

GROWING WEALTH™
N E T W O R K
Special Report

Top 10 Foreclosure Investing Secrets

A Special Report for Investors

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The Robert Allen Institute® is pleased that you took the time to come to our free *Creating Wealth with Real Estate* workshop. Knowing how busy your schedule must be, we appreciate the fact that you made the workshop a priority. Your attendance tells us that you saw the value and were willing to take specific action to learn more about real estate investing. To our thinking, that effort should be rewarded.

As a small token of our appreciation for you taking your valuable time to learn more about the Robert Allen Institute and our *Creating Wealth with Real Estate* system, we want to provide you with this complimentary special report: *Top 10 Foreclosure Investing Secrets*.

Investing in foreclosures isn't difficult; it's just different. In many ways foreclosure investing operates along its own unique set of rules. For example, you may find homes in foreclosure in slightly different ways than you would find traditional real estate investment properties. You'll interact with the homeowners (and frequently with the lienholders) in specific and definitive ways. So, knowing what to say, how to say it, and how to present yourself professionally to the homeowner, the lender, and the person who eventually buys the property from you are just three things you'll need to master as you begin to walk the path to financial freedom through foreclosure investing.

Most people learn these ropes through trial and error. Along the way they uncover "secrets" that can make each successive investing experience a little quicker, more profitable, or less complicated. The 10 secrets listed here may open your eyes and facilitate your foreclosure investing. Rather than keep this critical knowledge to ourselves, we want you, our workshop guests, to benefit from this information.

So, dive into this special report — Top 10 Foreclosure Investing Secrets — and begin your journey to *Creating Wealth with Real Estate*.

To your success,

The Robert Allen Institute

SECRET #1:

**ALL TYPES OF
PROPERTIES GO
INTO FORECLOSURE.**

If you think foreclosure properties are only single-family, detached homes, think again. Right in your own back yard you may find condominiums or townhomes that have gone into foreclosure. You could also find commercial property in foreclosure, like office buildings, motels, or strip centers. Plus, you may find vacant lots and buildable land.

The point is, there is no single “type” of property in foreclosure, rather it’s the owners who have met with some sort of financial crisis and who are no longer able to continue making the payments for whatever type of property it is.

Some common causes of foreclosure are death, divorce, job loss or transfer, and illness. In the current economic climate, many homeowners are facing foreclosure simply due to the way the initial mortgage was structured. Those interest-only and adjustable-rate mortgages allowed homeowners to get in at artificially low rates and payments. The trouble is, the rates have now adjusted, causing the payments to skyrocket beyond the homeowner’s ability to meet the obligation.

SECRET #2:

**FORECLOSURE
PROPERTIES AREN’T
NECESSARILY
RAMSHACKLE
HOVELS AND
HANDYMAN
SPECIALS.**

High-end, pristine properties go into foreclosure every day. Imagine investing in a foreclosure property that needs nothing more than a shiny “for sale” sign stuck in the yard.

Or what about homes that need minor cosmetic touches? When you purchase a foreclosure property using the *Creating Wealth with Real Estate* system, you may be able to get in at a rock-bottom price and possibly have built-in equity immediately. A fresh coat of paint, plush carpet, and sparking new fixtures may be all that stands between you and a big, fat check!

And yes, some foreclosure properties could need extensive work. Does that mean you have to work through the night hanging drywall and doors? Of course not! The *Creating Wealth with Real Estate* system will show you how to market foreclosure properties that are in disrepair to the kinds of people who love doing that sort of work — rehabbers, contractors, and handymen — while still pocketing a tidy sum for locating the property and negotiating the deal.

SECRET #3:

FORECLOSURE PROPERTIES CAN BE FOUND ANYWHERE.

Plenty of naysayers like to claim, “I can’t be a successful foreclosure investor. There are just no foreclosures in my area.” Isn’t it amazing how some people are so convinced that a system can’t work that all they do is focus on making excuses?

Foreclosures are everywhere, in every city, county, and state. What you need to know is how to capitalize on the foreclosures you do find. You do that by understanding whether the state in which the property is located is a “judicial” or “nonjudicial” state. Those terms refer to the process observed by that particular state.

For example, in a judicial state, the security instrument generally is a mortgage. A mortgage is a two-party agreement between the borrower and lender that clearly outlines the negative consequences if the borrower fails to pay according to the agreed-upon terms. The moment the borrower in a judicial state misses a mortgage payment, he or she is deemed to be in default. Demand letters from the lender will follow and if the person fails to bring the account current, the lender files a complaint that initiates the lawsuit to foreclose. A *lis pendens*, that notifies all parties a lawsuit is pending on the property, is recorded.

The homeowner is given an option to answer the complaint. If an answer is filed, a date is scheduled for the lender and homeowner to meet in court. The judge will hear both sides and decide if the lender has the right to proceed with the foreclosure or if the homeowner should be given more time. If the court rules in the favor of the lender, a judgment is issued and a foreclosure sale date (sometimes called a sheriff’s sale) is set.

The sheriff’s sale must be advertised at least three times in local newspapers. The sale typically takes place three to four weeks after advertising. The property is sold to the highest bidder and a certificate of sale is issued to the buyer.

The foreclosure process in a nonjudicial state is similar, but with some key differences. First, the security instrument is called a deed of trust, which is a three-party agreement between the borrower, lender, and trustee.

Usually after a borrower is in default 60 or 90 days in a nonjudicial state, the lender files the notice of default (NOD) at the county recorder’s office and mails a certified copy to the homeowner. The NOD is the official notice that foreclosure has begun.

Next, a notice of sale (NOS) is recorded and the pending foreclosure sale is advertised in a newspaper for three to six weeks. During this time, the lender is preparing for the forced sale. The trustee then conducts the public auction.

Can you buy a foreclosure in a judicial or nonjudicial state? Absolutely! The key is understanding the process and following the *Creating Wealth with Real Estate* system.

SECRET #4:

**FORECLOSURE
PROPERTIES OFFER
FOUR DISTINCT
“POWER PERIODS”
OF BUYING
OPPORTUNITY.**

Do you think the auction at the courthouse steps is your only opportunity to cash in on foreclosure properties? Not so. In fact, the auction itself may be the least desirable of your foreclosure investing options (see Secret #6).

In actuality, there are no fewer than four distinct power periods for purchasing foreclosure properties. Three of them you’ve probably heard of — pre-foreclosure, at the auction, and after the auction — but the other, “pre-pre-foreclosure,” is one virtually no one knows about.

The pre-pre-foreclosure period begins the day the first payment is missed. That’s the time when only two people know the homeowner is in trouble: the homeowner himself and the lender who hasn’t gotten his money. At that moment, nothing has been filed and the information is not public. Only the homeowner knows if the default is a momentary blip that can be corrected or the beginning of the long, hard road to losing his or her home.

Because the pre-pre-foreclosure period is the earliest indicator of homeowner distress, it affords the savvy foreclosure investor the least amount of competition and the greatest amount of time to seek solutions for the borrower.

The second power period is the pre-foreclosure time. Pre-foreclosure is when the information becomes public knowledge, either through the filing of a lis pendens in a judicial state or NOD in a nonjudicial state.

Your third foreclosure buying opportunity is at the auction and your fourth is buying after the auction from the lender or the successful bidder. When the lender takes back the property, it becomes known as an REO, which stands for real estate owned. The property becomes part of the bank’s portfolio of nonperforming assets and the bank is highly motivated to get that property off their books (more about that later).

Remember, foreclosure is a process, not an event, and the time frame from when the first payment is skipped to the moment the gavel falls at the auction could be a year or more. Attending the *Creating Wealth with Real Estate* three-day training will help you maximize foreclosure buying opportunities every step of the way.

SECRET #5:

PEOPLE IN FORECLOSURE NEED AND WANT YOUR HELP, ALTHOUGH IT MAY NOT SEEM THAT WAY WHEN YOU FIRST CONTACT THEM.

Imagine what it must be like to face the prospect of losing your home. Chances are the reason the person started missing payments in the first place was some sort of devastating calamity in their lives: illness, divorce, death, or job loss. What's more, grief, depression, and mourning frequently accompany these types of events. Now, imagine the added burden of losing their home. Piled atop the misery they feel from the initial event that pushed them into default are harassing creditor calls and threatening demand letters. Is it any wonder that many people experiencing foreclosure can't even get out of bed?

The future often seems dark for homeowners in foreclosure. They don't know which way to turn and see no way out, yet feel paralyzed to do anything to improve their situation. The pain and suffering they feel makes it impossible for them to take any action whatsoever. If someone with the knowledge and skills to help doesn't step in to help the homeowner, they frequently stand by helplessly until the deputies begin moving their belongings out onto the sidewalk.

However, as a foreclosure specialist, you can be the one to step in before the homeowners ruin their credit and lose everything. You can outline their options (some people may even be able to stay in their homes!) and give them hope for a brighter tomorrow.

If it turns out that the homeowner simply can't remain in their home, you may be able to structure a deal that saves their credit and gives them something for their equity.

Foreclosure specialists provide a valuable service. Many foreclosure specialists walk away from the closing table to hugs and handshakes from people who feel an enormous sense of relief by getting out from under oppressive mortgage payments. They actually thank the foreclosure specialist for helping them make a fresh start so they could move on and find an affordable home.

Many foreclosure specialists get a tremendous sense of satisfaction from helping people in this way, and you can too!

SECRET #6:

IT'S TRUE! THE FORECLOSURE AUCTION ITSELF MAY BE THE WORST PLACE FOR YOU TO BUY A FORECLOSED PROPERTY.

When it comes to foreclosures, many novice investors think the auction is the be-all and end-all of the buying opportunity. Yes, you can purchase a foreclosure “on the courthouse steps,” as it were, but it may not be the wisest place for you to begin.

Here’s what could happen at a typical foreclosure auction. You gather on the steps with 50 or more other investors. The auctioneer initiates the auction and the bidding frenzy begins. The auctioneer is speaking so rapidly that it sounds like his tongue is on fast-forward. Before you know it the price has climbed \$200,000 in what seems like seconds. People scratch their noses and the figure goes up, up, up! You get caught up in the heat of the moment and bid

more than you expected or wanted to spend. The gavel falls and the home is yours. How’d that happen so fast?

You are notified that payment in full, in cash, is expected within 24 hours. You ask about an inspection period and the person looks at you like you are nuts. “Sorry friend, you bought it. It’s yours.”

So, the result is you overpaid for a house that may have no interior walls or operable wiring and you have to hand over the funds in virtually less time than it takes to handwrite the check.

Can you see how the auction itself may not be the ideal place for a novice to become a profitable foreclosure investor? But don’t worry. The *Creating Wealth with Real Estate* three-day training will outline better entry points for beginners than the fast and frenzied foreclosure auction.

SECRET #7:

FORECLOSURES CAN BE GREAT PRIMARY RESIDENCES.

When it comes to where you live, you want the best home money can buy. Most of us have dreams of raising our families in big houses in the right neighborhoods with the best schools. Of course, dreams aren’t reality and frequently we have to settle for less because we simply can’t afford what we really want.

Why not let your first foreclosure investment be for your primary residence? We’ve already discussed how all types of properties go into foreclosure (Secret #1), they aren’t necessarily falling apart (Secret #2) and you can find them anywhere (Secret #3).

Start looking for foreclosure opportunities in your community’s finest areas. You may be able to buy more house and more neighborhood for less money and give your family all you’d hoped.

SECRET #8:

**BELIEVE IT OR NOT;
BANKS WANT TO
SELL YOU THEIR
REO PROPERTIES.**

a bank has, the riskier it looks. The riskier the bank looks, the more they pay for their money.

For every \$1 the bank has in default, the bank is required to hold \$8 in a reserve account. For example, \$100 million in default means the bank must hold \$800 million in reserves. If a property is in foreclosure for eight months and bankruptcy for another 10 months, that is a LONG time to have money doing nothing. Attorneys can tie up a property for years, allowing the homeowner to nearly live for free

If the bank gets rid of the house today, gets some cash, and gets the bad loan off the books, then their books look good and they can borrow money cheaper and lower their cash reserves.

SECRET #9:

**IN CERTAIN CASES,
BANKS MAY
ACTUALLY TAKE
LESS THAN THEY
ARE OWED.**

Banks loan money in exchange for monthly payments. When people get laid off, get sick, lose their jobs, and are unable to make their monthly payments, the loans become non-performing assets (aka bad debt). When bad debt increases, the Feds come in and lower the amount of money the banks can loan out. What this means for the bank is: lower profits, lower stock values.

You must look at the situation like a bank, NOT an investor. To loan out money, the bank must show quarterly reports. The more bad loans

Doesn't seem right, does it? After all, if the friend you loaned \$20 to last week came by tomorrow and offered you \$15 to call it even, you'd probably tell him to go jump in the lake. But that's the way a regular person thinks. To understand why a bank would take less, you have to think the way a bank thinks.

Banks are in the "money" business, not the "house" business. When banks are forced to foreclose, they are faced with myriad responsibilities they neither like nor want to do. If the family is still in the residence after the auction, the bank must repossess and evict them. How's that for a public relations nightmare? Also, do you think that during the lengthy foreclosure process the family maintained the residence or possibly, out of frustration and desperation, caused damage? That means the bank may have to clean, repair, and rehab the home, as well as tend to ongoing maintenance while the house is on the market. Speaking of being "on the market," the bank will need to list the house with a real estate agent and pay his or her commission upon the sale.

During the months it takes to find the right buyer, the bank will need to carry insurance and pay taxes on the home. The real estate agent needs the utilities kept on to show the house, and don't forget the lawns must remain in shipshape.

Can you see how banks may be motivated to cut their losses now rather than sit on a non-performing asset for three, six, or nine months?

Selling for less than the amount owed is called a short sale and to get a bank to accept your offer requires specific steps and documentation, which is covered in-depth in the *Creating Wealth with Real Estate* three-day training.

SECRET #10:

FORECLOSURE PROPERTIES MAY BE LISTED WITH REAL ESTATE AGENTS BEFORE OR AFTER THE FORECLOSURE AUCTION.

When a family is facing foreclosure, they typically have three options: Bring the loan current, sell the home, or refinance the loan. The second, sell the home, sometimes means the home will be listed with a real estate agent in an attempt to sell it before the auction. After the bank forecloses and takes back a home, the home generally is listed with a local real estate agent.

In both cases, no flashing neon signs announce "Foreclosure! Foreclosure! Possible Great Investment Ahead!" Usually, it's a normal-looking "for sale" sign planted in the yard. That's why you can drive by pre-foreclosures, foreclosures, and REOs every day without even knowing it. Heck, the house across the street could be

in foreclosure and you wouldn't even know it.

New foreclosures go on the market almost every day. And, as we already discussed in Secret #2, the properties may be pristine. That's why you may need specialized knowledge to locate foreclosure properties and specialized training to make the most of the opportunity when you do find them.

IN CONCLUSION

Remember, foreclosure is a process, not an event. Savvy investors are presented with distinct buying opportunities every step of the way, from pre-pre-foreclosure, all the way through to bank-owned REOs. The way to make the most of those opportunities is through specialized knowledge and training.

The Robert Allen Institute stands ready to support you as you begin your journey to *Creating Wealth with Real Estate*.