
FORECLOSURES;
BUYING AT WHOLESALE, SELLING AT RETAIL



THE BASICS YOU NEED TO KNOW
TO PROFIT FROM THIS MARKET

Presented By:

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What is a Foreclosure?



A foreclosure is the process that allows a lender to recover the amount owned on a defaulted loan by selling or taking ownership (repossession) of the property securing the loan.

How does the Foreclosure Process Begin?

The foreclosure process begins when a borrower/owner defaults on loan payments (usually mortgage payments) and the lender files a public default notice, called a Notice of Default or Lis Pendens.



Why Buy Foreclosed Properties?



Buying foreclosures allows you to purchase properties at wholesale rather than retail. The resale at market price will result in a profit.

What Will You Learn?

- ❖ Myths of foreclosure
- ❖ Four ways foreclosures can be resolved
- ❖ Difference between a judicial and non-judicial foreclosure
- ❖ Three opportunities to purchase foreclosures

What Will You Learn?

- ❖ How to buy a foreclosure from the owner
- ❖ Ways to determine the condition of the home in foreclosure
- ❖ How to successfully bid at a foreclosure auction
- ❖ What a short sale is and how to acquire great properties

Foreclosure Myths

Myth 1: All foreclosures are in disrepair. Some may be in less than ideal condition, but many are in very good condition.

Myth 2: Lenders don't want to foreclose on homeowners. This is a costly and time consuming process and is typically the last resort for lenders to recover their investment.

Myth 3: Foreclosed homeowners never actually get kicked out of their home. Eviction can and does happen, even though it's costly and a lengthy process.

Foreclosure Myths

Myth 4: Foreclosure buyers usually take unfair advantage of the homeowner. Although there are unscrupulous people, most want to help the home owner. A pre-foreclosure purchase allows the home owner to retain their credit rating and obtain some equity to start over.

Myth 5: Foreclosures can be bought for pennies on the dollar. There are bargains, but be wary of those who claim that they buy properties far below the stated value.

Foreclosure Myths

Myth 6: Foreclosure investing is an easy way to get rich quick. It takes time, money and a lot of research to obtain properties. With realistic expectations, you can do well.

Myth 7: Buying foreclosures is only for professional investors. There are online resources and real estate professionals who can help you succeed.

Four Ways Foreclosures Can be Resolved

1. The borrower/owner reinstates the loan by paying off the default amount during a pre-determined grace period. This is the pre-foreclosure period.



Four Ways Foreclosures Can be Resolved

2. The borrower/owner sells the property to a third party during the pre-foreclosure period.



Four Ways Foreclosures Can be Resolved

3. A third party buys the property at a public auction at the end of the pre-foreclosure period.



Four Ways Foreclosures Can be Resolved

4. The lender takes ownership of the property. These are known as bank-owned or REO properties (Real Estate Owned by the lender).



Causes of Foreclosures

- ❖ Foreclosures are typically caused by:
 - ❖ Divorce
 - ❖ Death
 - ❖ Health issues
 - ❖ Money problems/excessive debt
 - ❖ Loan products adjusting which make new payment unaffordable

Foreclosure Property Notice Definitions

- ❖ Notice of Default (NOD) – missed mortgage payments
- ❖ Lis Pendens (LIS) – a pending suit due to mortgage default
- ❖ Notice of Trustee Sale (NTS) – auction advertisement for 4 consecutive weeks
- ❖ Notice of Foreclosure Sale (NFS) – legal document notifying owner of foreclosure auction in 21 days
- ❖ Real Estate Owned (REO) – property purchased by lender; owner evicted

Foreclosure Basics

- ❖ There are two types of foreclosure:
 - ❖ Judicial – used by mortgage states
 - ❖ Non-judicial – used by deed of trust states
- ❖ Most states permit both types of foreclosures, but it is common practice to use one type of foreclosure procedure exclusively.

Judicial Foreclosures



- ❖ Lawsuit brought by the lender against the borrower
- ❖ Process started by serving a summons on the borrower and others with junior liens
- ❖ If the borrower doesn't file an answer, the lender gets a judgment by default

Judicial Foreclosures



- ❖ The property is advertised for sale in the local newspaper
- ❖ If the total amount due isn't paid by the sale date, a public sale is held at the courthouse
- ❖ This process can take a few months or a year

Judicial Foreclosures



- ❖ Typically the only bidder is the lender's representative
- ❖ The lender can bid up to the amount owed without having to pay cash out of pocket
- ❖ If the bidding results in anything less than the full amount due, the lender may be entitled to a deficiency judgment

Non-judicial Foreclosures

- ❖ Referred to as a power of sale because no lawsuit is involved
- ❖ Lender files a notice of default and a notice of sale is published in the local newspaper
- ❖ This process takes about 90 days

No Sale Required Foreclosures

- ❖ Two states – New Hampshire and Connecticut – use strict foreclosure
 - ❖ No sale required
 - ❖ Borrower has a certain amount of time to pay what is owed
 - ❖ If repayment is not made within a specified timeframe, the title reverts to the lender without need of a sale

Opportunities to Buy Foreclosures

- ❖ You have 3 opportunities to purchase foreclosures:
 - ❖ 1. Buy from the owner prior to a foreclosure
 - ❖ 2. Buy at a foreclosure sale
 - ❖ 3. Buy from the lender after a foreclosure



Sources for Purchasing Foreclosures

- ❖ Public notices in the newspaper or online
- ❖ Legal publications
- ❖ Courthouse bulletin board
- ❖ Commercial banks
- ❖ Credit unions

Sources for Purchasing Foreclosures

- ❖ Private mortgage insurance companies (Mortgage Guaranty Insurance Corporate)
- ❖ HUD
- ❖ VA
- ❖ FNMA
- ❖ Online foreclosure/real estate investing clubs
- ❖ Local investing clubs

Researching the Property

- ❖ Call the lender's trustee to confirm that the property is still up for auction
- ❖ The trustee will know whether the owner has sold or reinstated the loan

Researching the Property

- ❖ Use the title company to:
 - ❖ Verify the owner's equity position
 - ❖ Search for IRS liens, bankruptcy filings, tax liens and judgments
- ❖ Title companies provide this information free of charge, don't abuse their kindness

Researching the Property

- ❖ Obtain a CMA (Comparative Market Analysis) from a real estate agent to determine housing values in the immediate vicinity
 - ❖ Compare homes that are similar in:
 - ❖ Square footage
 - ❖ Amenities
 - ❖ Bedrooms/baths
 - ❖ Age/condition

Marketing to the Owner

- ❖ Make your initial contact by mail and explain that you're a private buyer interested in the property
- ❖ Let them know what you can do for them including:
 - ❖ Quick sale – financing in place
 - ❖ Equity payment
 - ❖ Free rent for a specified number of months

Marketing to the Owner

- ❖ Make no reference to foreclosure or default in your written communications
- ❖ Your offer becomes more enticing as the foreclosure date nears
- ❖ If you get no response, contact by phone or in person, but realize you may not get a friendly reception

Marketing to the Owner

- ❖ Be respectful to the owner and assume nothing about the reasons for the foreclosure
- ❖ Avoid getting caught in the owner's other personal and financial problems
- ❖ Continually send out pre-foreclosure letters or postcards rather than waiting for the current set of leads to express interest

Negotiating with the Owner

- ❖ Ask the home owner to name their “walking away price”
- ❖ Include a title search and full inspection of the property contingencies in your contract with the owner
- ❖ Determine if the current mortgage is assumable, if not you will need to obtain new financing
 - ❖ Loans that include a due-on-sale clause cannot be assumed

Negotiating with the Owner

- ❖ If you're working to obtain financing, contact the lender for a sale postponement – it's in their interest to sell the property prior to foreclosure
- ❖ They are more likely to grant a postponement if:
 - ❖ You are able to qualify for a loan for the property
 - ❖ You can refinance or cure the current default

Determining the Home's Condition

- ❖ If you are unable to view the interior, consider talking to the neighbors
- ❖ Ask the following:
 - ❖ If they have viewed the interior
 - ❖ The general condition of the home
 - ❖ If the owners mentioned any problems



Determining the Home's Condition

- ❖ Drive by the home the morning of the sale to ensure no visible damage to the exterior



The Homeowner's Rights

❖ Right of rescission

- ❖ Homeowner in default has the right of rescission from any contract to sell their equity
- ❖ States offer right of rescission and/or criminal penalties for taking undue advantage of an owner in default

❖ Right of redemption

- ❖ Homeowner may have up to 12 months to pay the full amount owed for the property, plus fees and interest and buy back the home after the auction is concluded

Prior to the Auction

- ❖ Research properties fully
- ❖ Pursue realistic opportunities
- ❖ Calculate values and potential profits
- ❖ Determine bid price based on neighborhood values
- ❖ Call your insurance agent and secure a binder for the property prior to attending an auction
 - ❖ You want to be insured against unforeseen losses
 - ❖ Ask your insurance agent to run a CLUE report to determine what/if any insurance claims have been made

Prior to the Auction

- ❖ Obtain a line of credit and have cashier's checks available to pay for transactions
- ❖ Find out the financing requirements – some require a deposit, others require full payment at auction
- ❖ Have a cashier's check for a deposit which is typically \$1000 - \$10000
- ❖ Have cashier's checks in increments of \$1000 - \$5000 made out to you
- ❖ Find out the position of the foreclosing lien holder
 - ❖ Property and tax liens for special assessments are generally priority liens
 - ❖ Know how much these liens are since you're responsible for paying them

Finding the Auction Location



- ❖ To find out where the sale is being held, contact:
 - ❖ Attorney or representative handling the sale
 - ❖ Courthouse/recorder's office
 - ❖ Person who advertised the sale

Finding the Auction Location



- ❖ The sale may be held:
 - ❖ On the courthouse steps
 - ❖ Just inside the courthouse
 - ❖ In the county recorder's office
 - ❖ Remote town
 - ❖ Lawn of the home in foreclosure

At the Auction

- ❖ Register as a bidder and produce your deposit as proof of your eligibility to bid
 - ❖ Your deposit is used to give you the right to bid – if you're not the highest bidder, the deposit is returned to you
 - ❖ Receive a bidder's packet that includes:
 - ❖ Mortgagees sale of real estate legal notice – the same notice published by the auction company
 - ❖ Memorandum of sale or purchase and sale agreement to be signed by the high bidder
 - ❖ Municipal lien certificate form the Office of the Collector of Taxes that will state the exact municipal liens owed on the property
- ❖ Auctioneer will review and read contents of packet

Bidding No No's

- ❖ When attending auctions, you may be:
 - ❖ Offered cash not to bid
 - ❖ Asked to create a bidding partnership for shared distribution of profits
 - ❖ Asked to rotate bidding so that everyone gets to buy properties
- ❖ These tactics are called “bid chilling” and are felonies punishable by fines and/or imprisonment

How to Successfully Bid at an Auction

- ❖ Know your price limit and stick to it
- ❖ Start by bidding \$1 above the opening bid
- ❖ Wait until just before the auctioneer calls “going three times” to put out initial bid
- ❖ Bids are typically raised in increments of \$100
- ❖ Keep your composure and self-control to avoid getting caught up in the bidding excitement

How to Successfully Bid at an Auction

- ❖ Typically the first two deals go the cheapest because everyone is waiting to see what everyone else is going to do
- ❖ Don't expect other bidders to help or mentor you
- ❖ The lender typically sets the opening bid
- ❖ Be prepared to walk away
- ❖ Don't feel obligated to bid or buy anything – if it isn't right, try again another time

What is the Right Price?

- ❖ Pay no more than 75% of retail when buying foreclosures
- ❖ Factor in:
 - ❖ 1%-5% for fix up
 - ❖ 8% for selling
 - ❖ 10% to 15% profit
- ❖ If the home bid on is “sight unseen,” expect the interior to need work

What is the Right Price?

- ❖ Account for the condition of the home in the bidding
- ❖ Assume that the home will need:
 - ❖ Flooring
 - ❖ Window coverings
 - ❖ Paint
 - ❖ Cabinet repair and refinishing
 - ❖ 10 days general handyman work

If Your Bid is Accepted

- ❖ Required to sign:
 - ❖ Memorandum of Sale that states your bid price
 - ❖ Sign over your auction deposit to the attorney or auction company
- ❖ You will be asked how you want to hold title



If Your Bid is Accepted

- ❖ Your deposit will be held in escrow until closing which generally occurs within 21, 20 or 45 days
- ❖ If the home is still occupied, you're responsible for evicting or allowing current residents to rent



Buying Foreclosures from the REO

- ❖ When the lender is the successful bidder, the property goes to the REO (Real Estate Owned) manager
- ❖ The best time to buy REO property is before it officially becomes REO (the same day of the auction)
- ❖ Track the results of the auction to make offers to lenders who bought back the property
- ❖ Send an offer by registered mail or special messenger to the president of the foreclosing lender prior to the sale
- ❖ Make the offer valid for 24 hours and include \$5000 as a good faith offer

Another Way to Locate Foreclosures

- ❖ FNMA and the VA are designated brokers who:
 - ❖ List the property and market it
 - ❖ Renovate the property for resale
- ❖ FNMA property specifications:
 - ❖ Don't warrant the condition of the properties
 - ❖ Sales are by offer and offers are accepted or rejected within a few days
 - ❖ Typically aren't bargains

Another Way to Locate Foreclosures

- ❖ HUD property Specifications:
 - ❖ Minimal work is done to rehab properties
 - ❖ A list price is advertised and sealed bids are used
 - ❖ Buyers must have their own financing
- ❖ VA property specifications:
 - ❖ Bid on properties through a VA broker
 - ❖ Will accept less than the advertised price but they have a minimum
 - ❖ VA low-down financing is available for investors

What is a Short Sale?



- ❖ A short sale, offering less than what is owed, is offered to lenders to pay off the current loan

Short Sale Basics

- ❖ Purchase great properties for less than what is owed
 - ❖ Property value is less than what is owed on the current mortgage
 - ❖ This can happen due to inflated values followed by a market downturn
 - ❖ Lenders don't want to own properties – they want interest and fees from mortgage payments

Short Sale Basics

- ❖ Ask real estate agents for names of lenders who accept short payoffs
- ❖ Include a “contingency” paragraph in your offer specifying that the lender will accept less than a full offer
- ❖ If the seller declares bankruptcy prior to foreclosure, and does a short sale, court can take back property upon return of the consideration you paid

If You're Just Getting Started

- ❖ Work with a real estate agent who specializes in distressed or foreclosed properties
- ❖ Work with a lender who specializes in short sales



If You're Just Getting Started

- ❖ Do your research – don't rely on anyone to find you the best deal
- ❖ Start by buying REO properties since the lender will have cured all outstanding liens and will have dealt with the owner/eviction issues



If You're Just Getting Started

- ❖ Subscribe to foreclosure publications
- ❖ Attend auctions as an observer to learn the ropes
- ❖ Join an investing club to learn more and find a mentor



What We've Discussed

- ❖ Four ways in which foreclosures can be resolved – most foreclosures don't make it to the auction block
- ❖ Foreclosures are caused by a variety of issues but many may be caused by increased cost of living, declining property values and/or increased mortgage payment
- ❖ Judicial and non-judicial foreclosures – most states permit both types but typically states choose one type of foreclosure
- ❖ The judicial foreclosure process can take up to one year but varies from state to state

What We've Discussed

- ❖ The non-judicial foreclosure process can take about 90 days
- ❖ Foreclosures can be bought prior to the auction, at the auction or from the lender after the auction
- ❖ Verify that the pre-foreclosure property is still available before beginning the research process
- ❖ Thoroughly research a property before approaching an owner

What We've Discussed

- ❖ Let owners know how you can help them
- ❖ Consistently market to owners and do multiple mailings to create interest
- ❖ Determine the condition of the home either by physically inspecting the interior or asking neighbors about the property
- ❖ When attending auctions, obtain a line of credit and have a number of cashier's checks made out in your name
- ❖ When bidding, know your price limit and stick to it

What We've Discussed

- ❖ Keep your cool when bidding and be prepared to walk away
- ❖ Don't expect other bidders to provide help or mentor you
- ❖ The best time to buy REO property is at the conclusion of the auction and before it officially becomes an REO property
- ❖ A short sale can be a good opportunity to obtain a great property for less than what is owed
- ❖ If you're just getting started, work with a real estate agent who specializes in distressed or foreclosed properties

Thank You!

For more information:

Your Name

Your Telephone Number

Alternate Contact Number

Your email address

Your web site address