SECTION 1

Getting Started

Every investor knows the secret to earning profits—buy low and sell high. In the real estate market, however, buying low can be a real challenge, particularly when home values are on the rise. Foreclosures are one exception. When homeowners can no longer afford to make their monthly mortgage payments, for whatever reason, they either have to sell and settle with the lender or face losing their home at auction. Either way, the homeowner is at a distinct disadvantage at the bargaining table, giving you, the investor, more power in picking up the property for less than it's worth.

MYTH # **1**

I'm Taking Unfair Advantage of Someone Else's Misfortune.

Fact: You Could Be Saving Their Financial Lives

Thinking of buying a property that's in foreclosure may cause you to feel like you're kicking someone when they're down. This doesn't have to be the case. While the circumstances are unfortunate for the homeowners, you, as an investor, can provide the homeowners with a graceful exit: Unless the homeowners can secure the funds to bring the mortgage current—which is called *reinstating* the mortgage—or work out some other deal with their

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lender, they will lose their home. It's that simple, and it's not your fault. (But you may be able to help them make a bad situation better, as you'll see in a later Myth!)

Are you still not convinced? Then let's take a close look at mortgage loans and foreclosures.

The foreclosure process isn't as mysterious as it may seem. Due to federal and state laws, lenders must follow a specific process in order to foreclose on a property. (Understanding the process flow will also help you find investment opportunities, so take the time to read this closely.)

Let's first look at what happens when a lender is allowed to foreclose. The process starts with the mortgage itself. A mortgage creates five covenants (a *covenant* is basically a promise):

1. The homeowner promises to repay the debt.
2. The homeowner will insure the building against fire or damage to protect the lender's interest in the property.
3. The building or dwelling cannot be demolished or removed without the consent of the lender.
4. The entire principal will become due in the event that the borrower defaults on the payment of principal, interest, taxes, or assessments.
5. The lender will consent to the appointment of a receiver in the event of foreclosure.

The first three items are agreements the homeowner must adhere to. If those covenants are breached, the lender bank must pursue items 4 and 5. (Why the word *must*? Because banks are really *trust officers*: They aren't loaning their own money; they're loaning money that belongs to depositors or investors. They don't have the right to take risks with other people's money, so they must follow these covenants.)

The last two covenants give the bank the means to foreclose. One provides for the appointment of a receiver—typically a lawyer—who conducts the sale of the property. The other allows the bank to accelerate payments and ask for the entire balance. If the bank's lawyers take a homeowner to court, they want all of the money, and if it can't be paid, they want a judgment against the homeowner. In simple terms, the bank wants out of the deal because the homeowner has not lived up to his or her obligations.

It's important to note that until a judgment has been obtained, the homeowner is not truly under threat of foreclosure. Once the judgment is obtained, the lender can take action to sell the property or its interest in the property, and eventually have the homeowner evicted, unless he or she moves out voluntarily.

After a judgment has been handed down against the homeowner, a time is set for the public sale of the property at auction. If the homeowner can't come up with the entire amount of the judgment award before the sale, that's it: No more delays, no more compromises—the sale will be held. Often these sales are held at the county courthouse, and in many cases are actually held on the courthouse steps. The auctions have to be publicized, are open to the public, and anyone may attend.

The court then appoints a receiver—again, typically a lawyer—to conduct the sale of the homeowner's property. Ordinarily, real property can't be transferred without both parties in the purchase agreement signing the transfer deed. Since the homeowner is unlikely to voluntarily sign away his or her home, the receiver has the legal authority to sign a valid deed (often called a *sheriff's deed*) transferring the ownership to a new purchaser.

Now that you understand the process, let's look at the different stages of foreclosure. We'll pretend you're the homeowner facing financial difficulties.

If you've missed a payment, most lenders will call to remind you that the payment was due and attempt to arrange payment. (You may receive a number of calls if you continue to fail to make your payment.) As a result of their calls, you may enter into a *deferred payment plan*, or what's called a *workout*. If the calls (or workout plan) aren't successful, typically the lender will then send a letter documenting the missed payment(s) and requesting immediate payment of the past-due amount. Once you've missed several payments, the lender's lawyer will send you a strongly worded "last chance" letter. Receiving a letter from the lawyer means you're in trouble; you haven't just committed an oversight that the bank wants corrected, but you are now considered a serious "problem debtor." When you hear from the lawyer, it means the bank has committed resources (time and money) to get you to pay on time—they're serious.

If you can't reach an agreement with the lender or lawyer, you'll be served with a summons. (The lawyer has very little reason to negotiate at this point, so normally the only "agreement" you'll be able to reach is that you'll make your loan payments on time—starting immediately.)

After *service*, which is the process by which you're physically presented with the summons, the attorney will also file papers with the county courthouse. All other individuals with claims against the property—they're called *junior* obligations—such as second mortgages, home improvement loans, judgments, or other liens, are also served with papers, so they have the right to try to protect their interests as well. (It's important to note that if the foreclosing party is negligent in notifying junior lien holders, those creditors have a valid claim for repayment against the eventual new owner of the property. That's why purchasing title insurance when buying foreclosure properties is absolutely essential: You protect yourself against subsequent claims you didn't know about. After all, you don't want to be responsible for a lack of attention to detail by the foreclosing party!)

To enforce money judgments, the lender also must serve you personally. That's one reason foreclosure actions can take so long—the homeowner(s) must be tracked down and physically handed the summons by a process server or court agent. Often the homeowners won't want to be served and will do their best to avoid the server!

Each jurisdiction has different laws and rules, but generally speaking, if a person can't be located and all "reasonable" efforts have been made to find them, a procedure for publication is put into place. This typically consists of a public notice printed in the classified section of one or more local newspapers.

Most jurisdictions also require public notice regardless of whether the homeowner has been served. This allows parties with a legitimate claim to come forward to protect their interests. (To determine the specific process in your area, refer to the Appendix in the back of this book, or call your local city or county offices.)

After the publication process is complete, the foreclosure action will proceed. If you can't come to an agreement with the bank's lawyer and can't come up with the funds to pay off the loan, your property will be sold at a foreclosure auction and you'll eventually be evicted from the property (if you haven't already left).

Later on, we'll look at purchasing properties during pre-foreclosure, which can be a financial lifesaver for a desperate homeowner. But, if you purchase a property at a foreclosure auction, you're not the one responsible for the homeowner's loss. The foreclosure ship has already sailed. *Someone* will purchase the property—and if it's a great investment, that someone might as well be you.

Whether you buy a home at auction or purchase directly from the homeowners in pre-foreclosure, always treat the homeowners with empathy and a sense of fairness while still working to earn a reasonable profit. In addition to making you and the homeowners feel better about what happened, demonstrating compassion will improve your reputation in the area and help convince other distressed homeowners to call you instead of someone else when they need to sell their home in foreclosure.

MYTH # **2**

Foreclosures Happen Only in "Bad" Neighborhoods and During Economic Downturns.

Fact: Foreclosures Happen Every Day, in Every City in the United States

As we write this, rising foreclosure rates are all over the news. (In fact, Chip has spent a significant amount of time appearing on news broadcasts discussing the lending crisis and the ramifications for homeowners.) The number of properties entering some stage of foreclosure in 2007 increased in 86 of the nation's 100 largest metro areas over 2006 levels. In California, where home values had more than tripled since 1995, plunging home prices and tighter lending standards cooled off the market and left many financially strapped homeowners—some facing steep payment hikes from adjustable rate mortgages—with limited options to save their homes. And the numbers keep going up. (See Figure 1.1.)

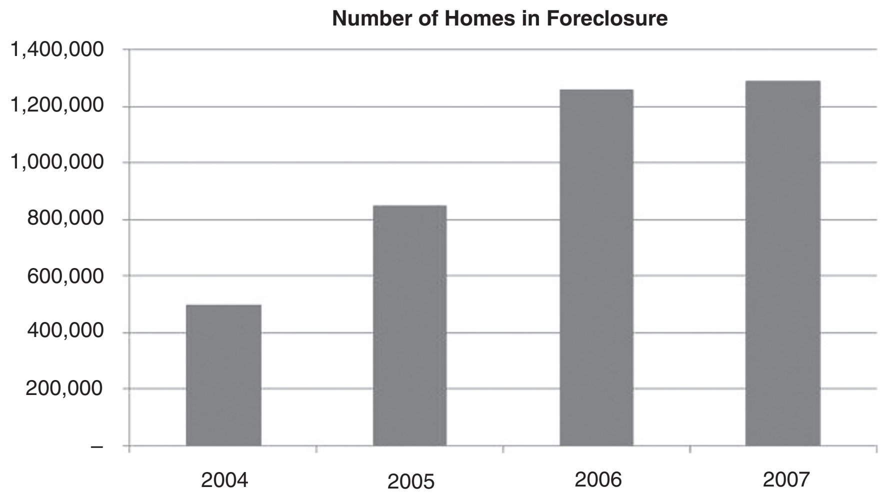


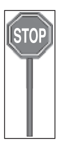
Figure 1.1 Yearly Number of Properties in Foreclosure
Source: *RealtyTrac.com.*

Foreclosures can occur anywhere, and in any neighborhood, due to any number of causes. For example, studies show that a loan's default risk is directly tied to the size of the down payment: The lower the down payment, the greater the likelihood of default—and low down payments can be made on any property, regardless of value. In cases where higher down payments were originally made, low interest rates make home equity loan advances and cash-out refinancing appealing, and allow homeowners to take out cash generated from down payments and from appreciation. The Census Bureau estimated that in 2004 approximately $569 billion in home equity was extracted through refinancing, taking out second mortgages, or simply extracting cash during a move. The less equity remaining in a home, the less cushion the homeowners have, and the higher the likelihood of default. When cash-out extractions rise, more homeowners are at risk.

Liberal lending standards also led some consumers to borrow more than they could afford: Census Bureau statistics show that the average household spends almost a third of their income on housing costs, up from about 20% in 2000. As a result, financial difficulties such as a job loss, unexpected medical costs, or other emergencies quickly put a homeowner's mortgage in jeopardy. Rising consumer debt burden means any disruption in financial circumstances like lost income, illness, or divorce can seriously impact a homeowner's ability to make payments—no matter where they live.

We'll look at some of the reasons why foreclosures occur in the next Myth. (We'll be brief, because a detailed analysis of the causes of foreclosure could fill an entire book!) Just keep in mind that foreclosure rates have, over a long period of time, remained relatively stable. Even at its lowest levels over the last 50 years, the foreclosure rate has remained above .5%.

While "bad" neighborhoods have their share of foreclosures, you can also find multimillion-dollar properties for sale at foreclosure auctions; if the homeowners cannot meet their obligations, foreclosure may occur. While it's true that economic downturns do tend to cause foreclosure rates to increase, every day, in every city and county in the United States, homes are foreclosed on. This opens the door for you!



Avoid the temptation to buy into an area with plenty of foreclosure opportunities just because finding foreclosures is easier. In areas where foreclosures are rampant, you may have more trouble selling or leasing the property later, and the property may not appreciate in value as quickly. Ideally, you want to find the hidden gem—a foreclosure property in a popular area.

MYTH # **3**

Foreclosures Are Always the Result of Financial Irresponsibility.

Fact: Unforeseen Events Can Derail the Best of Financial Plans

If a family loses their home in foreclosure, it's easy to assume they were irresponsible or got in over their "financial heads." Despite the fact that those are possible reasons for foreclosure, many times foreclosure is out of the homeowner's control. Defaulting on a loan could also have been caused by any of the following:

- **Divorce:** Approximately half of all marriages end in divorce. Who keeps the house and who pays for the house—and whether the house is even affordable any longer—can be a major issue. Unfortunately, in many instances, pure spite takes over and common sense disappears! (In fact, the cost of the divorce itself can even be the main cause of foreclosure.)
- **Health problems:** Unexpected illnesses or injuries can cost thousands in medical bills, and the rising rate of uninsured Americans leaves fewer people with a safety net. When a medical emergency occurs, mortgage payments are sometimes understandably seen as less important, at least in the short term.
- **Job loss:** Losing a job is a common cause of foreclosure. As unemployment rates increase, foreclosure rates naturally tend to rise. But even during booming economic times, some companies lay off employees, transfer or consolidate, or just plain go out of business.
- **Predatory lending:** Irresponsible, greedy, or poorly trained loan originators can sell a homeowner on a loan that sets the homeowner up for failure. Prior to the mortgage meltdown that started in 2007, this was a common problem.
- **Soaring cost of living:** When pay increases fail to keep up with inflation, homeowners may not be able to maintain their lifestyle. We have seen sudden increases in property taxes, insurance premiums, and fuel costs without comparable increases in personal income.
- **Death:** If the sole wage earner dies, the likelihood increases that the family will lose their home in foreclosure.
- **Taxes:** Some mortgage programs do not include tax escrow accounts, and it becomes easy for a homeowner to fall behind. In these cases, the lender can call the loan due and accelerate payments to avoid a tax-lien sale.

While financial irresponsibility is a common cause, as you can see, death, job loss, medical expenses, and divorce are also common triggers for a property foreclosure. Sadly, bad things do happen to well-meaning, financially responsible people.

When dealing with homeowners in foreclosure, avoid making judgments or placing blame. What's past is past. The homeowners need to focus on the present and their future instead of beating themselves up or blaming others for their misfortune.

MYTH # **4**

The Average Person Can't Find Foreclosures—You Have to Be an Insider.

Fact: Foreclosures Are Public Knowledge; You Just Have to Know Where to Look

By law, foreclosure is a public process. If the homeowners have not shown a commitment to bring the loan current, the lender will initiate formal foreclosure proceedings. Their attorney will post a foreclosure notice, sometimes called a *Notice of Default*, and the foreclosure will be officially underway.

And again, it's public—these notices must be published in the local newspaper. (If your locality has multiple newspapers, at least one will be considered the *paper of record* where Notices are always posted. Call your local courthouse to identify where postings are published.) You can also visit your locality's Register of Deeds and view current foreclosure notices. While you're there, ask if you can get on their mailing list if they have one. Many areas will mail or e-mail notices on a weekly or periodic basis, often for no charge.

Here's a quick tip: Don't bother subscribing to commercial foreclosure services. (The Internet is full of them.) There is simply no valid reason to pay a premium for information you can receive for free (and those "exclusive" leads you get on the Internet are usually outdated). Besides, tracking notices in your local newspaper or by visiting the courthouse will help you keep your finger on the pulse of your local real estate market. The only way you can gain "insider" knowledge is by paying close attention to your market and by building a network of real estate professionals and investors in your area.

You can become somewhat of an *insider* by earning a good track record of dealing fairly with distressed homeowners and by networking with people who commonly assist homeowners in foreclosure, including real estate agents, bankers, bankruptcy attorneys, foreclosure attorneys, divorce attorneys, and credit counselors.

MYTH # 5

I Need a Lot of Money to Get Started.

Fact: With the Right Preparation, You Can Purchase Foreclosures with Very Little Cash of Your Own

Let's be clear: When you buy a foreclosed property, you *will* need cash. It just doesn't all have to be *your* cash.

To buy a property at auction, you'll need to bring a cashier's check with you. The amount varies based on your area and the opening bid. While some localities require a check for the full purchase price, it's more common for the standard to be along the lines of 10% of the purchase price or $10,000, whichever is greater. Then you'll typically have up to 30 days to come up with the remainder of the purchase price; in some areas, you'll have only a few days or hours. (The terms and conditions of the sale will be included in the printed foreclosure notice, or you can call the courthouse for locality-specific information.)

How do you know how large a cashier's check you'll need? It's easy. First determine the maximum you're willing to pay for the property, or your *walk-away price*. Make a solemn pledge to yourself that no matter what happens during the auction, you will not bid one penny more than this amount. If your maximum price is $150,000 and you need 10% of the purchase price at time of auction, you'll need a cashier's check for $15,000. Simply have your bank (or lender) make out the check in your name, and if you win the bidding, endorse the check over to the locality.

You'll need funds for other purposes, too. We'll look at financing more closely later on, but for now remember you'll need funds to cover the purchase price of the property; any up-front loan costs; holding costs like insurance, taxes, utilities, and loan payments; the cost of repairs and renovations; and even closing costs if you sell the property.

Does this sound like a lot? In some cases it can be, but your goal should be to leverage the power of *other people's money* (OPM). By limiting the amount of cash you put in and maximizing the value of money you borrow, you may share some of your profits with your lenders, but you'll lower your risk and increase the rate of return on your investment.

Here's the bottom line: If you find a property with good investment potential, by doing a little homework you can find sources of cash to help you make that investment, even if you have very little money of your own. For more about borrowing money, check out our other Myths book—*Mortgage Myths: 77 Secrets That Will Save You Thousands on Home Financing* (John Wiley & Sons, 2008).

GO Always check the bidding and deposit requirements first! You may be able to simply supply a bank Letter of Credit, or you may have to come up with the entire amount!

GO If possible, convince the lender to accept the value of the foreclosure property as the sole collateral for the loan. This way, if something does go wrong, your lender will have less power to seize your personal assets in lieu of payment.

MYTH # 6

If Foreclosure Rates Are Rising, Buying Doesn't Make Sense Because There Are Too Many Homes Already on the Market.

Fact: Everyone Has to Live Somewhere and Buyers Are Always Interested in the Right Properties

From an investment point of view, your main concern (in fact, when you get down to it, your *only* concern) is whether a potential deal makes good financial sense. So, let's say foreclosure rates have risen sharply and there is a glut of homes on the market in your area. Should you buy a property at foreclosure?

No matter where you live, what the economic conditions are, and what the real estate market is like, the answer is the same: *It depends.*

Is this a copout? Not at all: You shouldn't make a decision on *any* investment without analyzing the risks, rewards, and potential involved. Remember, you're not doing this for fun; you're doing it to get a return on your time and investment!

Say you live in an area where foreclosure rates are incredibly high and every real estate agent in town says it's a buyer's market—the supply of homes is much greater than the demand. As a result, home prices have fallen, especially on high-end properties.

Then you find a three-bedroom brick ranch in foreclosure in a good neighborhood. The other houses are well maintained, crime rates are low, and the schools have a good reputation. In the last month, three similar houses sold for $175,000. You are willing to pay $100,000 for the foreclosure property—that's your walk-away price—and you estimate you'll spend $10,000 on cosmetic repairs. Then you plan to flip it, and to make sure it sells quickly, you'll price it at $165,000, which is slightly below fair market value. Even after holding costs, you estimate you'll make approximately $30,000 to $40,000 in profit. Is that a good deal?

Based on the information presented here, the answer is yes, even though foreclosure rates are rising. The risk is relatively low, the return is relatively high, and you feel good about the possibilities for a quick resale based on your pricing strategy.

At the same time, don't let your desire for quick profits blind you to economic realities. Rising foreclosure rates tend to cause home values to fall, or at least stay flat. If your walk-away price for the same house is significantly higher, and you assume you'll need to sell the house for $185,000 in order to make a small profit, the deal no longer makes sense because the likelihood of selling for a premium over fair market value is very small.

No matter what the market, do your homework. Realistically assess the property's value, the cost of holding and fixing up the property, and

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your eventual sales price, and then determine whether the deal makes good financial sense. No deal is a sure winner or loser: The answer to the question "Is this a good deal?" should always be, "It depends," at least until after you've done your homework!

When you're doing your homework, also explore what's happening with rental properties in your area. People still need a place to live, and as long as the area is not seeing a mass exodus, residents are probably renting rather than buying. Instead of flipping the property (selling soon after buying), consider shifting to a buy-and-hold strategy and leasing the property out at least until the market turns around. (As demand for rental properties increases, so do rents.)

MYTH # 7

The Process Is Incredibly Time Consuming; There's No Way to Get Started If I Already Have a Full-Time Job.

Fact: Most Real Estate Investors Have Full-Time Jobs

Real estate offers a variety of moneymaking opportunities and is a finite commodity; as the old saying goes, "No one's making new land." You can purchase your own home and watch it grow in value, you can find an undervalued foreclosure property and flip it for a quick profit, or you can purchase properties to rent to others, letting them make your mortgage payments for you.

And the beauty of real estate investing is that you *can* do it part time. Look around you. Most people who own residential rental properties do so "on the side." We know a dentist who owns 12 rental properties, 8 of which he bought at foreclosure. Others buy one property at a time to repair, renovate, and then flip, doing some of the work themselves at night or on the weekends and hiring friends or contractors to perform any necessary skilled labor. Still others create partnerships: One partner finds and evaluates the deals and lines up funding and financing, while the other takes care of the repairs and renovations.

In fact, finding a partner or partners is a great way to spread the workload and at the same time minimize each partner's risk. (And working as a team can be a lot of fun!)

To get your feet wet and gain experience without incurring any risk, make a few practice runs. Find foreclosure notices and check out the properties in person. Just remember to stay on the street and off the actual property—walking onto the property uninvited can be considered trespassing. Try to determine what your walk-away price would be.

Then attend the auction and see how the process works. In fact, we feel you should never attend an auction with the intention of bidding before you have gone to at least five auctions as an observer.

Pay attention to the bidding. After a few auctions, you'll be able to tell which bidders give in to buyer's frenzy (we call them amateurs!). You'll also start to see some of the same faces, and you'll quickly learn who the regulars are. Not only will that give you a sense of who the serious bidders are, but you may be able to strike up a partnership with another real estate investor. The more experience you can gain, even just by watching and mentally practicing, the more comfortable you'll be when you enter the process for real.

If you already have a full-time job, you're under no pressure to make a living from real estate investing. You can move at your own pace and your own comfort level. And if your comfort level is currently low, check out Myth #10 for ways to decrease your apprehension and increase your chances for success!

If you do decide to partner with another investor, be as careful in choosing your new partner as you are when choosing a mate. This doesn't necessarily mean that your partnership will be without problems (after all, half of all marriages in the United States end in divorce), but it will decrease your chances of taking on a partner who's committed to ripping you off.

MYTH # 8

I Have to Be an Expert.

Fact: The Foreclosure Process Is Simple to Understand: You Don't Have to Be an Authority, But You Do Have to Be Willing to Put in the Effort

If you've ever purchased a home, you have a sense of how real estate financing and transactions work. (In fact, if you don't currently live in your own home, unless you plan to purchase a property at foreclosure to live in, get a copy of our book *Mortgage Myths: 77 Secrets That Will Save You Thousands on Home Financing* and focus on owning your own home first before investing in other properties.) Reading foreclosure notices, attending auctions, and repairing and flipping homes is not rocket science. Thousands of Americans do so every year without specialized knowledge or training. Some people buy and sell dozens of properties each year; the only difference between you and those investors is experience and *effort*—and before they bought their first foreclosure property, they didn't have experience either!

Buying and selling foreclosure properties is not a get-rich-quick scheme. It's also not easy: It takes time, dedication, and real effort on your part to succeed. Don't put in the effort, and you won't succeed.

Successful real estate investors share some common traits. They treat investing as a business, objectively analyzing each deal for its risk and reward. They can communicate effectively. (We're not talking "slick" here. You don't have to be a polished public speaker, but you do have to be able to express yourself clearly so others understand your requirements, your goals, and your intentions.) They seek win-win situations with homeowners and build long-term business relationships with lenders, contractors, real estate agents, and other professionals. And finally, they demonstrate a real commitment to success: They're willing to work hard, to overcome problems, and to stick to their plans and their goals even when times are tough.

Experience is helpful, but effort and dedication are crucial. No amount of knowledge will help you if you're not willing to put in the time and effort

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required to succeed. But this is true of anything that is worthwhile and profitable.

Almost every real estate investor has lost money on one or more transactions, even big-name investors like "The Donald." What makes these investors successful is that they learn from their mistakes and the mistakes of others, and manage to string together more successes than failures. To minimize your risk, start with one property and build in enough buffer (20% or more) so you won't lose your shirt. Eventually, as you gain experience, you can take on more properties.

MYTH # **9**

Real Estate Agents Won't Help Me with Foreclosures—There's Nothing in It for Them.

Fact: A Real Estate Agent Can Give You a Second Opinion Before You Buy and Then List the Property for You When You Sell

Real estate agents make no money when you buy a foreclosure property, but that doesn't mean smart agents still won't help you!

Why? Because real estate agents do not earn salaries; they earn commissions—typically 6 to 7% of the sale price. Agents earn commissions in two ways:

1. The agent finds a buyer for a listed property (*listed* means the property is being marketed by a real estate agency).
2. The agent lists a property that is eventually purchased, either by a purchaser he or she finds or by a purchaser found by another agent. If another agent finds the buyer, the listing agent (seller's agent) and the buyer's agent split the commission: Typically, the listing brokerage receives 50% and the selling brokerage receives 50%. If the listing agent also finds the buyer, the entire commission is earned

by the listing brokerage. The agent or broker then receives a portion of his or her brokerage's share of the commission.

When you're considering a property, an agent can also provide you with *comps*. Comps (*comparables*) are the prices of recently sold homes similar to the property you're considering. Comps help you determine the current value of a property as well as give an indication of what a property could eventually sell for. Agents can also provide inside information about the neighborhood, the area, and past history of the property, as well as a feel for the overall real estate market.

So if an agent won't make money by helping you evaluate a foreclosure property, why should they help?

If you plan to flip the property, the agent can list it and earn a commission on the sale. (Agents love to list properties, because they make money when the property sells even if they didn't find the buyer.) And real estate agents love to work with investors because investors are a source of repeat business. A smart real estate agent will be happy to provide advice and guidance on properties you're thinking of purchasing in return for the opportunity to list the properties you flip.

How can you find a good agent? First get recommendations from friends and family. If those leads don't prove to be worthwhile, an easy way to evaluate agents is by visiting open houses. Every weekend, agents across America hold open houses, inviting the public in to view properties for sale. Besides gaining the opportunity to meet real estate agents, you can learn a lot about what makes a house more attractive to potential buyers, and you can pick up tips to help you fix up properties for quick resale.

You can also evaluate the agent in action. Here are qualities to look for:

- Does the agent immediately greet you?
- Is she polite and helpful?
- Does she offer to show you around the house?
- Does she try to get to know you and find out what you're looking for?

You should be instantly impressed by a good real estate agent's enthusiasm and people skills. After all, those are qualities you want in an agent who's working for you. If you're impressed so far, ask the agent a few questions:

- What are her qualifications and experience?
- How long has she been selling real estate, especially in this area?
- How many houses has she sold in the last three to six months? What is the dollar value of the properties she sold last year?
- Does she or has she ever worked on foreclosure or *real-estate-owned* (REO) properties? Explain that you plan to invest in real estate, in particular in foreclosure properties. Also explain you are looking for an agent to help you evaluate and assess potential purchases, and in exchange you will offer her the opportunity to list the properties you purchase. Then ask how she feels about that kind of working relationship.

Interview two or three agents who impress you. Then, to make your choice, follow these guidelines:

- Choose an agent with at least two years in the business.
- Evaluate the answers you received. Does the agent seem knowledgeable? Does the agent inspire confidence? Trust your instincts in these regards.
- Most importantly, choose the agent you feel you'll be most comfortable working with. Remember you're hoping to establish a long-term working relationship; make sure it's a relationship you can both profit from and enjoy.

Good agents know their markets, and they're willing to share their knowledge. Smart agents will be willing to help you on the front end of a purchase for the opportunity to profit with you on the back end of the purchase when you sell.

Some agents also list REO (real-estate-owned) properties for banks. These are properties that the bank foreclosed on and then had to take possession of because no investor bid on the property at auction. The agent may not be able to offer you a great deal on REO properties, because he is supposed to get the highest price possible for the bank, but if the agent knows that you have the cash to close quickly and that's what the bank wants, you may be able to negotiate an attractive purchase price.

MYTH # 10

I Can Do This by Myself.

Fact: Of Course You Can, but Why Should You?

Building a team dramatically increases your chances for success, and with the right team in place you can handle more opportunities each year and generate enough additional revenue to more than cover the expense of having more people on board.

How many people do you know who succeed on their own? We're guessing not many. In Myth #8, we explained why you don't have to be an expert, and that's especially true if you have help on your side. Let's look at how you can build a top-notch team of real estate professionals, including an agent, lender, attorney, home inspector, title company, and contractor. Each of these professionals makes a living providing services to people like you—and they'll want to be on your team:

Real Estate Agent. An agent will help you sell the properties you buy and provide you with comps for properties you're considering and inside information about the neighborhood, the area, and the real estate market. Experienced agents can also recommend other possible candidates for your team. We discussed how to find a good agent in Myth #9.

Mortgage Broker. Mortgage brokers help you secure financing. A good mortgage broker/loan officer has the following qualifications:

- Is state licensed.
- Is a member of the National Association of Mortgage Brokers (NAMB), the Mortgage Brokers Association (MBA), or both.
- Has at least five years experience, and has earned professional designations.

- Understands the foreclosure process and can help you borrow on the future value of the property, not just based on the purchase price. The future value is the *repaired value* of a property that is in disrepair; by sourcing funds based on the future value, you'll have access to more capital to finance repairs and renovations.
- Has earned positive references from past clients as well as from industry professionals, including real estate agents and title companies.

Attorney. Attorneys are specialists, and some specialize in real estate transactions. Ask your real estate agent for recommendations or call the local Board of Realtors and ask for the name and phone number of the attorney who represents them. Look for an attorney who is responsive, who returns your calls promptly, and who seems interested in working with you. Foreclosures often happen quickly, and your attorney must be able to respond quickly as well.

Home Inspector. A licensed home inspector evaluates the quality and condition of a home. If you purchase a property at a foreclosure auction, you often agree to purchase the property *as is* without having the chance to make an inspection. If you intend to purchase a property in foreclosure before the auction (*pre-foreclosure*), you can conduct the inspection beforehand or make the sale conditional on the home passing inspection.

Some localities have city inspectors available. City inspectors tend to be more up to date on local building codes and zoning changes. Your local government office can tell you whether city inspectors are available. In some areas, city inspectors are used exclusively for new construction.

Here are some of the items home inspectors evaluate:

- Structure
- Exterior
- Roofing
- Windows
- Siding
- Plumbing
- Electrical

- Heating
- Air conditioning
- Fireplaces

Home inspectors check the condition of each item and provide a report summarizing their findings.

To find a good home inspector, ask your title company, real estate agent, and other members of your team for referrals. Another excellent way to find licensed professional home inspectors in your area is through the American Society of Home Inspectors. Visit their web site at www.ASHI.com, and enter your ZIP code in the "Find a Home Inspector" box.

Tip: A retired contractor who is now working as a home inspector is often the best choice. Such a person not only can point out problems but also can give you a rough estimate of how much it will cost to fix.

Title Company. A title is a legal document that grants ownership of a piece of property to someone. A title company serves two main purposes:

- Conducts research to review the property's history and ensure there are no existing problems on the property title.
- Provides title insurance to insure legal conveyance of the property title.

The title company takes care of the paperwork and legalities of completing a title transfer. The title company you choose should understand the foreclosure process, because then they will know the common problems to look for in the title history—and how to clear them.

Contractors. A general contractor is an individual or a company hired to work on construction of a property. The general contractor typically employs or hires subcontractors who specialize in areas like plumbing, electrical work, and so forth. When you buy a property, it may need repair or renovation. You might need someone to install new plumbing, electrical wiring, flooring, or windows, or to repair the roof. A contractor can handle these tasks for you.

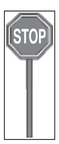
Unless the repairs or renovations needed are extensive, you can serve as the general contractor, hiring subcontractors to help you. But if you're unsure about your skills or the time you'll have available, considering hiring a general contractor. Time is money.

Get recommendations from your real estate agent and other real estate investors to find honest and reliable contractors.

While we're talking about building a team, let's talk about partners. A good partner can help you achieve more than you could ever achieve on your own. (Of course, a bad partner can make your life a nightmare!)

If you decide to create a partnership, pick someone whose talents and skills complement yours. For example, if you aren't comfortable directing contractors, consider bringing in a partner to oversee property repairs and renovations. You may be great at evaluating properties and arranging financing, and your partner may excel at managing repairs and renovations.

If you do create a partnership, have your attorney draft a contract detailing your responsibilities and your business arrangement. Don't work on a handshake basis—if things go badly, your partnership agreement will help minimize the damage.



If you do partner up with someone, make sure you both have control of the money. You should both be required to sign any checks to pay for repairs and renovations. Neither party should blindly trust the other when it comes to matters of money. You should both be in the know and share decisions on how that money is spent.
