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Investing Opportunities in the Foreclosure Timeline

Results are what create income, lifestyle and success!

by Tim Rocho

Applied to your real estate investing business, results are measured by **Profits, Income, Equity and Net Worth**. There are several aspects to building a successful business, like building a diverse **Power Team** as I believe your **Net Worth is Directly related to your NetWork**…

But, for discussion here, we'll focus on the activities that produce results; these are to successfully and systematically **find: Deals, Money and Buyers.**

Whether you're broke, just starting out or have an eight-figure net worth with ten years in the industry, **everyone has the same challenge…find and secure profitable Deals**! So that's where we're going to start today.

Net Worth is Directly related to your Network.

There are the two key factors in finding profitable transactions: First is **having a steady stream of potential deals** crossing your desk, and the second comes down to the **Motivation Level of the Seller**.

Sellers have three basic levels of motivation: **I want to, I need to, and I Have to**! We can have a lot of fun talking to "want to" sellers, but we might "have to" get a day job to support our investing business! So, to make ours' a profitable business, **we should only negotiate with "I need to" and "I Have to" sellers**. "Have to" people have the highest sense of urgency and willingness to negotiate.

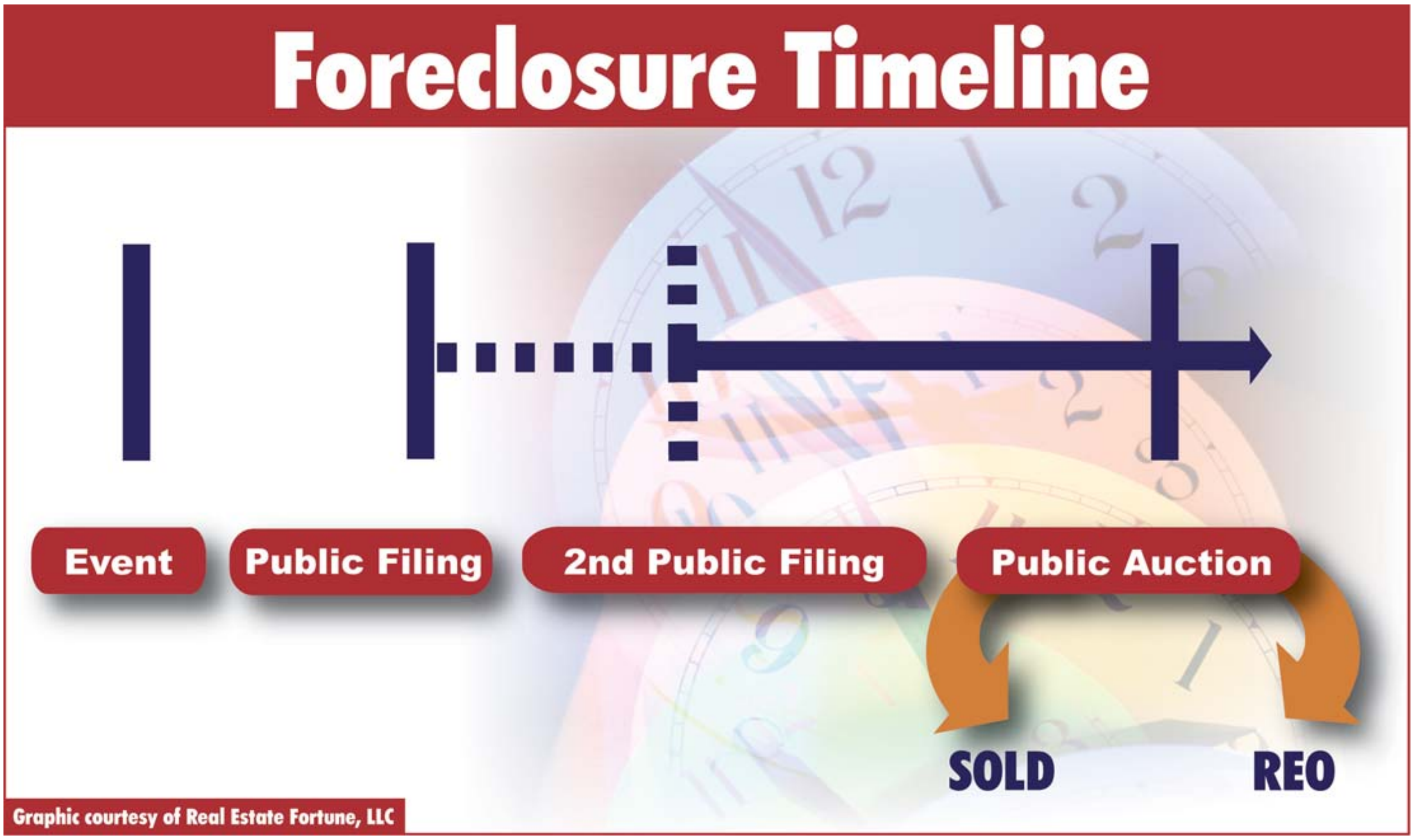
Foreclosure investing is always a hot topic because owners in the foreclosure (as a group) are thought to be motivated sellers. There are phenomenal opportunities for profits in foreclosure investing, and because of this there is a lot of "competition" in the market.

I created a **Foreclosure Property Investing Opportunity Timeline** to illustrate the **Three Phases** the owner/property/mortgage goes through. This helps our students and investors segment, understand and take advantage of foreclosure opportunities that others might unknowingly walk past.

We'll focus on **Finding Deals in Phase One** here, and cover the subsequent phases and activities in future issues.

The Three Phases of the Foreclosure Timeline:

Phase I is from the "Event" (reasons the borrower fell behind) to the Initial Public Filing. Since there hasn't



been a public notice or filing, you could think of this as the *Pre*-pre-foreclosure. Banks refer to this as the beginning of the "Default Period".

Phase 2 begins at the Initial Public Filing (NOD, NTS, Lis Pendens…each State is a little different depending on whether they have a judicial or non-judicial process), and runs to the time of Auction. This time is commonly known as the Pre-Foreclosure period.

Phase 3 starts at the actual Public Auction, what occurs there and afterward. This is the phase where properties are either bought at the auction by a third party or revert back to the lender (REO).

We all know that by the time a lender has to file for foreclosure, a homeowner might be at the end of their rope emotionally. If not, they will be once the notice is filed and the clock starts ticking toward the auction. I have been at many a kitchen table that held a pile of opened and unopened mail (with the unopened on top because they know what it says and don't want any more reminders of their situation).

The **First Phase** starts with what I call the "**EVENT**". Usually that's not a very pleasant circumstance in people's lives because it sets them off their normal course of living. An event could be job loss or transfer, it could be mismanagement of money over a period of time that comes to a head or an economic downturn in the area. Folks get behind on their credit cards, they can't pay Sally's tumbling class bill and then all of a sudden it's the mortgage payment that falls behind.

Depending on the bank and their procedures, the homeowner will be contacted, first by letter and then by phone, within 10 to 45 days after they miss a payment. If payments aren't caught up, the lender sends an inspector out within 90-120 days to see the condition of the property and whether it's still occupied. This information is put together and the default or loss mitigation department makes a determination whether they're going to go file or continue a workout process with the homeowner.

Getting in communication with the borrower in default early increases the lenders chances of minimizing losses so many banks are willing to work with you and the borrower because they usually don't want to file foreclosure.

Another advantage to finding and working with people in the "Event to Public Notice Stage" is that you have **less competition from other investors than in Phase Two**. In Phase Two, other investors can easily market to them because of the **public notice,** which is available through a myriad of list companies**.** We actually get them the same day they are filed.

You're already in the door before this happens and have purchased the property, or at a minimum, have established a relationship with the homeowner. If you establish trust with the homeowner and keep in touch, they are most likely to work out their situation with you if they go into foreclosure.

Find out if you can file a form at your County Recorders office to be notified (when all creditors are) if the property is filed against. You don't have a claim against the property, but you will be able to reconnect with the homeowner after you receive the notice.

Interestingly, **Phase One could last for a year or more**. Banks foreclosure procedures differ pending on policy and economic conditions geographically. There might be a glut of REO's in the area, and they certainly don't want more.

Homeowners in trouble might be able to "borrow themselves out of debt" for a long time through credit cards, lines of credit or with friends and family. They could sell assets or file for bankruptcy protection, but if the underlying problem isn't resolved, they will eventually have to do something with their property, as the bank will eventually take action.

Here are some effective strategies to Finding Motivated Phase One Sellers:

Contact local and regional banks that lend in your area. Take your local lenders' loss mitigation department head to lunch. Let them know you are an active investor who is willing to buy properties and work with their borrowers to work out a win-win situation. Usually the referrals you receive from these sources have a high likelihood of being a deal. Also let them know you have a Team of competent pro's that work with you.

Research the companies that are "default asset manager's" for lenders that have property in your area. Asset managers, like Fidelity and First American manage hundreds of millions in bank foreclosures and REO's. Their job is to cost effectively manage default processes for banks and mortgage companies. Although they usually work through realtors, these companies get paid to move assets and will also work with investors. Build a relationship with individuals who could send properties your way.

Purchase and (consistently) mail to lists of borrowers that are 30 or 60 days late on their consumer debt. We have found that more than a third of people that are reported 60 days late on their credit report also get into trouble with their property. Arizona has 6-7000 people every month that go 60 days late…that corresponds to about 800-900 new foreclosures filed monthly.

Not everyone in the "lates" are property, so sort by property owners. You can target a particular geographical area, marital status and lots of other criteria. To defray list and mailing costs, you might want to co-op with a mortgage broker and/or a realtor since they will get business from the mailing too.

Mailing "lates" puts you way out in front of the competition and in front of potential sellers with your name and brand. There are guidelines to how you can mail these lists, so check with your list company as to the "do's and don'ts".

Find the mortgage types that are the majority of foreclosures in your area. Some sub-prime loans are 5-10 times more likely to go into default than other mortgage types, and mortgages are most likely to go into default around the third year. Research the loan type and lenders most likely to have foreclosures and let them know you buy property. You could also target market the borrowers.

Get Aggressive and do radio ads, billboards or TV spots.

Signs, signs everywhere. Crazy as it sounds they still work. All you need is one or two deals a year to make signs pay.

Advertise in the local newspaper or "Pennysaver". Let homeowners know that you work with people that need help with their financial situation. You can start small, but **be consistent**. Work an advertising strategy long enough to see if it works, usually a few months.

Get Aggressive and do radio ads, billboards or TV spots. You'll want some seasoning and a well thought out strategy to work with these people if you're prepared to invest and costly mass-market advertising strategy with toll-free numbers and websites. **But the payoff is potentially very big as I know many investors who buy 10-20+ properties per month using mass media.**

Everything in advertising comes down to cost per deal closed. If you have an advertising cost of $1500 per property but average $15,000 in profit, the numbers might work.

Establish relationships "sub-prime" or "hard money" lenders. They deal with people everyday that might not be able to conventionally refinance their property or obtain a second. Many of these lenders advertise aggressively, which gives you the opportunity to leverage yourself through their budget. They can refer these people to you so that you can buy the home, or as a realtor, list the home for sale.

In many cases, these lenders are also wholesalers that will buy or tie-up the property to move to other investors. If you buy through a wholesaler, you won't have the same spread as if you found the property directly, but they serve to be a source of finding deals without much effort or cost on your part.

Check bankruptcy filings and mail to the petitioners. Many people seek Chapter 7 or 13 relief before their property goes into Phase Two. Contact asset holders that go into BK and let them know you buy property. Although they have probably filed because they want to save their house, there are thousands of circumstances monthly where the creditors force a sale, the Petition is Dismissed and they are no longer protected or the owner just get's to the point they want to sell.

Homeowner equity and Homestead exemptions vary from state to state so check out you local laws. You can find BK filings on http://pacer.psc.uscourts.gov/ or www.buybankhomes.com and local attorneys are also a great source of potential deals.

Establish relationships with "private money" sources and trust deed investors. These lenders will be a source of funds for you to fund your transactions, as well as a potential source for properties. Trust deed investors usually don't want to foreclose on a property if they have a chance to sell the note to someone else. Remember, a note holder can only collect principal, interest and fees if they foreclose, the overage at auction goes to the homeowner after mortgage(s), liens and taxes.

Suggestions for effectively working with Phase One Motivated Sellers:

Have a consistent, organized method to responding to calls and requests. I suggest that you have a short presentation on who you are, and the process you go through to determine whether or not you can assist them. Have a checklist with the most important info you need before setting an appointment.

If you are in front of a borrower that is behind 60-90 days or more on their obligations, they are very likely to be foreclosed on. The bills are getting to the point of being to big to catch up on, and if they don't act quickly, time runs out.

The most effective approach to obtain appointments and establish trust and find out if you have a potential deal is to offer service to the homeowner by:

Educating and assisting them with loss mitigation options that the bank might offer them (i.e. forbearance or a catch-up plan), Exploring **opportunities to refinance** or options of a **junior note,** Assisting them with their "**Family P&L", Negotiating with the lender** on their behalf, suggesting a **credit counseling service** and finally by you **purchasing the property** (which will happen more often than not).

Loss Mitigation is the process of working with the homeowner and the bank to come to an agreement on

Tim Rocho

Tim Rocho owns the Scottsdale, Arizona based real estate investment training company Real Estate Fortune, llc. REF also markets Arizona foreclosure data and management software. Tim can be contacted at 480-855-1299, ceo@refortune.com or be found online at www.refortune.com.

the existing mortgage. Lenders have policies and processes for dealing with owners in default.

They are many times willing to tack the late amounts to the back-end of the mortgage term, adjust the payment over the remaining term of the mortgage or add the arrearages to the owner's monthly payments for 3-12 months. Remember, lenders are most likely to do this if the borrower shows that their income is restored to a point they can afford the extra amounts.

Where do loss-mit workouts leave you? You could charge a fee for your time, anywhere from $200 to a full mortgage payment, or just work with them to get their situation resolved with the idea that they will give you first right of refusal if the plan doesn't work long term.

In every situation when dealing with owners that are behind, you will want to get an **"Authorization to Release Information"** and a **cash-flow worksheet** (budget) from the homeowner. The authorization gives you the right to communicate with the bank to find out what's really owed, and the budget tells you which direction to go with the homeowner. (I also do a preliminary title check if we start working with a homeowner).

Even though the homeowner might "need to" or "have to" sell, they might not be motivated!

Even though the homeowner might "need to" or "have to" sell, they might not be motivated! You have to get the "whole picture" to evaluate whether there's a deal for you or not. Many times there is, but the owners are deep in denial. It's up to you to present the situation in a way that the homeowner realizes what is really occurring.

If there is enough equity or potential for positive cash-flow, creative acquisition strategies (that we'll discuss further in **Phase Two**) for foreclosure investors apply. Some are:

Subject-To. Put cash in the owner's pocket, get a Quit Claim Deed and transfer the property into a land trust. Pay the mortgage and Fix/flip, Fix/lease or just flip.

Lease-Option. Put cash in the owner's pocket. Option the property for a price and pay the mortgage on a lease. Either sell the property and pay the owner off, or do a “sandwich lease” with another party.

Equity-split. Maybe put cash in the owners pocket. Put the property under contract (or get the deed) and pay the owner a % of the profit once the property is sold.

Assignment. Put the property under contract, and take a fee from another investor to take the contract from you.

Cash or Refi to cash purchase.

The “Takeaway” here is that you can participate in “Foreclosure Investing” without the property actually being filed on. Most investors don’t take the time to establish lender/bank-oriented contacts. Many don’t understand that a foreclosure is just part of the overall “default process” and that you often have more than one “motivated seller” (the homeowner and the mortgage holder).

And the real beauty of real estate investing is that, even if you only found an additional property though these methods once a quarter, **it could translate into an additional $50-150,000 or more in income! Choose one or two of the Strategies I outlined and make them part of your business for the next 90-Days…they will pay dividends!**

In the next issue of Creative Real Estate Lifestyles, we’ll be talking about buying property once the Public Notice has been filed, up to the time of Auction in Phase Two. See you then!