CHAPTER 1

A Crash Course in Pre-foreclosures and Short Sales

Congratulations! You have taken an important step in securing your financial future, and I'm honored that you've decided to take it with me. I bought my first foreclosure property at the age of 19—and it was actually by mistake! Although I had a few fellow real estate brokers showing me the ropes, I didn't know what I was doing, and had no formal training or education on foreclosure investing. At that time, there was no such thing.

Just like there are very few classes that teach our kids about credit and how to manage their finances, no one has set up a curriculum to teach you the ropes of evaluating, investing, and managing foreclosures. You learn by doing.

My goal is to shorten the learning curve for you. Right now, the entire foreclosure process may seem quite foreign, and even a bit secretive, but once you get into it, you'll find that it's actually quite simple!

People buy a home, then, for any number of reasons they stop making payments, and the lender has to take the home back. Pretty simple. Although there are a certainly a few more steps in between, that one sentence pretty much sums up the foreclosure process. The trick is learning how to make money between the steps. In this first chapter, I'll take you through a crash course on the foreclosure process to help you start to identify where the real opportunities lie.

What Are Foreclosures?

The first thing you need is a clear understanding of what a foreclosure is. When you mention the word *foreclosure,* most people think of unfortunate people who got in over their heads and lost their property to the bank.

This is only partially accurate. While there is certainly an element of truth in this statement, the concept of foreclosures is actually bigger than that. There are many reasons why properties go through foreclosure, and it involves an entire process whose pieces can be broken down into three basic phases—pre-foreclosure, public auction, and post-auction.

What Are Pre-foreclosures?

As you will soon see, this is where the "real" money is made. I have purchased properties in all different steps of the process, but this is where your efforts will yield the greatest reward.

Pre-foreclosures simply defined is the time period between when a homeowner misses his or her first mortgage payment, and the date when the property is sold at public auction or a trustee's sale.

What Are Short Sales?

During a foreclosure process, the lender will always lose money. Sometimes a great deal of it. With the advent of creative mortgages over the past several years, combined with a cycle of soft or declining real estate markets, some homeowners actually become "upside-down" in their property, that is to say, they can't afford to sell. By the time they pay a real estate commission, all the costs and fees, as well as the debts associated with the property, they actually end up owing the lender money to in order to sell their home. In fact, according to RealtyTrac.com, a national foreclosure tracking service, as of the end of 2008, one out of every five homes that had a mortgage were upside-down. That's 20 percent!

In these circumstances, many homeowners and lenders are faced with the difficult choice of the lesser of two evils. This effect is compounded when a property enters the foreclosure stage, as the payments and penalties start to add up quickly. Enter the *short sale*.

A short sale is where the lender agrees to accept full payment for the mortgage debt in an amount that is less than the homeowner actually owes. Most homeowners don't know that this is even possible, and they certainly don't know how to structure a short sale transaction. When the circumstances are right, you'll be in a position to help.

Steps in the Foreclosure Process

Most people believe that the foreclosure process starts with a notice published in their local newspaper or at the courthouse. In reality, it starts way before that. It starts as soon as the homeowner misses a payment.

I mentioned the three phases of foreclosure, but in a typical foreclosure process, there are actually 16 steps. So you understand all the differences, and how to determine where the homeowner is in the progression, let's take a quick look at each one:

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1. *The missed payment:* For a variety of reasons, a payment is missed, and once a borrower gets behind, it is difficult to get caught up.
2. *The payment reminder:* Hoping that it's just an oversight, the lender will send a gentle reminder to the borrower within the first 10 to 25 days.
3. *No response:* If the payment still hasn't found its way to the lender, there will be a series of more strongly worded letters, followed by a few phone calls to the homeowner to find out what's wrong.
4. *Collection:* If the lender and homeowner have not reached a resolution to get the payments caught up, usually by the sixtieth day of delinquency, the lender will turn the matter over to its internal collection department, or what's known as the "loss mitigation" department.
5. *Outside collection:* Once the homeowner has missed three payments, the lender knows that the problem is serious, and the likelihood of them catching up is slim. Now 90 days past due, the matter is usually referred to outside attorneys to begin hounding the homeowner. They aren't typically as nice as the lender's own employees.
6. *Work out:* If the attorney can talk to the homeowner (the homeowner is probably getting really skilled at dodging phone calls), they will try and do a ***work-out,*** or loan modification to get the borrower back on track. This can include partial payments for a short period of time, payments added to the end of the loan, or any other of several scenarios based on the borrower's situation. This is a mandatory step for most loans and can work great if the borrower can demonstrate that his circumstances are only temporary.
7. *The Notice of Default:* If a work-out arrangement cannot be agreed on, or if the borrower does not follow through on the arrangements, a Notice of Default will be posted through the local newspaper or legal news, and the foreclosure process officially begins.
8. *Sheriff notification:* At this point, the county sheriff's office receives the paperwork, and the attorney or trustee for the lender will set the opening bid. This amount represents the balance due on the loan, plus late fees, penalties, and costs.
9. *Posting the property:* The sheriff or a representative may visit the house and post a notice of foreclosure action, and inspect the property. If the property appears to be abandoned, the court may decide to expedite the process. In all states, a notice must be posted on the property. At this point, the homeowner can still

redeem the property and reinstate the loan by paying the delinquent amount, plus any fees and costs incurred.

10. *Bid adjustment:* Just before the date of the public foreclosure auction, the lender will adjust the bid up or down slightly based on a final accounting of the loan and delinquency costs.
11. *Auction day:* If the homeowner has not somehow gotten his act together, the property is auctioned off to the highest bidder, or is liquidated to pay off the lender. This is usually an anticlimactic event, except for the homeowner. This is the day he or she really starts to lose the property.
12. *Hammer time:* When the hammer comes down (the motion of the auctioneer to indicate the final bid), the lender or an investor wins the bidding for the property. Sometimes the sale is handled by a trustee. The lender will simply make a bid for what it is owed, or an investor purchases the property. If there are no other bids, the property is turned over to the lender. Regardless of whether the lender or an investor wins the bid, the property may be subject to a redemption period.
13. *Redemption and possession:* Based on where the property is located, the lender or investor could take immediate possession, or in states with redemption periods, there is a mandatory waiting period. Sometimes called a "cooling off period," a redemption period gives the borrower one last chance to redeem the property by paying off the high bidder, plus certain reasonable costs. This redemption period could last just a few days—or it could last a year.
14. *Redemption period expires:* At the end of that redemption period, there may be another court hearing with the homeowners before the new owner (the lender or the investor) can take possession of the property. In certain circumstances, such as abandonment, the redemption period can be waived by the court.
15. *Eviction:* If the previous owner is not already out, the new owner will have the sheriff's department evict the previous owners. This eviction is done without any further notice, and without fanfare, and all of the previous owner's belongings are put out on the street. This step can get ugly.
16. *New owner moves in:* Once the property has been secured, the new owner or investor can fully take over. If the lender has ended up with the property, then it is brought back up to marketable condition and put up for sale as quickly as possible.

The Best Market Is Now

In the past two years, foreclosures have increased in every state in the country. We look at some of the many reasons for this in a moment, but it is a trend that is likely to continue for several years. As a result, the opportunities for investors have never been better.

But is this just another cycle? Will you be able to capitalize when the market changes back? In Chapter 3, we take a detailed look at how the markets work in your favor—no matter what the real estate conditions are.

Real estate in general works in cycles. There are good years, and some not-so-good years, but overall, values will eventually increase. This has been the case for well over 100 years. But foreclosure cycles operate differently. Although some cycles are driven by real estate values, there are other factors that drive them as well, such as a major factory closing down, or an increase in the cost of living. Interest rate spikes on subprime loans or major tax increases in a certain metropolitan area also affect foreclosure rates.

But for the investor, the best market and the best time to get started is now. Foreclosures happen every day, and regardless of your level of experience, or the present market conditions, I can teach you how to effectively evaluate each opportunity and pick the right ones for success. They exist in every city, in every state, in every market condition. But to fully appreciate how the markets play into your hands, let's look at the reasons why the numbers of foreclosures have been increasing.

Reasons Foreclosures Are Increasing

The biggest reason that foreclosures keep increasing is that Americans can't seem to live on what they earn. They keep borrowing money for toys (boats, cars, resort vacations, etc.) that they can't afford, don't need, and can't pay for. Credit card debt keeps spiraling upward every year, and the homes people purchase (thanks to creative mortgage products that they don't understand) can leave them one paycheck away from disaster in every direction.

There are seven key factors that financial experts believe have led to the rise in foreclosure rates:

1. *Subprime mortgage programs:* Creative programs that require little or no down payment, interest-only type loan payments, or stated income (what we call "liars' loans") have led people down a path of destruction. Many of these loans were predicated on the fact that property values would continue to rise—and when they didn't, the walls came crashing down. As I write this, more than one out of every five subprime adjustable rate mortgages (ARM) loans are in default around the country.
2. *Weak economic conditions:* With the shift of many manufacturing jobs to Mexico and Asia, employment loss has crippled entire communities. Cities that were reliant on the success of just one or two main industries have had a hard time competing for new job sectors, and the result has been an increase in foreclosure activity.

3. *Predatory lending practices:* They advertise low rates and easy payment terms. They come in to steal the equity of elderly and unsophisticated borrowers with programs that are so usurious, there is no way the homeowner is going to be able to make the payments. It may be for home repairs or a refinance transaction that promises a lot of cash in hand that's too tempting for people to pass up. In the end, interest rates go up, payments become higher than the homeowner's entire monthly income, and the inevitable result is foreclosure.
4. *Low interest rates:* This has been a biggie over the past few years. Low "teaser" rates that sound attractive—until you find out how high and how quickly they can adjust. Low market rates have made access to credit extremely easy, and the increase in two-wage-earner families has made it tempting to get all the house they can. Unfortunately, even a slight bump in the rate or one hiccup in their income results in hard times for the family.
5. *Over extended first-time homeowners:* With Congress's blessing, and lenders as willing accomplices, first-time ownership rates have skyrocketed to an all-time high. New government programs with Federal Housing Administration (FHA), Veterans Affairs (VA), down-payment assistance programs, state grants, and a flood of first-time homebuyer incentives have made the American dream turn into a nightmare for those unprepared. Miscalculating the upkeep on a home, budgeting responsibilities, and increased consumer pricing on goods and services, combined with a low or zero-down payment have left people on the edge. One couple I consulted with was facing foreclosure just because their furnace went out—and there was no money to fix or replace it.
6. *High loan-to-value and debt-to-income ratios:* Twenty years ago, it was common for a homeowner to need at least 10 percent down to get into a new home. It was also required that borrowers not spend more than 28 percent of their income toward their housing payment, and be within 36 percent of their monthly income when their monthly debts were added in. Loan-to-value (LTV) percentages have shot up dramatically, to the point that very few homeowners actually have the 20 percent down payment necessary to avoid mortgage insurance. In addition, automated underwriting practices and subprime mortgages have allowed debt-to-income (DTI) ratios to fly past 36 percent, to 50 percent, 60 percent or even 70 percent in some cases. There just isn't enough monthly income at the end of the month.
7. *Artificial values:* As the economy hummed along, and real estate became increasingly easier to obtain, the natural evolution was for values to go up. It's a simple case of supply and demand. As the number of "qualified borrowers" increased, demand went up and prices grew. They grew so fast in some areas of the country, that double-digit appreciation was considered the norm.

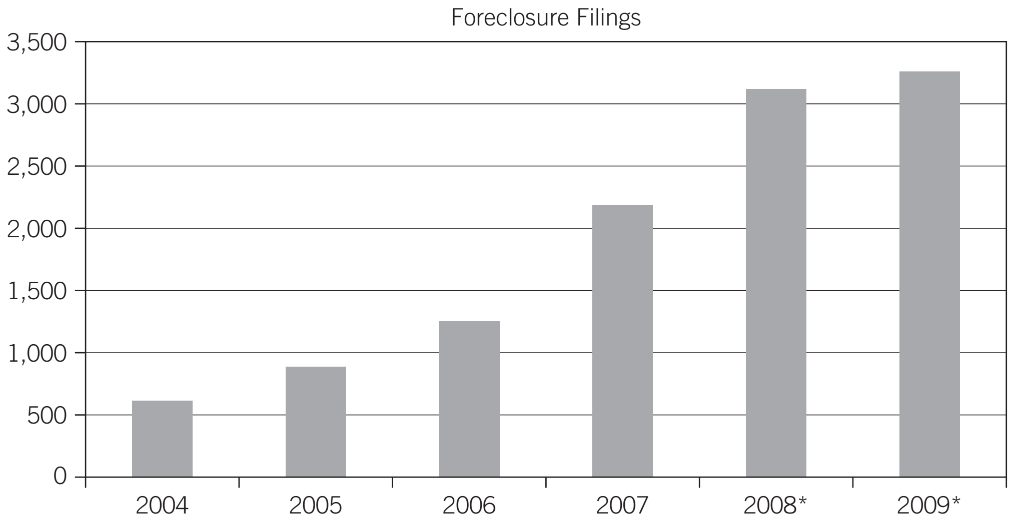

FIGURE 1.1 Number of Foreclosure Filings per Year (in 1,000s).
*projected numbers
Source: RealtyTrac.com.

> Homeowners treated their homes as ATM machines, and as values continued to increase, eventually the incomes of ordinary homeowners couldn't support the payments, and the "bubble" exploded.
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> This speculation that was based on artificial values was most prevalent in California and Florida. These areas, with the riskiest lending practices and most rampant speculation, are also the areas with the highest foreclosure rates. Jay Brinkman, the chief economist for the Mortgage Bankers Association, summed it up: "That's clearly the problem. The foreclosure numbers are being driven by the two largest states."

Some cities were hurt worse than others, but we all felt it in one way or another. This left unsuspecting homeowners with artificially inflated values and properties that they couldn't refinance—and couldn't sell. Their only choice left was foreclosure.

Figure 1.1 shows how foreclosure rates have increased in recent years.

Getting Started in Foreclosures

As I mentioned in the Introduction, for me, getting started in foreclosures actually happened by mistake. At the age of 19, I was working for one of the top real estate agencies in Ann Arbor, Michigan, and was showing properties day and night between college classes. I came across this great little two-family unit that needed major rehabilitation. I was cash-poor, but I was young and had nothing but time.

I noticed on the listing card that it was owned by an out-of-state bank—the Bank of Florida. I wondered how they wound up with a little house way up here in Michigan, so I asked one of my fellow realtors. I quickly learned that it was a foreclosure and had been on the market for some time. With nothing to lose, I put in a lowball offer, contingent upon financing. To my amazement, they accepted it right away.

Next, I had to line up the financing. Yeah, right. I was young, in school, and spending any money I had on weekend parties. So again, my broker suggested that I ask the seller to finance the whole thing. He also suggested that I put the property into a Sub-S Corporation (see Chapter 9) because I might want to bring in a partner. Again, to my amazement, the bank agreed to finance the entire amount with a 30-year fixed loan, with a five-year balloon payment. I wasn't too sure what that was, but I was ready to do it!

I did have to scrape together $500 for the closing costs, but within 20 days, I had purchased my first foreclosure. I wasn't sure what to do with it, but I was the owner. Then I learned that repairs cost money—money I didn't have. I brought in two partners—my brother Ken, and one of the agents in my office. My brother and I did the repairs, and the agent, Grant, provided the cash. It was a great deal—eventually. It was a long hard learning experience that I'm fortunate didn't turn into a financial disaster. Here's how the numbers broke down:

Purchase price:	$23,000.00
Closing costs:	500.00
Financing (30-yr amortization, 5-yr. balloon, 9% interest)	(23,000.00)
Upfront Cash Investment:	500.00
Rehabilitation costs (materials):	11,250.00
Mortgage payments (14 months @ $185.06)	2,590.88
Mortgage payoff to lender:	22,815.34
Sold 14 months later:	43,000.00
Profit realized:	**$ 5,843.78**

Wow! At the closing, I actually received a check with more digits on it than I had ever seen before. Not bad! My share of the profit was almost $3,000 on a $500 investment. Man, did I have a lot to learn.

I didn't account for my time and labor. Based upon the amount of sweat I had put into the deal, the return wasn't looking all that spectacular. But what I did get was an education. It didn't seem like much at first, but over the years it paid for itself a thousand times over.

Here are the main points:

1. You probably won't make a killing on your first deal.
2. You will learn a great deal on your first deal.
3. Your time is worth money—figure it into the total expense.
4. Don't let a lack of cash stop you from getting started.

Foreclosures and Short Sales—Neither Illegal nor Unethical

There was nothing illegal or unethical about what I did on that deal. In fact, there is nothing approaching illegal or unethical in any deal I've been involved with, nor will there be with any of your transactions—if you follow your head *and* my advice.

Yes, there are people you will meet who are in dire situations. You will be tested emotionally, and hear some heart breaking stories. You did not cause it, nor can you necessarily fix it. And you don't need to take advantage of it to make a profit. When you are negotiating pre-foreclosure transactions, you should never feel guilty about what you are doing. Quite the opposite. If you don't help out the homeowner, someone else will—and that someone may try and take advantage of the situation.

Many investors become drawn into a situation and are tempted to take advantage of a seller's plight to create a win-lose deal. Don't do it; it will end your career quickly.

Always try to help the homeowner. You are providing a service and should not feel any guilt about doing the deal. In most cases, the bank will end up taking the property back anyway, and you are providing a way for the homeowner to save some face, maybe their credit, and definitely additional heartache. You are saving the bank time and money, and you expect to get paid for your knowledge and experience in solving the problem for both. Nothing I ever suggest or teach in any way should be construed or used for illegal or unethical practices. Do it the right way, and you'll build a great reputation and make some great friends along the way.

What You Need for Success

So what do you need to make this a success and start building a personal real estate fortune? Well, here's my short list for starters:

1. Knowledge or at least the ability to learn
2. Great organizational skills
3. Cash or at least access to people with cash
4. Patience and good listening skills
5. The ability and love of talking to and dealing with people
6. Lots of persistence

If you start with these, the rest will fall into place. A lot of people get tripped up on item 3. Yes, it is a lot easier if you have stacks of cash lying around, and a credit report that's 10 pages long with a credit score of 817. If that's you, you can get started a lot faster, but then you'll just need a "bird dog" to go out and find the pre-foreclosure properties to simply invest your cash in.

In assuming that most of you do not fit directly into that category, I do want to take a moment and be brutally honest with you. If you are broke, unemployed, and have lousy credit, don't waste your time with this book. It will be really hard if not impossible to succeed until you get yourself straightened out.

Another piece of advice for those of you "type A" personalities like me—you will get excited as you read through this book, but don't go out and quit your day job—at least not right away. Foreclosure investing has a wide variety of possibilities, so with a little effort you can quickly decide the best way to build wealth based on your talents and interests. To test your commitment to your success, let's take a little test.

Self-Analysis Worksheet

New investors often ask, "Should you specialize in a particular area?" You can, but you certainly don't have to. Many people specialize in types of real estate that generate positive cash flow: single-family houses, apartments, or rooming houses. Others find a particular niche and focus exclusively on that: rehabs and fixer-uppers, for instance. You can choose to start with one type of property, especially if you're operating with limited capital, and expand into other areas as you generate cash and equity.

The following quiz will help you decide how you can get started based on your financial situation, your skills, and your personal interests. Use it as a guide to determine the best ways to invest in real estate and some of the best investment options based on your individual skills, capabilities, and interests.

1. Do you own your own home?

   Yes: Consider ways to increase the value of your property: renovations, additions, improvements. Remember your home is an investment as well as a place to live—if the improvements you make are attractive to you, they will be to other buyers as well.

   No: Unless you live with your parents and plan to continue living there, the first real estate investment you should make is to purchase your personal residence. If you're paying rent, you're paying someone else's mortgage—plus you don't benefit from the appreciation of the property.

2. Do you have a down payment and good credit?

   Yes: Consider bank financing. You can probably qualify for excellent terms, and in addition you'll build a business relationship with a lender that will be beneficial in the long run.

   No: Look for partners or other nontraditional financing options. (We look closely at other options in Chapter 8.)

3. Do you have carpentry skills?

   Yes: Consider rehabs and fixer-uppers. Instead of paying others to do the work, you can do it yourself—in effect, you'll be paying yourself a wage in addition to increasing the value of the property. Keep in mind, though, that rehabs can take considerable time to renovate—make sure you have that time available.

   No: Focus on buying rental properties, on wholesaling properties, or on other investments where your personal "sweat equity" is not required. Or, find skilled craftsmen who can do the work for you on rehabs or fixer-uppers.

4. Do you like working with people?

   Yes: Consider buying and managing your own rental properties. You'll save on property management fees, and you'll build relationships with local lenders, government officials, and craftsmen. You may even rent to tenants who later will become buyers of other properties you invest in. In addition, you can consider selling your properties yourself instead of using the services of a real estate agent.

   No: If you invest in rental properties, use the services of a property management firm. You'll probably also want to use real estate agents to sell your properties. Landlords have a number of interpersonal dealings with tenants; if you don't like working with people, managing your own properties will be frustrating.

5. Do you have solid financial management skills?

   Yes: Consider handling your own accounting and bookkeeping. You'll have a better sense of the day-to-day state of your business. Alternatively, if your investments are substantial, you'll find you spend a lot of time handling the clerical tasks necessary to run your real estate "empire." At that point, you may decide you're better off handing the clerical duties to someone else while you focus on finding and making great investments.

   No: Educate yourself: attend seminars or take classes. Or utilize the services of an accountant you trust.

6. Do you want (or need) a steady stream of monthly income?

   Yes: Consider income-generating rental properties. Properties with a positive cash flow (meaning your income exceeds your expenses) can provide you with extra income each month. Many investors specialize in investments in rental properties: they increase their monthly income and over time they build equity as they pay down the mortgages on those properties, and as the value of the properties increases.

   No: Consider rehabs, fixer-uppers, lease options, and other shorter-term investments. Buying a house in poor condition, making improvements, and selling it for a profit will generate income, but not on a steady, predictable basis. If your goal is to build wealth instead of increasing cash flow, you can also focus on properties with longer-term appreciation potential.

7. Do you have a source of capital to invest?

   Yes: Use your capital to make down payments and to help you obtain necessary financing. You can also use your capital to finance improvements to your properties.

   No: Focus on investing in properties where limited capital is necessary. Look for little or no money down loans and guard the capital you have closely. Don't sink all of your capital into one property unless you plan to sell the property quickly; otherwise, you won't have capital available to make other investments until that property sells. If you buy rehabs or fixer-uppers, you may have to finance the repairs and renovations using outside financing like credit cards, personal loans, and so on.

8. Is your current income level low?

   Yes: Invest in properties that yield a positive cash flow. If you don't yet own your own house, buy a home that is suitable for renting a room or portion of the home to a third party. You'll lower your monthly expense requirements and can possibly buy a larger home than you could otherwise afford.

No: Invest in properties to build wealth or to make shorter-term profits. Of course, you can still invest in rental properties that generate a positive monthly cash flow, using that cash flow to fund additional investments. You can also rent a portion of your home to a third party if you want to increase your income.

9. Do you like to help other people?

   Yes: Buying pre-foreclosure properties is a great way to help others. You can help people stop a foreclosure, possibly find a home they can afford, and you can profit from the transaction at the same time. Or consider buying properties in less-desirable areas; you can provide affordable housing to low-income persons.

   No: Keep in mind that helping people can be profitable from a business point of view and also immensely gratifying on a personal level. I like win-win situations; implicit in that premise is that the other party benefits, too.

10. Do you have a real estate license?

    Yes: List the properties you purchase. You'll save on commissions when you sell one of your properties.

    No: Consider getting your license. In most states, you'll simply need to take a three-month class and pass a licensing test. Once you've passed, you can place your license with a local real estate agency. You don't have to sell real estate full time; many agencies will allow you to simply handle your own transactions. (Of course, you may also occasionally decide to list homes for friends or relatives, generating additional income for yourself.)

Want to Succeed? Set Goals

Most people spend a lot more time *dreaming* about success than they do *planning* for success. Dreaming is simply that—dreaming. Planning requires setting goals and taking appropriate actions to achieve those goals.

Have you heard the saying, "The average person doesn't plan to fail; most failures occur as a result of a failure to plan?" It's true. And setting goals is an important part of planning.

There are two basic ways to set goals. One way is to look at your current situation, decide what you can do, and then set a realistic goal based on the present.

That's okay, but a better way to set a goal is to decide what you want to achieve and then work backward to determine what steps you'll need to take to reach that goal.

For example, if you currently have a full-time job, you might say, "Hmm . . . I have an hour or so a night I can devote to real estate . . . so in six months I might be in a position to buy a pre-foreclosure property." Contrast that approach to the person who says, "Hmmm . . . I'd like to own five rental properties by the end of the year . . . what do I need to do to make that happen? I'll need to get my credit in order, start talking to lenders, start looking for deals, find a contractor who's willing to work with me if repairs are needed, find an agent who might be able to help me sell the properties I buy. . . . So, my short-term goal is to get all those things in place in two weeks."

The difference is critical: The best way to set goals is to decide where you want to be in six months, a year, five years, or more . . . and then develop action plans that allow you to *reach* that goal. You'll have to make changes to your life, but it will be worth it.

Short-Term Goals

Short-term goals are things you can accomplish in less than 12 months. (You can create short-term goals with time frames as short as one day if you like.)

Examples of short-term goals are:

- Own your own home within four months.
- Own three residential rental properties within six months.
- Generate a monthly cash flow of $1,200 within six months.
- Make $8,000 from buying and selling a rehab in four months.

Examples of extremely short-term goals are:

- Interview four real estate agents this week.
- Spend 30 minutes a day looking for suitable properties.
- Inspect five properties a week for possible purchase.
- Meet with four lenders this week.
- Contact 10 sellers per week.
- Place two classified ads per week seeking home sellers.

Long-Term Goals

Long-term goals are tasks you want to accomplish over the next 1 to 30 years. Long-term goals require long-range plans. Your long-term goal could be to retire in 20 years due to the success of your real estate investments; if so, first you'll need to determine how much money you'll need to have, and then set intermediate goals that allow you to reach that level of success. Your long-term goal could be to own $10 million in real estate in 20 years, or to have a positive cash flow from your investments of $7,000 per month.

Here's the key to goal-setting: Your goals are your goals, not someone else's. There is no right or wrong goal—the right goal is the goal that's right for you.

The difference between dreams and goals is that goals are written down. Commit your dreams to writing.

How to Set Goals

Goals are like building blocks: extremely short-term goals support other short-term goals, and short-term goals support mid-term and long-range goals. To determine your short-term goals, you'll have to determine your long-term goals first.

Let's say your goal is to own $10 million in real estate in 20 years. Now you have to get there. You can break that goal down into manageable chunks:

- After 5 years, own $1 million in real estate.
- After 10 years, own $3 million in real estate.
- After 15 years, own $7 million in real estate.
- After 20 years, own $10 million in real estate.

Now you can break that down further:

- After one year, own two properties worth $175,000.
- After two years, own four properties worth $350,000.
- After three years, own six properties worth $550,000.

If you keep breaking your goals down into smaller, more manageable chunks, what seems like an insurmountable task—owning $10 million in real estate—can actually be quite manageable broken into small, achievable steps.

If you work backward from the creation of long-term goals to mid-term and short-term goals, you'll create an action plan that will allow you to reach your dreams. It's not hard to do, and it can be really fun—simply think big, and then work backward to decide what you'll need to do to make your dreams happen.

To make your personal goal worksheet, simply take a pad of paper and put your long-term goal at the top. Then, in outline form, break down the intermediate steps you'll need to achieve. Under those steps, break down the tasks further. When you're done, you should have short-term goals you wish to reach that are no longer than one week in duration—if you allow yourself too much time, you're more likely to procrastinate.

Once a goal or task is complete, check it off your list. You'll enjoy the sense of accomplishment, and you'll stay on track with your action plans.

Remember, you can revise your action plans at any time. If you find an investment that's too good to pass up, you might change your short-term goals. Just make sure you don't change your goals or your action plans due to inactivity—you'll never reach your dreams if you don't take action on a consistent basis. It will take work and effort, but you can do it. Thousands of people are successful real estate investors—there's no reason you can't be, too.

Make Your Goals Happen

Goal setting is fun—but you won't achieve your goals unless you take action. If you set big goals, that's great—but achieving those goals will take time. To achieve your goals, you'll have to manage your time properly. Many people say, "Okay, I set my goals . . . and it looks like I'll need to spend four to eight hours per week meeting those goals. I don't have that kind of time."

My answer to that statement is, "Yes, you do." You simply have to use your time more efficiently. Many of us are busy, but how much of that busy time is truly productive? We're guessing that a lot of it is . . . and a lot of it isn't. If you want to be a successful investor, you have to manage your time well.

The following time management tips will help you increase your productivity without creating additional stress:

- *Find out where you're wasting time.* Many of us are prey to time-wasters that steal time we could be using much more productively. What are your time-bandits? Do you spend too much time surfing the net, reading e-mail, or making personal calls? Track your daily activities so you can form an accurate picture of what you actually do. Remember, just because you're "at" work doesn't mean you're actually working.
- *Create time management goals.* Remember, the focus of time management is to actually change your behaviors. A good place to start is by eliminating your

personal time-wasters. For one week, for example, set a goal that you're not going to take personal phone calls while you're working. Or decide that you'll only check personal e-mail at night, after you've finished working.

- *Implement a time management plan*. The objective is to change your behaviors over time to achieve a general goal you've set for yourself, like increasing your productivity or decreasing your stress. So you need to not only set your specific goals, but track them over time to see whether you're accomplishing them.
- *Use time management tools*. Whether it's a written schedule planner or a software program, the first step to physically managing your time is to know where it's going now and to plan how you're going to spend your time in the future. A software tool such as Microsoft Outlook, for instance, lets you schedule events easily and can be set to remind you of events in advance, making your time management easier.
- *Prioritize ruthlessly*. You should end each day by planning the next day. List what you need to get done so when you start work the next day you can hit the ground running. Also be realistic: If you have 20 tasks for a given day, how many of them do you really need to accomplish?
- *Establish routines and stick to them as much as possible*. While crises will arise, you'll be much more productive if you can follow routines most of the time.
- *Get in the habit of setting time limits for tasks*. For instance, reading and answering e-mail can consume your whole day if you let it. Instead, set a limit of one hour a day, for example, for this task—and stick to it.
- *Be sure your systems are organized*. Are you wasting a lot of time looking for files on your computer? Take the time to organize a file management system. Is your filing system slowing you down? Redo it so it's organized to the point that you can quickly lay your hands on what you need.
- *Don't waste time waiting*. From meetings to dentist appointments, it's impossible to avoid waiting for someone or something. But you don't need to just sit there and twiddle your thumbs. Always take something to do with you, such as a number of listing sheets you need to read, an investment that needs to be analyzed, or just a blank pad of paper that you can use to plan your next real estate investment. Technology makes it easy to work wherever you are; your PDA and/or cell phone will help you stay connected.
- *Do the worst things first*. If there are things on your to-do list you don't enjoy, or wish you didn't have to do . . . do them first. Every day you should list what you need to get done—and the first items on your list should be the things you

least like to do, or that are the hardest for you to do. Tackle them when your energy level is highest—you'll feel a sense of accomplishment and a sense of relief when they're complete, and you can move on to more enjoyable things.

Ninety percent of success is simply showing up—each and every day. Sure, luck, skill, and timing play a part, but perseverance is a major factor in success.

If you give up, you'll never succeed. If you quit, you'll never succeed. If every day you keep moving forward—making plans, taking small steps, crossing items off your goal sheets and your action plans—then one day you'll look back and realize you've accomplished great things . . . and that you're capable of accomplishing a whole lot more.

Making Contact

As I've already indicated, you can make a lot of money investing in pre-foreclosures, but it'll take some effort. Here's how it will shake out:

> For every 20 properties you analyze, you'll look at 10, write offers on 5, and close on 1. But that also means that for every 100 you look at, you'll end up with 10 properties. Don't worry, the odds get better as you get more experienced in recognizing the real opportunities and discarding the "undoables" faster. But remember—you'll never win by taking advantage of someone.

If after reviewing all the material in this book, downloading the forms, checklists, and worksheets I provide to you at www.ChipCummings.com/CashingIn you still have questions, you can feel free to e-mail me at any time at Chip@ChipCummings.com, or call me directly at (616) 977-7900. I do answer all my e-mail personally and welcome your comments. I also speak at events and do presentations frequently throughout the country, and invite you to stop by and let me know how you're doing. You can find my appearance schedule at www.ChipCummings.com.

Now let's learn more about making money with pre-foreclosures!