at, or near what other homes in the area are selling for isn't going to provide you with any near term profit. You want to find homes that are in a "distressed" condition. What does the term distressed mean?

It means the owner of the property is forced to sell and sell quickly under any of many reasons. One of the more common reasons by which an owner is forced to sell is through fear of losing their home to foreclosure.

The Foreclosure Process

What exactly is a foreclosure? The term has been heard so often these past few years that perhaps consumers are immune to its meaning. A foreclosure occurs when a lender, either private or traditional, takes back the real estate they financed from the borrower due to non-payment.

A lender has the right to take back the house when the owner goes into default. The procedure for recovering a home and the lender's rights to do so are spelled out in the buyer's original loan papers. The loan papers highlight important features of the mortgage, such as the interest rate; how long the loan will last; when the payment is due; and when the lender can issue late payment fees.

The papers also alert the borrower that if the borrower does not pay the mortgage as agreed, the lender can take back the house. When the lender does foreclose on a property, the original owner loses all interest in the property. This includes all payments made to the lender, equity in the property, and any improvements made. The owner forfeits everything.

But the lender doesn't just take back the house when a borrower misses a payment. And contrary to the belief of some, lenders aren't waiting in the wings anxious to take back a home so they can own the property and sell it all over again. It is quite to the contrary.

When a lender makes a mortgage, it is done with careful under-standing that the borrower will pay it back on time, every time. Lenders plan on receiving interest payments and book that income over the foreseeable future to help them run their lending businesses. When banks have to foreclose on a home, something went very, very wrong.

Borrowers don't go into a mortgage with a bank with intentions to lose the property to foreclosure. Although lenders didn't do a very good job of evaluating risk over the past 10 years, none of them

every issued a loan they thought they would lose money by granting.

When lenders begin to foreclose on real estate it affects their ability to lend. As a mortgage company owns more and more real estate, it's called a "non-performing asset" and this hurts a lenders' financial profile. When lenders make bad loans, it can affect the cost of their funds used to finance real estate and other financial products. When rates begin to climb, they're no longer competitive, and if the trend continues, they're forced to close. That's what happened when so many banks were shut down by the federal government; they had too many non-performing loans on their books and not enough liquid assets to back them up.

Lenders don't like to foreclose or they won't be lenders very long.

The Process

So how do banks take back a house when borrowers are late?

The first consideration is the state where the property resides. Real estate is either in a judicial foreclosure state or a non-judicial foreclosure state. A judicial foreclosure means the lender must present their evidence of default in front of a judge and that the borrowers have a right to defend themselves or otherwise explain why they haven't made their mortgage payments.

A non-judicial foreclosure state means just the opposite; in this case a lender doesn't have to appear before a judge in order to foreclose on a home, but must still follow specific rules.

Most mortgages are due on the first of each month. When a borrower doesn't make the mortgage payment on the first of the month, there's no apparent alarm to the lender; the payment will probably just be a few days late.

Mortgages can also apply a late fee penalty if the mortgage payment is not made by the 15th of the month. The penalty is marginal, typically 5 percent of the outstanding mortgage payment, but a penalty nonetheless. As the days pass and the first of the following month approaches, the borrower will receive a courtesy letter or email from the lender reminding them to make a payment soon.

If the borrower misses the very next payment, the alarm is in fact activated as the lender and the mortgage company begins to get a little nervous. When two payments in a row are missed, an official Notice of Default, or NOD is filed.

The NOD is filed as a public record, in the county or parish where the property is located. The NOD is sent to the borrower by way of a certified letter and clearly explains why the borrower has received the NOD, the amount needed to bring the mortgage current and if the loan isn't' brought current, then the lender can file for a foreclosure.

If the borrower misses the third consecutive payment, then a foreclosure filing can be made, again as a public record in the county or parish where the property is located. If the borrower makes one payment before missing the third consecutive payment leaving two payments outstanding, the borrower will typically receive another NOD via certified mail. As long as the borrower

avoids missing three payments in a row, a foreclosure filing will be avoided.

So how do you find owners in such distress? At the county or parish recorder's office where the NOD and foreclosure filings are first recorded. You can contact the county directly and tell them that you're looking for a list of Notice of Defaults and foreclosure filings and they'll forward you to the proper area.

Some locales allow you to find this information online or require you to visit the recorder's office personally. Either way, you can find foreclosure filings here.

The foreclosure notice will identify: the borrower; the property address; the borrower's address and contact information; the amount that is past due; and the outstanding loan balance.

There are fee-for-service companies that do all that research for you and provide a complete list of foreclosed homes in your neighborhood, your town, your state and across the country. This is the most convenient way to find foreclosure filings. You do, however, have to pay for the information and remember you're not the only one looking at their databases.

Once a foreclosure is filed by the lender, that doesn't necessarily mean the borrower loses the home automatically. The lender doesn't want the home back and will employ a variety of methods to avoid taking back the home. Yes, the procedures keep the owner in the home, but in reality the bank is doing whatever it can to keep the property out of their own inventory. The bank is working in its own interest with a side benefit to the owner who gets to keep the house.

The foreclosure filing is a protection mechanism for the lender and is a tool the lender can use at any moment should the bank determine the owner can never pay back the loan. A mortgage loan modification is offered to the borrower or a repayment plan can be established.

A loan modification evaluates the borrower's current financial situation and attempts to adjust the monthly payment in accordance with the reduced income. For example, if the borrower originally made $10,000 per month when first approved for the mortgage and now only makes $5,000 per month, the loan can be modified with a lower rate to fit the $5,000 income level.

Borrowers going through a loan modification will provide the lender with evidence of their current employment status with paycheck stubs and recently filed tax returns along with bank and investment statements showing how much money is in their accounts. The modification process can be a lengthy one with modification evaluations lasting a year or more as not uncommon. All the while, the foreclosure filing is hanging over the borrower's head.

If the lender determines there's not enough income being made, or any income at all, to qualify for a modification, the lender will proceed to take the home back from the borrower.

Mining the NODs

Many will tell you to follow the foreclosed properties and in fact, so do we. It's a treasure chest of opportunity. But don't discard

the NOD filings and only concentrate on the foreclosures. Why? To reduce the competition for distressed property.

When an NOD is filed, a borrower is in financial trouble. They've missed two payments and if they miss one more, then worse things will happen and a foreclosure notice will be filed. Most real estate investors ignore the NOD filings and wait until the borrower goes into foreclosure, but that's a mistake.

Borrowers who receive NOD filings are in bad shape already. Each time a late payment is registered, their credit takes a big hit and they're closer to losing the home. This is an opportunity for you to contact the owners to see if they're interested in selling their home.

When you concentrate on NODs, you're at least a month ahead of investors who only research foreclosure as the foreclosure filing which will not take place until at least another month has gone by, when the borrower misses yet another payment. And for investors who subscribe to companies that provide foreclosed properties for a fee, that information can be delayed even further as the foreclosure filing is initially recorded until the database is ultimately updated.

Successful real estate investors employ scouts that physically visit a county recorder's office to gather NOD and foreclosure data and return the information to you, the investor. When you hire others to visit county offices, you can provide your own parameters for the data or simply review all the NOD and foreclosure filings. For instance, you may only want to contact owners where the loan

balance is at a certain level or located in a particular neighbor-hood. You can decide where and in what you want to invest.

Bankruptcies

Another record available to the public for viewing are filings for personal bankruptcy. A bankruptcy filing can be recorded either as a Chapter 7 or a Chapter 13 filing. A Chapter 7 is a complete dissolution of all dischargeable debt. A Chapter 13 is sometimes called a "wage earner's" plan, where a bankruptcy court will set up a repayment plan for a borrower to repay their creditors over time, typically for between two and five years.

As a bankruptcy filing will show the name and contact information for the filer including name, number and physical address, as well as the debt being discharged or repaid through the bankruptcy.

Such a filing indeed indicates a distressed individual, but unless the filing includes a mortgage company it's likely the filers don't own any real estate. If there is the name of at least one mortgage company listed, then the seller might be willing to entertain an offer to sell.

A bankruptcy doesn't discharge or rearrange all debt. Certain obligations aren't eligible for a bankruptcy discharge including: property and income taxes; child support payments; or federal debt, such as student loans or mortgage loans.

When a distressed owner with a mortgage files for bankruptcy, the owner will pay back the past due mortgage payments to the lender

over time should the lender and court agree, but the most important aspect is that the mortgage lent does not go away like other debt may. It stays as an obligation to the borrower.

A bankruptcy can be a way out of a financial mess for a borrower and free up income to help get back on track with their mortgage, but if the borrower can't get their past due mortgage payments made, the lender can still foreclose on the owner.

Contacting the Owner

When approaching an owner in a bad situation, it's important to understand where they're coming from. What can make a borrower go into default? The obvious answer is lack of income, but what's most important is what happened to the income? Why is the owner having financial problems?

The most common reason is losing a job or being underemployed. As the economy struggles to create jobs, companies have to lay off their employees. Just look at certain areas of the country where the Unemployment Rate is high and you can bet employers in the area have laid off staff or otherwise closed down their shops entirely.

A loss of job is a temporary situation while the borrower is looking for additional work. Or if the employer reduced an owner's wages or placed them on a part time status, this would affect the owner's ability to pay the mortgage on time. In this situation, the owner is actively looking for work and trying to keep his or her home from being taken away.

Losing a job is a traumatic event, yet so is an extended illness. Someone who has been taken ill or is battling a long-term disease will also affect an owner's finances. Even if the person who is ill is not the primary bread-winner, the emotional toll a sickness can take on the entire household is a burden, not to mention the medical bills that begin to pile up. A worse situation yet is if there's a death in the family and a foreclosure is imminent unless the household income can be replaced.

Couples that divorce will also put a strain on keeping a foreclosure at bay. When couples apply for a mortgage together they can use both incomes in the application or list income from just one of the borrowers. During a divorce proceeding, the court can assign and the couple agrees to who gets to keep the house and who gets to pay for it. The lender however, is not concerned with a couple's marital issues. Nothing in the original loan papers say that the lender will forgive the loan if the marriage turns sour.

When the house is awarded to one of the original owners, the payment still must be made on time, and there's a difference between who gets the house, and who gets the mortgage payment. A court can give the house to one person and require the other person to make the payments.

But, what if the person required to make the payments can't afford the mortgage? Couples that qualify together need both incomes to get the loan approved and when one income goes away suddenly the loan is in danger of default. Concerning ownership, the title report which identifies all legal owners, may indeed show a document filed that releases any interest in the property; but this doesn't mean the lender agreed to it.

Regardless of what the divorce court says, the lender will still hold each of the original borrowers liable, even if one of the original owners no longer lives in the house. The spouse that moved out will still be on the mortgage until the home is sold and the mortgage retired, or the person living in the house refinances the mortgage and qualifies on his or her own. If the occupying borrower can't qualify on their own, then the foreclosure wheels will begin to turn.

One missed payment may begin the cycle to NOD, and foreclosure. In such a situation, there is little time to sell the home in a traditional fashion. In some areas homes are taking months to finally sell, or even longer.

Where can you find home owners with properties that might find themselves in such a situation? You can form relationships with divorce or family attorneys. Contact attorneys that specialize in divorce cases and let them know you're a real estate investor. And make sure they know you are interesting in connecting with couples who need to sell their homes quickly to avoid foreclosures.

Loss of job, illness and divorce are opportunities for real estate investing. The owners aren't in a very good place and can feel helpless, afraid and confused. They may be looking for someone to quickly buy their home, often at a loss, and at a great price for you.

The first contact should be a handwritten note or a card, explaining who you are, what you do and how you got their information. For example:

Dear Distressed Homeowner:

I am a real estate investor who might be interested in buying your house from you. As an active investor, I pay attention to homeowners who may be experiencing problems with their mortgage company and can provide an efficient, quick, and fair way out from under your mortgage loan.

My offers are confidential and I would like to know if you'd consider selling your home to me. There are options for you including a bankruptcy, foreclosure, a loan modification, and credit counseling among others. If none of these options appears good to you, then you can call me on my mobile phone at (555)555-5555 or email me at my personal email address.

Believe me, I know firsthand that financial problems can happen to anyone and I am here to help.

Best regards,

You

This is just a sample letter. Contacting owners should be a regular event to keep your name in front of them. Did you appreciate the tone of the letter?

First, you identified who you are and what you do. You were respectful and empathetic and you provide an easy way for them to contact you with no pressure. Scare tactics such as "You'll lose

your home!" or "Foreclosure is Coming!" are not ideal approach-es.

People facing foreclosure can feel there's no place to turn for help and that all they experience is financial pain. And this comes not only from the mortgage company. When consumers get into financial trouble they're late on other payments as well, such as credit cards or their car can get repossessed. Utility bills may be late and electricity or water may be turned off.

They're in a bad place. Treat them tenderly and let them know you're there to help them. Don't let them get the impression that you're only showing up in order to take advantage of someone in a bad situation.

For Sale by Owner

For sale by owner properties, called FSBOs (FIZZ-bows) can be an opportunity for property. Owners of real estate who decide to sell on their own primarily do so under the impression they can save several thousand dollars avoiding real estate commissions.

A common real estate agent commission to sell a home might be six percent. On a $200,000 sales price, that's $12,000 . That's a lot of money. Owners of a property will analyze propereties in their area and see what they're listed for; they may decide they don't need an agent, put an ad in the paper, and place a For Sale sign in their front yard.

When you see a sign that says “For Sale by Owner,” write down the phone number, call the owner, and ask a few questions. The call will go something like this:

“Hi, I saw your for sale sign and I might be interested in buying your property. I just wanted to ask a few questions before I came by, is that okay?”

This first question will help qualify the property as a potential investment. Its’ important to get the correct property address to help you do some research on the home before you make an offer on the home.

With the property address, you can do more research than you might think at first glance. This is yet another reason to form a team. First, contact your agent and ask what the property can be sold for on the open market. The agent can perform a quick Comparative Market Analysis or CMA for you to help you in determining a potential sales price. Second, contact your attorney or title agent and ask if you can get a copy of a preliminary title report.

Reviewing the title report is helpful not to see who currently owns the property, but also to see if there are any liens on the property in addition to the original mortgage. Look for federal tax liens, property tax liens, mechanic’s liens or judgments. If you see any of those on title that are recent and still outstanding, the owner of the property may be a distressed seller. And if you have the authority to review a credit report, which you don’t without their permission, you would likely see current late payments on the mortgage and other credit accounts.

Next question:

“What do you think the home is worth right now? What are you asking?”

The answer to this question will let you know if the seller is asking a reasonable price for the home and if it’s priced similar to other homes in the neighborhood. If it is, then this property may not be your best investment. Unless you can buy below market and sell for market at a profit, find another prospect.

Next:

“Can you tell me why you’re selling?”

This is an important question and if the response is standard such as “we’re retiring soon” or “we’re buying another house and I can sell the house on my own and save money”, then it may not be an opportunity for you.

However, sometimes the seller will flatly say, “We’re getting divorced” or “We have to sell soon (for whatever valid reason)”

If the asking price is low, the title report has some baggage, and the seller indicates a potential distressed situation, then you’ve just found your next deal.

This script is by no means all you need to ask the seller, but absolutely must be included when you make contact. If you determine there’s an opportunity, it’s time to visit the property; have it inspected; prepare your financing if needed; and write an offer.

The Auction

When a borrower can't work out an arrangement with a mortgage company with a modification or a repayment plan, or borrowers have defaulted on still another payment agreement the lender will foreclose on the home. The next stop will be a real estate auction.

When a lender posts a property for sale at an auction, depending upon the locale, the auction may in fact be held on the county court house steps. More typically a licensed auction company is used that specializes in homes seized due to mortgage or tax foreclosures.

The bank will place details regarding the home to be auctioned and will also establish a minimum that the bank will accept. You won't be able to buy a home for $20 dollars just because you were the highest bidder that day.

The auctioneer will start the bidding at the minimum amount requested by the bank or it can be an open auction where the highest bid will be sent to the bank for an approval. The successful bidder at an auction will provide the auctioneer a percentage of the sales price of the home in the form of certified funds, typically 10 percent of the final price of the home.

Depending upon the locale, you will be required to provide the remaining funds within as little as five days or up to a month. This obviously means this is no time to apply for financing after you win a home; you need to have cash or your financing lined up ahead of the auction.

When a home is sold, all parties with an interest in the home will be paid before you can take full ownership. The original lender will be paid and any back property taxes will need to be settled, as do any outstanding liens or claims to the property. Your bid will have to be enough to clear up any and all liens before you can take full possession. A bank's minimum bid requirement will include the original mortgage, back interest, current liens, legal fees, and all other costs associated with the property.

If the successful bid doesn't meet the minimum required by the bank or the bank refuses a bid, the home will then be admitted to the banks' REO department to be prepared for ultimate sale.

REO's

REO stands for Real Estate Owned and is the acronym banks don't like to use very often. A bank has its own REO department and is the division in a bank responsible for preparing and selling homes for sale that the bank was forced to foreclose on. REO is interchangeable with the term "bank owned" property.

An REO department at a bank will typically employ several different people with various responsibilities. There will be those who review the title report to see if there are any other liens on the property not yet satisfied. Others take care of requests from consumers interested in buying foreclosed properties.

That banks own real estate is not a new thing. Banks have had REO departments for as long as they've made home loans. It's just today that banks have so many of them and they're actively trying

to sell them. Today, banks are simply overwhelmed with the inventory of homes in their database.

How do you find bank-owned properties? You can call a bank and ask for their REO department and you'll likely be given a number to call, but the bank receives such an overwhelming number of requests that it's likely you'll never hear back from them.

Most banks today will showcase their current inventory of REO homes for sale on a website. You can browse by location and see listed properties. You'll often notice that the foreclosed property listed for sale has the contact information for a real estate agent and office that has the listing agreement for the foreclosed property.

Banks use real estate agents to sell their homes. The real estate agent evaluates each property in its current condition and determines what the property might sell for. If the home needs preparation for sale and needs repair work to be done, the agent makes sure all needed repairs are made to the property before it goes on the market. Such repairs could be as small as new carpet and paint, or the home may need extensive repair work, such as repairing a leaky roof or bad foundation. If you visit the banks' website and see the contact information for the real estate agent with the listing, you've likely identified one of the agents the bank uses to sell their REO inventory.

Once the home is ready for sale, the bank's real estate agent lists the home in the multiple listing, as well as appearing on the bank's website. The banks' website pulls the information from the local

multiple listing services and portrays the property under their banner.

Banks will first attempt to sell the property to match other similarly priced homes in the area. There's no reason for a bank to sell a home below market if they have the time to properly market the home. However, banks get penalized in a variety of ways when they own too much real estate and this can affect the bank's own cost of funds and how they perform during their annual regulatory audits.

The real estate agent listing the home has the responsibility to get the highest and best price for the property, but more importantly needs to sell the home and remove it from the bank's ownership.

The key to working successfully with an REO department is to establish you as a serious real estate investor with the agents listing the bank's foreclosed properties. Banks and agents get calls from consumers every day hoping to get a home listed for $10,000 that is worth $500,000 . That's an exaggeration, but unreasonable offers can be so frequent that soon banks and agents pay no attention to them.

When you find a property you're interested in, contact your agent to get an idea of what the home might sell for, as well as look at the title report to see who has a financial interest in the property for sale. As an example if a home is listed for $150,000 and there's a $100,000 mortgage, $25,000 for back property taxes, $25,000 for income taxes and a judgment for $50,000, unless you settle with the other outstanding claims yourself or

they agree to accept less, there's not going to be much room for a profit.

Ask the agent for an appointment to visit the property for sale. Bring with you your property inspector and contractor to look at the home. Having your team accompany you on your first visit to the home will show the listing agent that you're serious about your profession and not just a "looky-loo."

While you're looking at the property, ask the agent if there are any homes that are about to be listed, but aren't yet ready for sale. Perhaps a foreclosed home is bank-owned, but can't be put up for sale because the roof needs repair. Maybe the home has an outdated kitchen and the agent wants to put in a new kitchen before listing the property to increase the value.

In either case, you can buy the property from the bank in its current condition without the bank having to repair or prepare the home for sale. This saves the bank valuable time and money and can further increase your profit when you sell the home.

When your very first sale closes with the bank's REO, you've validated yourself as a player. The bank's real estate agent will let you know when a new property hits the market or even better, the agent may ask you to look at a property before the home is ever listed.

Once you reach this level of relationship with the bank, you now essentially get "first look" status. But until you close on your first deal with them, don't expect to have that privilege.

Fannie and Freddie

One final place to view foreclosed property for sale can found at mortgage giants Fannie Mae and Freddie Mac. Fannie Mae is the nickname for the Federal National Mortgage Association, or FNMA, and the Federal Home Mortgage Loan Corporation, or FHLMC.

Fannie and Freddie's place in the real estate world is to provide liquidity in the mortgage marketplace by buying loans from lenders after they make them. When a bank makes a loan, the bank can keep the loan on its books and collect the interest on the note or the bank can sell the loan to other lenders and to Fannie and Freddie. When a bank sells a loan, it receives cash for the loan amount plus a profit. That way, the bank can make yet another mortgage loan, repeating the process.

As long as the bank approves a loan according to Fannie and Freddie rules, the loan is eligible for sale in what is called the "secondary" market.

Even Fannie and Freddie weren't immune to the wave of foreclosures from 2006 to 2012. In fact they have their very own REO department. Freddie Mac's program is called "Homesteps" and is a program that provides special financing for owner-occupants as well as real estate investors. Fannie Mae's program is called "Homepath" and provides a similar platform for investors to view and buy Fannie-owned real estate.

Fannie's site is at www.homepath.com. Freddie's site is at www.homesteps.com. These properties are listed by local real estate agents in a similar fashion to a bank's REO division.

Advertisements

One of the more traditional methods of finding investment real estate is through advertising. The oldest form of advertising consists of print ads that appear on newspapers and magazines. Other marketing messages are cast with postcards or mailers, radio spots, the Internet, and bandit signs.

Print ads are slowly giving way to ads seen on the Internet, but they still occupy a large portion of the advertising message makeup. They're also one of the more costly forms of advertisement depending upon the circulation of the media, size, color, and composition of your ad.

For example, if you want to run an ad in the local newspaper you can select which section to run the ad (more expensive), or you can have the paper place the ad where they have extra space (less expensive). Ideally, you want to appear in the section where you think you will find distressed sellers as they read through the newspaper.

Home-sellers can find themselves looking through the real estate section of newspapers, seeing what homes are selling for and to get an idea of what their own property could garner. It's obvious that in this section, you'll find not only home-sellers, but other consumers and real estate agents as well. You want to be where the industry reads, and that's in the real estate section.

On the other less expensive hand, you can place a small ad with a straight and to-the-point message in bold print that reads, "*I Pay*

Cash for Homes" and your telephone number. "*Avoid Foreclosure*" is another eye-catcher.

Magazines are another print medium that is losing favor with the general public, but are still a traditional mainstay. Magazine advertising today can be more cost effective by appearing in magazines that are targeted to a specific ad group or demographic. Certain real estate publications are routinely printed and mailed to owners of homes in higher end neighborhoods. Being placed in a magazine can more predictably reach a target audience, but can be expensive as well.

Depending upon the distribution of the magazine or newspaper, the size of the ad, frequency and if the ad is in black-and-white or color, these ads can be placed for a few hundred dollars to more than a $1 ,000 per week for larger newspapers. Keep the ad simple with a direct message that appeals to distressed home owners in order to get the greatest return for your ad dollars in print media.

Mailers

Postcards and mailers can also reach a targeted audience, although you can't pick out an individual mailbox, you can have your postcards and mailers sent to specific five and nine-digit zip codes. Demographics today can be extremely targeted and the cost is relatively small compared to print ads. The costs primarily concern printing your postcard, the postage, and the time it takes to compose and mail the postcard.

Effective mail campaigns keep sending the same message to the same audience over an extended period of time. If a community you know is experiencing a rash of foreclosures or you see more for sale signs than usual, it may be time to target that community with a mail campaign.

When sending a postcard or a mailer, again, keep the message steady and simple. “We buy houses fast” or “We pay cash for houses” is one of the most direct, cost effective ads you can compose for a postcard campaign.

For greater effectiveness, compose a letter and mail it in an envelope, signed by you. Such letters get opened and noticed more than ones compared to a generic post card. If you don’t have the time or inclination to begin a mail campaign, there are companies that can take care of the project from concept to delivery by composing, printing, and mailing your pieces for a fee.

Radio

Radio spots are an option but they’re rather expensive. Although a radio sales rep can tell you they can target your message to an audience like few can, the radio spots can be a few thousand or more depending upon how often and when you want your message broadcast.

A less expensive radio ad option is to send your message across the radio station’s webcast instead of over the radio airwaves. There are less people listening to an online radio webcast than the original broadcast, but the cost is much less.

The Internet

The Internet includes optimizing your own website, ad placements such as Craigslist, and pay-per-click messages. Today, every consumer expects a business to have a website. Don't you think the same? If you're thinking of doing business with someone don't you try and do a little background research on them first? Of course you do, and so do your potential sellers.

Optimizing your website means placing relevant content that distressed sellers will search for while on the Web. For example, on your website, have several articles educating homeowners on how to sell a home in 10 days or the effects of a short sale compared to a mortgage default. Or an article that talks about how to avoid foreclosure which explains how they can ultimately contact you to buy their home or to find a buyer for them.

Optimization, or search engine optimization, is the practice of bringing a website at or near the top of a search engine result. Primarily, search engine optimization concerns placing original, relevant stories on your website yourself, although there is no end to the number of companies that can optimize your website for a fee to target your audience.

You can also place an ad in Craigslist or other online classified ad format, or place messages on foreclosure websites, legal websites, and other associated sites addressing distressed homeowners.

Bandit Signs

If you've never heard the term "bandit sign" before, you're not alone unless you're in the real estate business, but you've certainly seen them. A bandit sign is one of those small, 24" X 24" plastic signs that seem to pop up overnight at certain intersections or along roads. These signs are one of the most cost effective methods of getting your message out to your prospects and can cost as little as about a dollar each.

Your bandit sign will read, "*We buy houses*", "*Cash for your Home*", or "*Stop Foreclosure*". Any short, direct message that will be noticed by drivers on their way to or from work every day is useful. Why are they called bandit signs? Certain communities have banned them or placed restrictions on where they're placed, so the name became popular.

Don't place bandit signs where they're illegal, but do place them where they'll be noticed by drivers as they slow down to stop at an intersection, or as they enter an on-ramp to a freeway. Depending upon the placement of the sign, your message will stay there for days or weeks until someone takes them away or otherwise removes them.

Bandit signs work. If they didn't, you would never see them.

Chapter 4 Strategies That Work

Real estate investing has a lot of moving parts and a multitude of possibilities and ways to make money. Depending upon your individual goals and opportunities, your strategy will change as opportunities change.

For example, you can buy a property below cost, hold it and sell it at some point in the future. You can buy a property at market price, live in it, and sell it later on. Perhaps you'd like to buy a duplex or a fourplex, live in one of the units, and let your tenants pay the mortgage for you.

Maybe you're a flipper at heart. Perhaps you enjoy the hunt of finding a property below market, fixing it up, and turning it for a tidy profit. Perhaps you'd like to be a wholesaler and arrange for a purchase with no money down from you for a quick "flip."

There are opportunities to invest in deeds and tax liens, or you can become your own bank and finance properties for others. Regardless of the direction you'll take, real estate indeed provides possibilities that few industries can match.

Yet as you start, it's important that you begin to build your own database that will soon become your personal gold mine of clients.

Building Your Database

Building your database means keeping, monitoring, and updating your personal list of individuals and businesses that may buy your property or provide you with a list of people who might sell. Building your list and keeping in contact with your previous and potential clients is important to make sure you have a consistent source to sell your investment property. When buying real estate, you want to find a buyer as quickly as possible and in some instances, find a buyer before you even make an offer on a new deal.

You can start your buyer list by gathering the contact information from leads from your advertising effort from mailers, classified ads, or from the Internet. When a lead contacts you, get their name and contact information and keep it on something as simple as an index card or add it to a spreadsheet. You want to get their name, phone number, and email address.

Categorize the type of property your prospect called about too. If the lead is interested in a duplex you have for sale, make note of that. Ask the prospect if it's okay for you to contact them when you have acquired similar properties in the future. When they say, "yes" you can approach your buyer database lead about a potential property before you ever make an offer on the home.

For example, you notice a small two-bedroom home near the college campus that just hit the market but needs some work. The home is listed for $110,000 or $1.10 per square foot in its current condition. After you make your evaluation, you determine that you can put in another $15,000 and sell it for the same price as other homes in the area which routinely sell for
$1.75 per square foot.

If you bought the property at $110,000 and sold it for $175 ,000 after investing $20,000 , you've just made $40,000 . If you find a buyer before you make the offer to buy the home, you can spend more time on finding other deals and less time on managing them.

While classified ads are an effective method, you can also get leads from your bandit signs with messages such as "*Buy a Home, Bad Credit Okay*", "*We Finance Houses*", or other tempting message.

You can also get leads by networking in your community. Join real estate clubs and attend their functions. Most cities have business-building clubs where independent businesses meet once per month introducing themselves, what they do, and what they're looking for in the area.

Attend functions with your name tag and make sure that it clearly says you are a real estate investor. Any social function can be a networking event and it doesn't have to be relegated to real estate. Do what other mega-marketers do and constantly be in front of others.

As you build your database, send out a monthly newsletter or even just an occasional email reminding your database contacts of your profession. Keep the message consistent and constant.

As you build your database, you will soon be able to cater your message to the specific group of prospects you have which range from investors who like apartment buildings, medical buildings, or the duplex down the street. You will be surprised at how quickly you grow your database.

Buy and Hold

One of the long-held mantras of investing real estate is the phrase "They don't make any more dirt." This means there is a finite amount of real estate to both buy and sell and that ultimately all real estate will increase in value.

It's hard to dismiss the real estate bust from 2006 to 2011; the same bust that is presenting itself as the most rewarding real estate investment opportunity of all time, but real estate over time increases in value. Even considering the run up and ultimate devaluation of real estate both here and abroad, real estate values steadily increase.

Such a determination means you buy real estate and hold it over time, even passing it down from generation to generation. For example, say back in 1970, when the median home price was $65 ,000 if your father bought a home then and passed it down to you, what would the home be worth today in inflation adjusted dollars? Near $175 ,000 nearly triple the original amount.

If you bought a home today for $175 ,000 with the same performance, your heirs could soon own a home worth $525 ,000 .

So, how do you know if you want to buy a home to hold, or buy and sell for a quick flip?

Flipping has become a popular notion primarily due to the number of cable TV shows on the air showing how buyers make thousands of dollars by buying, fixing and selling homes quickly. At the same time such shows hit the market real estate prices were on the rise

and financing was available to almost anyone who could sign their name to a mortgage application.

To determine whether or not a property is a good hold, the first consideration is the expense of acquisition and ownership. Acquisition costs include money needed for a down payment, closing costs associated with a mortgage, property taxes and maintenance on the home, and the amount of rent you can receive to offset the costs.

We'll talk more in detail about financing in the next chapter, but when buying property to hold it's important to get the lowest rate possible in conjunction with a low down payment. If you're going to pay for the property with cash, such considerations aren't important other than speaking with your financial planner about pulling the appropriate amount out of your investment accounts.

There is no doubt that financing an investment property today is at its historical best and can make almost any property purchased to hold a good investment due to the low monthly payments obtained with low mortgage rates.

When evaluating a potential hold, first determine the market rents for the area then compare that income to the costs involved paying for and maintaining the home.

For example, you see a home on the market in a neighborhood you like at a fair price. You call your mortgage lender to check on rates and see what the requirements are to qualify for a rental property.

Typical loan terms for rental properties ask for a minimum of 20 percent down and you're told that current interest rates for a rental property is 4.00 percent. The home is listed for sale at $250,000 , property taxes are $2,000 per year and home owners insurance is $1,200 per year.

Using these figures, the monthly payment is

$ 954	Principal and interest
$ 166	Monthly property taxes
$ 100	Insurance
$1,220	Total payment

You then check on comparable rent for the area and find that rents for similar properties is $2,500 per month. Your monthly net income is $1,280, or $15,360. Note, these numbers assume the tenants pay their own utilities and that you will need to occasional fix a garbage disposal or replace a hot water heater, but in this scenario, this is definitely a property to hold.

Now let's consider that home prices in most parts of the country have stabilized and will gradually increase over time. A standard appreciation rate might be five percent per year. In year two, your property would be valued at $262,500, year three $275,625, year four $289,406, and so on for an increase of $39,406 in value after four years of ownership.

And don't forget about the $61,440 in net rent you received!

When a property is considered for a hold, the first and foremost consideration is to make sure it will cash flow each month. If not, then the property may not be a candidate. But when you do hold onto a property, you can expect steady income each month, as

well as gradually building wealth by paying down the mortgage while the property appreciates in value.

Oh, and because you financed the property with historically low interest rates, your mortgage payment will always be the same while you can reserve the right to increase your monthly rent as markets dictate.

A property that is held instead of immediately sold has less of a consideration of value appreciation, especially over the near term. When buying a property to be held in your portfolio you can anticipate value to appreciate gradually or not so gradually, but over the long haul your property will be worth more than what you paid for it.

But let's say for a second that it doesn't. What if you bought a property to hold and then suddenly a situation pops up in two years that forces you to sell. What if you bought a property for $175,000 and in two years it was still valued at $175,000 ?

When selling real estate, you will encounter closing costs as well as real estate commissions. Let's say your real estate agent agrees to list all your properties for you for a flat 3 percent fee. For a $175,000 home, that's $5,250 deducted from the sales price. There will also be other charges for selling the home, such as closing fees, attorney charges, and title insurance to name a few. Let's say those fees add up to another $3,000 for a total closing cost charge of $8,250.

If you bought the house for $175,000 and sold it for the very same amount two years later, where does the $8,250 come from? Will it be from your bank account?

No. When you finance real estate for the long term and get your loan from a bank, you're required to put at least 20 percent down or in this example, $35,000 . After two years you've paid your loan balance down as well and financed your property with a 15 year fixed rate loan at 4.00 percent. Instead of bringing $8,250 to the settlement table, the net result looks like this:

Sales price	$175,000
Closing costs	$ 8,250
Loan balance	$134,968
Net to you	$ 31,782

Because you brought a down payment when you financed the property, you automatically have equity in the property in addition to paying down the loan balance with your mortgage payments, so it doesn't matter that your property didn't increase in value over two years.

In fact, your property could have lost nearly $32,000 in value over 24 months before you had to bring cash to close. If your property lost that much value in such a short period of time, you made a very bad mistake or the world economy just went into the Great Recession II!

What are some of the negative considerations for holding real estate?

When you have tenants, you're automatically a landlord. Even though you will try your best to find the ideal tenant, sometimes you'll end up with a real lemon for a renter. When tenants don't pay, some states have some severe restrictions on how and when you can kick the tenant out of your property due to nonpayment.

And when you do find a good tenant who always pays on time you won't likely have them for a very long time, usually a year or two at most. Tenants with a good credit history and timely payment will soon buy their first home and you'll be back looking for a new tenant to replace the old one.

Maintenance issues will also arise from small leaky faucets to a major roof repair. If you own only one investment property you can likely handle day-to-day issues on your own, but when you own several pieces of real estate, it might be time to bring in the services of a professional property management company.

Overall, buying and holding investment real estate is a stable, consistent way to build wealth over time and doesn't require as much effort to find a desperate owner needing to sell. While that is certainly an advantage to buy a property well under market, the more important consideration is cash flow and the anticipation of long term appreciation.

Flipping

Flipping real estate is the more glamorous of the two. Do you see any reality T.V. shows about buying and holding real estate? Flipping is a short term acquisition, repair, and sell. Flipping houses provides a profit in a short period of time and depending upon the nature of the property being purchased that profit can be realized in just a few weeks.

House flips from a valuation perspective are less risky than a buy and hold strategy. While real estate values can fluctuate, they will rarely fluctuate so that you lose money when selling in the course

of 60 or 90 days. At minimum, you should expect to sell the property for at least what you paid for it and more if you've made your repairs. Values don't just fall that quickly that far for you to lose money. If you did, then your calculations were wrong at the outset as the property has proved to be a bad investment.

Flipping involves your entire team to find, evaluate, repair, and sell your house. When you find a potential flip, what are the steps you take to determine your offer and ultimate sales price?

When you identify a potential flip, first research recent sales in the area for similar-sized properties and calculate a price per square foot number. While not an exact science, a price per square foot calculation is an efficient, effective way to find out if the deal has any potential. It is especially useful if the homes in the neighborhood are of similar size, design and construction.

For example, your bird dog comes to you with a property that matches your requirements. It's a three bedroom house on a pier beam foundation that is in foreclosure and vacant and is 2,000 square feet. The bank's agent is listing the home for $100,000 , or .50 cents per square foot, and recent sales in the area indicate a value of .80 cents per square foot as long as the property is in good shape. Your next step is to visit the property with your contractor and property inspector.

Upon your visit, you first inspect the important items such as the foundation, HVAC, plumbing, electrical, and roof. Everything checks out except a floor joist needs replacing underneath the house. Other than that, almost everything else is cosmetic.

You decide to paint the interior, replace carpeting in the three bedrooms, and update the kitchen with new cabinets and countertops. Your contractor provides you with an estimate for the cosmetic repairs as well as repairing the joist.

Your rehabilitation costs including repairing the foundation add up to $10,000 . By making the repairs, your house could sell for .80 cents per square foot, or $160,000 . If you subtract your $10,000 in repair costs, you just made $50,000 .

Estimating costs is just as important as your acquisition price when determining whether or not to buy a property. You can research price per square foot all day long, but if you don't accurately consider the costs to repair and sell the home, you'll lose more money than you should. And guess what, there are other costs other than the $10,000 for the repairs on your $100,000 find. What are they?

Surprises. No matter how much you research and inspect, some properties you buy will have some issues that need to be fixed before you bring the property to market. Such hidden issues are only discovered when walls are removed or old carpeting is taken out. This putsneeded repairs front and center. There's no a way to determine how much a specific property will have in surprise repairs, but a common rule of thumb is to estimate at least 5 to 10 percent more for repairs than in your original estimate. When in doubt on the cost of a repair, estimate on the high side and don't lowball repair estimates to make the deal look better.

Team players are on your team, so you'll need to compensate them at some point. Your inspector will charge you a fee of say

$500 depending upon the size and nature of the property. Your bird dog will expect payment for bringing you the deal as well. Are there any permits, fees, or other soft costs you'll need to pay the city or county before you can begin your repairs?

You bought the property for $100,000 , but when you went to the closing table, you paid some closing costs. And unless you wrote a $100,000 check from your bank account and paid cash for the property, you obtained a loan.

Closing costs can include such items as escrow charges, lender fees, and title insurance. Your loan officer at your bank will provide you with a list of potential charges. We'll discuss financing in more detail in the next chapter but you can expect another $3,000 in acquisition charges.

Your loan also has an interest rate associated with the loan. Using this same house and with an $80,000 loan at 4 percent, your interest charges will be about $265 per month. Don't forget about utility charges for the property while you own the house, as well as property insurance and taxes on the home. And when you sell the property you will have another of closing fees you'll have to pay in addition to the real estate agent's commission.

What have we covered?

- Purchase price
- Obvious repairs and remodel expenses
- Surprises
- Professional services
- Permits and fees
- Loan costs

- Real estate agent commissions
- Selling costs

As you gain experience with evaluating a deal, you'll have your own checklist that you personally review to make sure you identify all potential expenses and expenses you estimated on the high side. But how do you know how much to repair and how much to leave for the next buyer to fix or update?

Make-hab vs. Rehab

The very first consideration regarding expense is preparing the property for sale. Unless you got an incredible deal, *and they do happen*, it's not likely you'll sell the property to another flipper who intends to buy the property from you and flip it within 90 days. If that's the case, something's not right with your selling price.

The buyers you sell to will very likely acquire and hold your property as their primary residence. And they will also need to get financing from their bank.

Mortgage lenders approve mortgage loans using established lending guidelines. One of the most important factors has nothing to do with the buyer's credit report or income; it has to do with the property.

A property has to be considered in good condition and "habitable" before a lender will issue a mortgage on the property. The property is the bank's collateral and as such it needs to be in good

shape. Your first consideration is making sure the property is in a condition where a lender can make a loan.

For example, when you bought that $100,000 home with the faulty floor joist, then lenders will determine that the foundation needs repair and will not make a loan on the property until the foundation is fixed.

Or suppose the roof is sagging or the ceilings show signs of water marks from a leaky roof. A bank won't make a loan on the property until it's determined the roof is repaired and the leak source has been identified and corrected.

At the very minimum, you need to make the property habitable, or "make-hab."

After the minimum costs are determined, then you can begin to consider other upgrades to the property to prepare the home for sale. To get a sales price similar to other homes in the area then whatever needs to be done to the home to make it like the others you will need to do it.

Your real estate agent and your appraiser can help you determine what repairs will provide the most return and what items you can ignore. For example, kitchen remodels and bath remodels provide some of the best returns on cost compared to other additions such as a wooden deck or a new fence.

New exterior paint and basic landscaping will enhance a property's curb appeal, inviting potential agents to show the home and encourage buyers to take a stroll through the home. Interior paint is one of the most cost-effective ways to freshen up a property.

What are some of the things that can increase the value of your property?

A spacious master bedroom with walk-in closets along with an updated bathroom has huge appeal, as do the materials used to appoint the house. Hardwood floors, granite countertops, and attractive ceramic tiles will increase your value.

Nice, energy efficient windows will not only add an aesthetic pleasure, but also reduce the heating and cooling costs on a home.

These improvements that can increase the value of the home, but should be done only if other homes in the area are similarly appointed. Don't overbuild and make your three bedroom home the nicest castle on the block; your profit will suffer.

What not to add to your property?

Don't add a swimming pool unless your home is the only one in the neighborhood without one. Swimming pools are an attraction to a smaller audience and buyers will scratch a home with a pool from their list if they're so inclined. Pools can be a liability and require heavy maintenance.

If the property doesn't have a garage, consider adding one, but don't go overboard. A two-car garage is just right but a three-car garage can be overbuilt.

The bottom line with improvements is to make sure the property is at minimum prepared for financing and at maximum is brought up to design and construction standards with similar homes in the area.

As you flip more and more properties you'll begin to have a firm handle on what to do with a property once you buy it and also how much time and money it will take to prepare the home for sale.

Successful flippers who accurately predict their profit are experts in a particular neighborhood. Bird dogs and scouts don't criss-cross the entire metropolitan area when searching for deals. When specializing in a particular community or neighborhood it's much easier to determine a final sales price, the condition of the neighborhood, and how long it takes to sell a home in the area.

Once you buy a few properties in a specific neighborhood you'll get immediate exposure to the residents of that area. Everyone sees a "for sale" sign in their neighborhood, and when the sign suddenly turns to "sold" people take notice.

They'll also take notice when you place your own "for sale" sign in the front yard along with all the activity associated with your painters, carpenters, and electricians that go in and out of your property every day. Those people that drive by your property aren't just potential buyers; they're potential clients for both you and your team. If you can concentrate on a neighborhood and have a deep understanding of the market you'll be more successful flipping houses.

What are the shortcomings to a flip compared to a hold?

Flipping takes time and practice and can be expensive. There are transactions costs involved both when buying, as well as selling real estate, and determining the buy/repair/sell equation needs careful consideration.

If you're an experienced real estate agent or a general contractor you're ahead of the game, but you need to surround yourself with professionals and use their knowledge to your advantage. You may want to work with another flipper at the outset to get experience flipping houses. Many successful real estate investors start out as bird dogs who are trained to find and evaluate potential deals. Bird dogs don't have to put up any of their own money when finding deals other than the costs associated with time and travel.

Understanding Short Sales

The term "short sale" has been around for decades, but has recently come into the light as more and more properties have lost value, homes foreclose, and banks find themselves owning real estate. But the term needs to be fully understood as you can find yourself in a situation of negotiating one.

Technically, a short sale occurs when a lender accepts less than what is owed on the property as payment in full. And given today's market, as a real estate investor, you may find you need one.

For example, you find a perfect opportunity for an investment and begin your research. The seller is indeed in trouble of losing the home and needs to sell. You make a reasonable offer of $250,000 , only to find out that there is a $300,000 loan on the property. If the owner sold for $250,000 , there's still $50,000

that's owed to the bank and unless that $50,000 is satisfied, the home can't be sold.

The owner can't get out from under their home, even though he's desperate to sell. The bank is also very nervous. Not only do they have a mortgage outstanding that the owner is behind on with the mortgage payment, they also own a piece of property that is worth less than the loan amount. How did this happen?

Lenders make loans based upon the current value of the property compared to the amount borrowed. For example, if you bought and financed a home today for $200,000 , the lender would take your sales contract and proceed to order a property appraisal to validate your offer is in line with similarly priced homes in the area. Once the bank is satisfied, they will issue your loan calculated at the sales price less your down payment.

Now, go back in time a few years and a buyer purchased a home in 2006 for $400,000 and got a loan for $360,000 by putting 10 percent down. The owner has been paying the mortgage for the past few years and now wants to sell, but can't because the value of the property today is $250,000 and the mortgage balance is $300,000 .

Enter the short sale.

As you present your offer of $250,000 , the owner can contact the bank and ask for a short sale evaluation to accept the $250,000 offer as paid in full. If the short sale request is accepted by the bank, you buy the property for $250,000 , the owner avoids foreclosure and is released from the mortgage

obligation, and the bank takes a non-performing asset off of their books.

While the bank "lost" $50,000 by accepting less than what was owed, they avoided losing even more if the bank took back the home via foreclosure and added the home to its REO inventoe ry. How does an owner get a bank to approve a short sale?

A short sale request does not automatically get approved by a lender just because the request is made. A short sale request is approved if the owner can establish that a short sale is the only way to avoid foreclosure, and the bank determines a short sale is more profitable than recovering, preparing, and selling the home in the current market.

A short sale request is an application which begins with a hardship letter from the owner. In short, it might look something like this:

> *Dear Bank,*
>
> *I have an offer on my home that is less than what is owed on my current mortgage. I am no longer able to make the payments on the mortgage as I have been unemployed for six months now and recently divorced.*
>
> *Please accept my short sale request.*
>
> *Sincerely,*
>
> *Unfortunate Owner*

The first consideration a bank will have regarding a short sale request is to validate that the borrower is in fact under duress. If the owner says he's unemployed, the bank wants to see some verification of the unemployment such as a copy of an unemployment check or a letter from the unemployment office stating benefits.

If the owner was laid off at this company six months ago as he claimed, the bank wants to see verification that he was in fact laid off six months ago with a copy of the notice from his previous employer.

He was recently divorced? Then the bank will verify that as well by reviewing a copy of a signed divorce decree from the owner. In short, whatever the situation, the bank will want to make sure the situation can be independently verified by a third party.

Is the owner only getting unemployment benefits and has no other income? The bank will request two to three month's recent bank statements showing deposits which match up to the unemployment income claimed by the owner.

By looking at the bank statements, does the owner in fact have enough money to bring to the closing table to settle the morte gage? If the owner is short by $50,000, is there $50,000 in a bank or investment account somewhere?

If there is, you can bet the bank wants all or part of that $50,000 . If there are no funds available to offset the mortgage, the bank will continue to consider the short sale request.

A bank won't accept a short sale request simply because the owners are tired of living in the neighborhood or there's a job transfer. A short sale can be approved only if there's a bona fide situation indicating a potential default on the loan.

Short sale requests can take an inordinate amount of time compared to a standard transaction. Depending on how many short sale requests a bank receives it can take months for a short sale request to be approved.

If the owner of the property has an agent experienced with short sales that's a plus because the agent can prepare the short sale request package the lender needs to quickly approve or decline the request. If the agent is not experienced with presenting a short sale offer to a bank, then you can step up to the plate and help.

The short sale application will include the hardship letter and documentation regarding the owner's current situation in addition to:

- A current appraisal or CMA on the subject property
- An approval letter from your lender showing you have the ability to buy

A CMA is a real estate term for Comparative Market Analysis. A CMA is prepared by an agent to provide a homeowner with a researched opinion on what the property could sell for in the current real estate market.

An appraisal is an enhanced CMA performed by your appraiser with more research showing that your offer is a fair price based upon what similar homes have been selling for in the past six to twelve months.

If the bank sees that a foreclosure is imminent, the owner is indeed distressed, the current property has been validated and there is an approved buyer in the wings, the short sale is likely to be approved.

If a transaction includes a potential short sale, understand that the transaction will take much longer compared to a traditional sale. Just be prepared, know what to provide, and work on other deals while the owner's short sale request is evaluated.

Wholesaling

One variant of a flip is called "wholesaling." Wholesaling involves finding a distressed property for sale under market while arranging the sale to a third party. This type of transaction requires a bit of legwork on your end but also doesn't require any money from you. No down payment, no loan and no credit required.

How does wholesaling work?

The term initially means that you buy a property way below retail and then quickly sell it to another party at market value. You can find distressed properties using any of the methods described in this book with the difference being how you write up the contract to the seller.

Say that you find a desperate owner and you offer $100,000 and promise to close within 10 days. You write up a sales contract and next to your name, insert the phrase, “And to whom I may assign.” The sales contract will then read, “You Investor, and to whom I may assign.” This allows you to assign the sales contract to any third party, given the time frame allowed in the contract.

Once the contract is signed, you contact your database of buyers presenting “your” home for $120,000 . You find a buyer who completes the transaction for $120,000 and proceed to the closing. The seller receives your original offer of $100,000 per your agreement, and the retail buyer brings $120,000 to the settlement table. The closing agent then hands you your $20,000 check.

To be a successful wholesaler, it’s critical to have a list of potential buyers in your database. In fact, if you have a property in mind, you can even present the potential offer to your buyer, enhancing your offer to the original seller.

Tax Liens

Another way to invest regarding real estate is by financing tax liens. Tax lien regulations and guidelines can vary wildly depending upon the locale, but tax liens in general can provide a safe return on an investment, as well as the possibility of buying real estate well below the property’s worth.

When an owner of the property falls behind on the property taxes, the taxing authorities take notice. Depending upon the area,

property taxes can be paid annually, every six months, or whenever the tax office requires.

At first, the owner will receive a written notice that they're behind on their taxes much like a mortgage company does when a borrower falls behind on their mortgage payments. The letter will show the amount for the delinquent taxes as well as additional penalties.

At some point, the property taxes are so delinquent that the taxing authority can force the sale of the property without permission from the owner, regardless if there are any other liens on the property. Even if there is a mortgage on the property, the house can be forced to sell to pay the delinquent taxes.

For example, a home is valued at $200,000 . Property taxes are $2,000 per year and the owner hasn't paid their taxes for six months. At first, payment arrangements to get caught up on back taxes will be offered, but if the owner falls behind on those payments as well, the property will sold.

When properties are listed for sale to pay back taxes, the potential sale will be recorded for the public to see. You can find such sales using the Internet if the county uses their website to announce future sales or auctions, or you can visit the county officer personally to research potential deals.

There are two ways you can profit from tax liens. The first is to appear at the auction and make a bid on the property. If you're the winning bid, you will be required to bring your funds within a specified period of time.

For example, an owner can't pay the $2,000 in back taxes. You go to the auction and bid $5,000 for the house. You now potentially own the house.

"Potentially" because states also have guidelines regarding redemption periods; this gives the owner some time to pay past due taxes after the sale. If the redemption period is one year, the original owner has one year to pay the $500 back taxes, plus interest to the tax office as well as the your original $5,000 plus interest et al from the owner.

If the owner doesn't pay their back taxes, you own the home outright and you paid $5,000 for it. Most tax liens are redeemed by the original owner, but even if it is redeemed, you get your original bid back, plus interest from the borrower which is often as high as 10 percent or more depending upon local and state statute.

You can also invest in property taxes by loaning the delinquent owner the money to pay their back taxes. In return you are issued a deed that legally shows you're a part owner of the property until the tax loan is paid off.

For instance, if the outstanding tax bill is $2,000 , you can pay the $2,000 in back taxes directly to the taxing authority, create a note for you and the owner, and have the note recorded. If the owner fails to make their monthly payments to you for the property tax loan, you have the right to foreclose on the property and to take full ownership.

There are specific licensing requirements from state to state in order to become a tax lien lender and there are significant bond,

net worth and background requirements, but becoming a tax lien lender can provide a safe investment vehicle backed by real estate.

Mortgage Notes

Home loans, mortgages, or notes all mean the same thing. Either a business, or a private individual loaned money to a borrower with real estate as the collateral. Private mortgage notes can be bought and sold with other investors as a means of investment income.

For example, a note holder owns a mortgage on a home for $100,000 at 6 percent. The owner of the note receives income each month from the owner based upon the original 6 percent rate. As a private buyer of notes, you can make an offer to buy the mortgage note. The potential seller can accept your offer or reject it. If the owner of the home is making regular payments, unless the seller has other reasons, your offer will likely be declined.
However, say the owner of the property is behind on their payments and the owner of the note wants to get out from under the note, then the note can be sold. You can buy the note at face value or you can buy the note at a discount; it's entirely up to you and the seller.

Chapter 5 Financing Your Transactions

Financing your transactions can affect your ability to bid and close on a potential deal, how quickly you and close, and affect your profitability on each purchase. Even if you have enough cash in the bank to finance your next transaction, using someone else's money with reasonable interest rates can always be the best option.

When you tie up your own cash in a property, your funds are tied up until your property is sold. If you find another solid deal while you're working on another project, but have tied up all your funds, you can miss out on other opportunities.

This isn't to say that it's always best to borrow money for your real estate investments, but to know when it's best to finance a deal in addition to finding the most favorable terms for your loan. Financing is available from traditional lenders such as banks and mortgage companies or from private investors.

Traditional Lenders

Just a few short years ago there was no end to the type and nature of mortgage companies as well as an endless selection of mortgage loans. There is no official count, but there were literally thousands of mortgage companies in 2006, that no longer exist today. From mortgage brokers to mortgage bankers to federally

chartered banks, home loan financing companies were simply swept away, never to be heard from again.

And that's not a bad thing. The lenders that helped fuel the Great Recession (that's a benefit to you, by the way) took the bad loan programs right along with them. Today, while there is certainly no shortage of lenders still in today's market, they all follow similar lending guidelines.

Fannie and Freddie

Fannie Mae and Freddie Mac's primary mission is to foster home ownership. One of the ways they do that is by buying mortgage loans from mortgage companies. Doing so keeps the mortgage market liquid; if lenders loaned out all their money without replacing it, soon there'd be nowhere to get a mortgage.

Fannie and Freddie establish loan guidelines that all conventional lenders follow that describe various features a loan must have in order for the loan to be eligible for sale to Fannie, Freddie, and even to other mortgage companies. Buying and selling home loans takes place in what is called the secondary market; the market created for mortgages after they have closed and homeowners being making payments.

For example, these guidelines require that a borrower have a minimum credit score and have a minimum down payment. The borrower must be able to prove their income by providing signed copies of federal tax returns, copies of paycheck stubs, and bank statements showing sufficient funds in the bank to close on a deal.

As long as lenders underwrite loans to these standards, the loans can be bought and sold. But there is another advantage to this uniformity--lower rates.

When lenders underwrite conventional loans to conform to two basic sets of lending rules, mortgage loans become in essence a commodity. Mortgages are underwritten in the very same fashion from lender to lender with few exceptions, and lenders who buy loans know what they're buying without having to review each and every loan for compliance.

When loans are a commodity and there are mortgage companies from a multitude of sources, then the price for these loans is dropped. One of the primary ways a lender can compete for your business is to lower their rates and fees. If a loan at Lender A is exactly like the loan at Lender B, then the cost of the loan is the primary consideration.

Interest rates for investment properties are no different. Lenders follow established lending guidelines for rental properties as they do with any property type.

This simply means that real estate investment loans from traditional mortgage companies will provide the most favorable long term rates and fees compared to any other loan type of loan. If you're buying a single family home to hold as a rental, you want to get a traditional loan from a bank or mortgage company in order to get the best financing.

What are some of the major characteristics of these loans?

Most lenders require a minimum credit score of at least 640 for a borrower to be approved for an investment property loan and require a minimum 20 percent down payment. However, in order to get the best interest rate, expect to put down 25 percent of the sales price at closing.

Lenders will review your income with your tax returns and your bank statements. When you first start out you'll need to make sure you can afford the new mortgage in addition to any other loans you have without using any rental income from existing or future tenants.

For example, if you have a house payment today of $2,000 and your new payment on a duplex will be $1,500, you'll have to show a current income of approximately $10,000 per month that will allow you to qualify for both mortgage payments. Even if the duplex has paying tenants, until you've established yourself as a landlord or real estate investor as shown on your income tax returns, expected rental income can't be used to offset the new mortgage payment .

However, any and all future investment property loans can use rental income to help you qualify once you've shown that you can manage rental properties.

Conventional loans will also limit you to the number of outstanding mortgages you may have at any one time to 10. That doesn't mean you can't own 10 properties, just that you'll be limited to 10 mortgages. If you find yourself wanting to buy a new property, but already have 10 properties all with loans on them, you can transfer a mortgage to another. This would increase the mortgage balance

on one of the properties and free yourself up to buy and finance the additional property.

Conventional loans can be fixed or they can be adjustable and amortize over as few as 10 years or up to 30 years, in 5 year increments. Today, it makes very little sense to finance any property with an adjustable rate loan when rates are as low as they are today, so select a fixed rate loan in 10, 15, 20, 25, or 30 year terms.

What difference does the term make? The longer the loan, the lower the payment; yet at the same time the shorter the term, the less in overall interest you'll pay over the life of the loan. Using a $250,000 loan, here is what the monthly principal and interest payment will be, as well as the amount of long term interest paid to the mortgage company:

Term	Rate	Pymt	Interest
10 yr	2.50%	$2,356	$ 32,809
15 yr	2.75%	$1,696	$ 55,379
20 yr	3.25%	$1,417	$ 90,317
25 yr	3.375%	$1,234	$120,458
30 yr	3.50%	$1,122	$154,140

That's a huge difference in interest paid to the lender when you compare a 10-year to a 30-year loan, interest that eats at your net income. So, which is best for your situation?

The best loan is the loan for the shortest term that allows you to cash flow each month, if saving long term interest is your priority.

If your goal is to get the monthly payments as low as possible, select a 30-year fixed rate loan.

Finally, these loans are available for single family units up to four-unit properties. For properties with more than four units (a fourplex) you'll need to find financing through other sources.

Rates and Fees

When deciding which term to use, you'll also be given several rate and fee combinations from your lender. For example, one loan might have a discount point and another loan may not. A discount point, simply called a "point," is expressed as a percentage of the loan amount and is so called because it lowers your rate by approximately one-quarter of one percent.

For instance, if your bank quotes you a 30-year fixed rate at 3.75 percent with no points you will also find a 30-year fixed rate at 3.50 percent by paying one point to the lender at the closing table. Should you pay points to get a lower rate?

To decide take the difference in monthly payment and divide those savings into the amount you paid for the point. The difference is how many months it will take to "recover" the point you paid up front. For example, by borrowing $250,000 at 3.75 percent and no points, the payment is $1,157 for a 30 year term.

On that same loan if you paid a point; or $2,500 for a lower rate of 3.50 percent, the new principal and interest payment is $1,122 for

a savings of $35 per month. By dividing $2,500 by $35 the result is 71.43, or nearly six years until you get your discount point back. The lender doesn't care if you pay any points or not as the net result is typically the same on their end. But in your case, it may make sense to hold onto your $2,500 and pay no points.

The other feature of the mortgage addresses the fees required to get the mortgage. There will be lender and non-lender fees associated with obtaining a mortgage. Typically lender fees are such things as loan processing charges, credit report fees, underwriting, and appraisal costs. These fees are considered your costs to borrow and will chip away significantly at your net profit when you sell.

You can offset loan fees, all or in part by increasing your interest rate in one-quarter percent increments in exchange for a lender credit. Just as a lender will lower your rate for paying a point, they can also increase your rate by one-quarter of a percent and provide you with that same $2,500 credit toward your closing costs.

To find out how much to raise your rate to cover your entire loan costs, divide your total fees by your loan amount; the answer is how much to raise your rate to cover your fees.

If your fees are $5,000 and your loan amount is $250,000, by dividing $5,000 by $250,000 you get 0.02, or 2 points. If you increase your rate by one half percent, your lender will credit you two points to your closing costs.

Your rate and fee options need to be addressed with your loan officer and you need to carefully review all your options. The loan

officer on your team will know your requirements and be able to provide you with the options that are right for your situation.

Financing the Flip vs. the Hold

Conventional financing should primarily be used for property you intend to keep long term in light of the costs involved. However, when evaluating financing options for flips, there are other considerations. The first addresses your cost of funds both in terms of rates and fees.

If you do select a conventional for your flip, the interest rate is unimportant in relation to the fees associated with buying the flip. When financing a flip with a conventional loan, it's your costs you need to be concerned with, not the rate.

For example, you find a property in good shape at a discount. You make an offer, it's accepted and you apply for a loan. Let's say that you offered $200,000 and it was accepted. You put $40,000 down and expect to have the property sold within 90 days after basic paint and carpeting are replaced.

Your lender offers you an interest rate of 3.75 percent with no points, 4.00 percent with a $1,600 closing cost credit and a 4.25 percent rate with a lender credit of $3,200. Closing costs will total $4 ,000. Which is the better deal for your flip?

4.25 percent with the $3,200 credit. Here's why:

Rate	Pymt	Costs
3.75%	$740	$5,600
4.00%	$763	$4,000
4.25%	$787	$ 800

See the difference between the highest rate and the lowest one? You didn't notice the payments first, did you? No, you looked at your costs. $5,600 for the low rate with one point and $4,000 in loan fees, compared to $787 per month at 4.25 percent, but just $800 in fees after the lender credit.

When financing flips, the rate is of little importance compared to the fees associated with the closing.

Financing for flips and holds using traditional financing provides the lowest rate and fees and requires different methods of evaluation. Again, your loan officer will help you run the numbers when it's time to secure your mortgage loan for your rental property.

Sometimes, however, conventional financing won't be an option if the property does not conform to lending standards established by Fannie Mae and Freddie Mac. You will need to find private financing.

Private Lenders

A private lender is an individual or group of individuals who finance property under their own terms. Private financing will

place a loan when a bank won't. So why not just use a private lender every time? Rates, terms, and fees are not nearly as competitive when compared to traditional loans.

Private loans, sometimes called "hard money" loans are so called because the terms on the loans are a bit more onerous compared to a bank loan. But they do have a place in the industry and you will no doubt at some point seek the valuable services hard money lenders provide. What are some of the characteristics of a hard money lender?

These loans will require at least 25 to 30 percent down, and while similar in down payment requirements, interest rates and fees will be much higher. Private money rates at 10, 12, and 15 percent or higher are common for private money loans. You can also expect to pay points and fees upfront as well, with lenders charging 4 or 5 points on each loan.

Private loans are made for the short term, for as little as 30 days and up to two years, and while on the expensive side, they can make you more money when properly used.

Private loans are used to acquire property to prepare them for sale to those who will obtain conventional financing once the property is repaired or upgraded to traditional lending standards.

For example, you see a duplex for sale, but you can tell from the street that the building is sagging and possibly needs both foundation, as well as roof work. You contact your inspector and contractor, and sure enough the slab foundation will need to be lifted, and while the trusses are okay, your roof needs an overhaul.

If you applied for a mortgage on this property at a bank, your application would be denied because the property is not habitable. But the property is well below market with the seller asking $90,000 while similar homes in the area have recently sold for three times as much. You determine that the repairs will take $15,000 to repair the foundation and roof, and another $20,000 to replace the flooring and update the kitchen for a total cost to repair of $35,000 .

Enter the hard money lender.

The lender will value the property not only on its current condition, but what the property will be worth once the repairs are made. The private lender will inspect the property, review a copy of the title report, and get an estimate on the final value. The private lender agrees to finance your acquisition, as well as pay for the repairs under these terms:

Loan	$100,000
Rate	14.00%
Term	6 months
Fees	4 points

You agree because the numbers make absolute sense. You buy the property for $90,000 and get a loan for $100,000 . Your closing costs to the lender add up to $6,000 , in addition to other none lender fees of $4,000 for a grand total of $10,000 .

Your monthly payment is interest-only, so your payment for the next six months is $1,166 per month. You finish two months early, saving you $2,332 in interest charges. Your total costs for the private money loan is $14,664. That's a lot.

But you sold the home after four months for $275,000 for a net profit of just over $178,000 .

When considering private funds, the costs are less important than the amount of profit you will realize when the home is sold. When you bring a property up to traditional lending standards, you widen the pool of potential buyers who can qualify for financing, significantly increasing your bottom line.

Another advantage of private or hard money is the lender is more concerned with the property's ultimate value and if the property can indeed be acquired, repaired and sold before the loan comes due and less so on the borrower's credit profile.

Hard money lenders routinely place loans for borrowers who credit is severely damaged with credit scores approaching 500 or even lower. As long as the lender is convinced the loan will be paid back on time, a hard money will lender will place the loan.

Hard money lenders face more risk than a traditional bank will, but will also make more money on a single transaction.

When You're the Bank

At some point in your real estate investment career you'll be asked to be the lender for a buyer who approaches you with an offer. Owner financing can provide you with not just a sale, but with a greater return compared to any other conventional investment available in today's market.

When you list your home for sale in the MLS and your agent suggests you include the term “Owner Financing Possible” suddenly you’ve increased the available buyer’s pool by a significant margin. Even though lenders have exhaled over the previous few years and are more relaxed when evaluating a loan application, the fact is that loan standards are tougher than they were in the mid-2000s, keeping many quality prospects from obtaining a mortgage.

Your phone will soon begin to ring with many queries asking about your financing terms. As the lender, you can ask for a minimum down payment and you can set your own interest rate. Another benefit of owner financing is the list price of your home. If you provide the financing for a buyer who is having trouble getting a mortgage, you can expect to gain more on the sale of your house.

For instance, you list your property for $300,000 . Your terms are 25 percent down on a 30 year loan rate at 5.00 percent with a balloon feature in five years. A balloon feature means the loan comes due in total after five years, giving your buyer time to qualify for a traditional loan.

With this example, you immediately pocket $75,000 as down payment. The buyer’s new mortgage payment to you will be $1,207 per month and over the next five years. Do you know of any investment today that gives you a 5.00 percent consistent rate of return backed by solid real estate?

Who is a good candidate for owner financing? Identify someone who just can’t quite fit the qualifying model but soon will. For example, lenders require that a self-employed borrower be in

business for two years, verified by two years of federal tax returns showing increasing earnings from year one to year two.

Say your buyer is an automobile mechanic and has been for 15 years. Last year, he decided to start his own business repairing cars. He has a solid following of clients who now all take their car repair business to him, much to the chagrin of his previous employer. Oh, and his credit is excellent and he has a 20 percent down payment.

This is the perfect candidate for an owner-financed transaction. The credit is good, the story makes sense, but due to conventional lending guidelines he can't qualify for a mortgage under today's guidelines.

Who do you want to avoid? Avoid any offer with a down payment of less than 20 percent. Avoid anyone with bad credit indicated by recent late payments or collection accounts on their credit report. Avoid someone who can't verify their employment or how much money they make.

The downside when you're the bank is collecting late payments from your buyers and worse, foreclosing on the property. Yes, you get your home back plus all the equity involved, but if banks hate foreclosures, so will you.

EPILOGUE

Real estate investing is a one of the few ways you can create your own wealth with little or no education, little or no money, and learn as you go. Owning property in the United States carries a different sort of heritage compared to other parts of the world.

Owning part of the American Dream is a constant theme and when people are currently renting, you can bet that they're making plans on when and how to own. Being a real estate investor means you can cater to the market that rents, as well as catering to the market that buys. You get to play on both sides of the line and profit each way.

You don't have to do it all by yourself, but you can if you want to. You can buy a piece of real estate, fix it up, and sell it; you can rent it or live in it. The choice on which path to take is completely up to you.

Take advantage of the strengths offered within your team. Learn from other's mistakes as well as their successes. Start your real estate investment journey one single step at a time, chart your success, and then take another step. You will indeed walk before you run, and perhaps stumble along the way.

This path, however, has already been tread for you; you don't need to make unnecessary mistakes or waste time and money

learning by trial and error. By following the information prepared in this book, there is no doubt that you will be successful.

There is no magic here. There is no secret formula that only a select few will ever know about. The only thing you need to know is that real estate success secrets have already been discovered and are presented to you here in these pages.

I congratulate you on your imminent success!