The very word “Foreclosure” brings Real Estate Investors like ourselves a little thrill. Visions of huge discounts on properties, like sugarplums for 12 year olds, dance in our heads.

But the realities of Foreclosures are much, much different. There are still fortunes to be had, after all there is gold in them that homes, but those slam dunk, bought at a huge discount, easy money deals are few and far between for most Real Estate Entrepreneurs.

“Regular” Real Estate Investors (whatever that means) are at an even greater disadvantage.

I rarely write a check to buy a house, and I never, ever sign for a loan. I’d rather have my fingernails pulled out than beg for money from a bank.

Let me step back for a moment. First, when I talk about Foreclosures, I usually mean Pre-Foreclosures. Before the bank takes it back.

After the bank takes it back, I call it REO (“Real Estate Owned”- by the bank). This is fairly standard in the Real Estate Business, but “Foreclosures” are technically only the ones that have already been seized by the County and given to the banks.

So, Foreclosures, as I’ll discuss them today, are technically Pre-Foreclosures, before the Auction happens. The REO’s are not necessarily any special kind of deal, so let’s leave them to another article.

The process of Foreclosure follows three distinct phases. Pay attention to this, and you’ll know more about this process than most “old-timers” in this business, and 99.99% of the rest of the world.

First, once a payment has been missed, the loan is still being dealt with by the same department of the bank that collects regular payments. This is the Residential Loans Department, or Consumer Loans Department, something similar.

They don’t have any idea what a Short Sale is, or that it’s even possible, so don’t even bother- you’re talking to the wrong people.

Second, just prior to filing the Foreclosure, the bank will transfer the processing of the loan to a department called Loss Mitigation. Loss Mitigation is the only department of the Bank that ever checks title. So if you don’t let your Subject-to
properties get more than one or two months behind, you’ll never have a problem, because the bank will never know you bought it!

These are the “mean” folks your Foreclosure Sellers have been telling you about. Here’s a caution: their job is to get someone to pay those bills, and they can and will say or do whatever they want to get that accomplished.

If they tell you they’ll accept $4,400 to re-instate a loan (make it current again), GET IT IN WRITING!! They will lie, just to get you to send the check.

I have a friend, who has asked to remain nameless, who buys roughly 7 times as many foreclosures as I do. Yet his profits are only about 150% of mine on Foreclosures.

Why? Because he very often loses money on his deals! He commits 2 of the 3 Unforgivable sins of Foreclosures- he puts his own money into the deals, and he makes promises he’s not 100% sure he can keep! (The 3rd is to pay too much, and you should know that!) Then he chases bad money with good, trying to “save” the deal- which isn’t a deal anyway. And he loses his butt about half the time.

Here’s an example: He bought a house that was in Foreclosure “Subject-to,” gave the Seller $8,000 CASH for his equity, and sent $11,000 to the bank to Re-Instate the loan. The house was worth $170,000 and had about $40,000 in equity, from which he had to get his money back and make a profit.

Here’s the problem; the Bank accepted the $11,000- but didn’t stop the Foreclosure. And because the place was “rough around the edges,” he would have a hard time Retailing it quickly for cash.

By the time he sold the place, quickly, because he had too much money buried in the deal to let it go or risk losing a Short Sale, he lost $6,500. And four months of time and effort.

Rule #1: Don’t Put Your Own Money Into a Deal.

Rule #2: Don’t Make Promises You’re Not 100% Sure You Can Keep

Rule #3: Don’t Pay Too Much.

The third stage of the Foreclosure Process, as it applies to us, is the Suit for Judgment. This goes by different names in different states, but the process is always the same.

This is the point where the amount owed the bank is locked in, the date for the Auction is set, and a Judge signs, seals, and has this Judgment delivered to the homeowner.
This is typically 30 days or less from the auction, and this process is how the Courts liquidate the property to pay back the bank. Note: I didn’t say “this is how the bank takes the house back”.

In fact, for the Bank to get the house back, they have to be the high bidders at the auction, just like anyone else. If the bank has a large equity position, they’ll typically send someone to the auction to bid $1 more than what they are owed. That way, they are either paid off, or they win the bid and become the owners.

Many times, if the bank owes too much, and they know it, they will NOT want the house back, and will just take whatever they can get at the Foreclosure Auction.

THESE ARE THE DEALS YOU WANT TO SHORT SALE!!

When the Bank knows (or should know) that they will not get all of their money back if the property goes to Auction, they are happy to play “Let’s Make a Deal” with us as Investors.

And, in fact, Short Sales are a fairly easy thing to do on the right Properties. Here’s what I mean by the “right” things to look for. You don’t need them all, 1 or 2 will work.

1. Needs Repairs
2. Has VERY low comps
3. Loan Balance more than 90% of the Market Value
4. 1st Mortgage Loan Amount More than $375,000
5. Property Value Higher Than $500,000
6. Loan is 2nd, 3rd, or Higher Mortgage

When the Bank finds itself sitting on a Property or a Loan that fits these categories, you’ve got a great opportunity at a discount!

Here’s an example:

I bought a house in West Palm Beach with a 1st and 2nd Mortgage, as follows:

<table>
<thead>
<tr>
<th>Property Value</th>
<th>$125,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comps</td>
<td>$103,000 to $135,000</td>
</tr>
<tr>
<td>1st Mortgage</td>
<td>$65,000 and $3,500 behind</td>
</tr>
</tbody>
</table>
2nd Mortgage: $35,000 and $4,000 behind

Needed $1,300 in Repairs (Paint and Carpets, etc.)

I could not discount the 1st Mortgage, because they simply had no reason to worry- they were at about a 55% Loan to value.

But ahhhhhh… the Second Mortgage! After about a two minute phone call, the Second Mortgage Bank accepted $4,500 as full pay off of their Note. Eureka!

I sold that house “As-Is” for $134,900- and didn’t do a nickel in repairs. I essentially bought this $135,000 house for $73,000. In a hot market, where every single day, somebody tells me “that won’t work here.” What a crock!

How many of these do you need to get where you want to go?

- Jason Loucks, 7DaysaleGuy.Com