Part I

THE INVESTING OPPORTUNITY THAT WON'T COME AGAIN IN YOUR LIFETIME

Chapter 1

THE PERFECT NIGHTMARE FOR BANKERS—A DREAM COME TRUE FOR INVESTORS

Be greedy when others are fearful—and . . . fearful when others are greedy.

—Warren Buffett, legendary investor and chairman and CEO of Berkshire Hathaway, Inc.

In the wake of the Great Recession, and the bursting of the real estate bubble, American banks have been repossessing homes at the rate of more than 1 million per year. This is terrible news for the banking industry, but it represents an amazing opportunity for investors and homeowners who aren't afraid to buy when others are running from real estate. Never before in history have the markets been so overwhelmed with so many properties, so few buyers, and such low interest rates. Rock-bottom prices like this probably won't happen again in our lifetime.

Welcome to the reality of today's real estate market. In 2010 alone, a record 2.9 million properties faced foreclosure filings—that's 1 in every 45 homes across the United States. It was the fifth straight year those numbers climbed, according to RealtyTrac (www.realtytrac.com), an industry organization that tracks foreclosures. Not all foreclosure filings end up as home repossessions, but banks and lenders did repossess more than 918,000 homes in 2009 and more than 1 million in 2010, according to RealtyTrac.

Causes of the foreclosure debacle range across the board—from homeowner job loss to divorce, medical issues, death of a spouse, overall economic conditions, and much more. These problems were made systematically worse by the bursting of the real estate bubble and plummeting property values. But the root of the problem is that many Americans simply bought homes beyond their means—often with adjustable rate loans or interest-only loans. As property values collapsed and those mortgages adjusted or corrected, overextended homeowners found themselves upside down on their mortgages—owing more on their properties than the properties were worth—and unable to refinance or afford the payments.

People's homes ended up in foreclosure, and a big chunk of those foreclosures didn't sell at auction and thus became real estate owned (REO) properties—that is, properties owned by the bank. It's the perfect storm that creates high profit potential for investors who understand how and where to find the information to turn this tragedy into a viable business opportunity and help America's real estate market get back on its feet.

The massive foreclosure wave isn't over yet. In 2010, nearly 10.6 percent of all residential real estate loans were delinquent, according to the Federal Reserve (www.federalreserve.gov/releases/chargeoff/delallnsa.htm). That's more than 1 of every 10 properties. RealtyTrac predicted that lenders would repossess another 1.2 million homes in 2011.

NUMBER OF REOS IN THE UNITED STATES

2006:	268,532
2007:	404,849
2008:	861,664
2009:	918,376
2010:	1,050,500
Total:	3,503,921

Source: RealtyTrac (www.realtytrac.com).

To say it's a buyer's market is a vast understatement. If you are an investor who knows how to capitalize and profit, this is your time and your opportunity to cash in—full-time or part-time—to create a secure financial future for yourself and your loved ones.

WHAT IS BANK-OWNED REAL ESTATE?

When a homeowner misses three or more mortgage payments (the number varies by state), the property goes into default and typically the foreclosure process begins. However, not all homes that lapse into foreclosure end up foreclosed or bank-owned. A homeowner in default, for example, could make up the missed payments or sell the property to an investor or another buyer. But in many cases foreclosure does occur. If no one then buys the property at auction, it ends up as an REO, a bank-owned property. Today hundreds of thousands of homes worth millions of dollars have become REOs. Because banks aren't in the primary business of owning real estate—instead, they lend money, issue credit cards, and provide other financial services—the REOs tie up banks' valuable lending capital and wreak havoc on their balance sheets. That's why banks are willing to unload the properties at a fraction of their real worth—for pennies on the dollar.

"This is the greatest time in history to buy (a house)," real estate genius Donald Trump said in an interview with Sean Hannity. "Even if you don't have money, the banks will make you a deal." (www.realestatewebprofits.com/trump)

Pennies on the Dollar

Just how much are banks willing to deal? Discounts can be as low as 50 cents on the dollar and even lower in some cases. That's because many banks are struggling to get out from under bulging portfolios of repossessed properties they don't want.

Nonproducing Assets

Each REO is an empty house that's considered a nonproducing asset—it weighs down a bank's balance sheet, costs the bank money to maintain, and can have a detrimental effect on the bank's ability to loan money. For each nonproducing asset, banks are required to have offsetting liabilities that show up as loan loss reserves on their balance sheets. (Banks use complicated formulas to determine the amount of loan loss reserves required.) In the banking industry, capital (or net worth) is the difference between the bank's total assets and its total liabilities. An increase in liabilities—REOs—squeezes or shrinks the bank's capital reserves. With a smaller capital reserve, a bank may face higher costs to borrow money from the Federal Reserve Bank. That's the money a bank typically lends out.

If the bank has a big enough loan loss reserve, the Fed may prohibit it entirely from making further loans until it reduces its loan loss reserve. That can be accomplished by getting rid of—selling off—its REO properties.

So the banks want to sell, and if your approach is right, they'll do so usually quickly and cleanly. Today you can find hundreds of millions of dollars in real estate owned by banks—and not just in California, Nevada, Texas, and Florida (states with the highest foreclosure rates). It's happening all across America. Never before have home prices been this low, combined with super-low interest rates. Homes in the United States are on sale!

Real Deals

In 2010, I went shopping for bank-owned real estate and picked up several properties *on sale* in Southern California, each for less than $162,000, and at 60 to 65 percent of their market value. The after-repair value (ARV) in today's market of each of the homes ranges from $200,000 to $250,000. I bought a property on West Rosewood Street in Rialto, California, for about $122,000, rehabbed it, then sold it for $155,000. My profit on the quick deal: $15,000.

A SAMPLE OF RECENT DEALS

What kinds of deals are available out there today? Here's a sample of a few California properties I purchased in 2010. The after-repair value (ARV) of each of the houses ranges from $200,000 to $250,000 based on 2011's market prices.

1010 Moffatt Street, Rialto: **$153,845.49**
137 S. Terrace Road, San Bernardino: **$139,061.23**
587 W. Winchester Drive, Rialto: **$134,081.97**
951 E. Home Street, Rialto: **$161,562.72**
352 W. Rosewood Street, Rialto: **$121,570.09**

The Fear Factor

Most people are afraid of what's happening in the housing markets and the economy, so they sit on the sidelines of the housing market.

As an investor, I recommend buying as many of these on-sale properties as possible at huge discounts today, flipping (selling) some, and holding others as rentals. No matter what's happening now, property values will eventually rise. I actually think they're going to skyrocket.

"Be greedy when others are fearful—and . . . fearful when others are greedy," says Warren Buffett, president and CEO of Berkshire Hathaway, Inc., and one of the richest men in the world. He has a point. Now is the time to be greedy!

HOW I GOT STARTED

I know what it's like to be fearful and struggling, and desperate to find a way to financial freedom. I was there, and then REO investing changed my life. I am living the life of my dreams today, and it's the result of what I have learned about how to invest in REOs.

As an REO investor, I've been involved in hundreds of transactions, and all while investing part-time. That's right. I'm a firefighter by profession. Fifteen years ago, like millions of other Americans, I was working hard but buried in debt and on the verge of bankruptcy. I was struggling to get by in a stuttering economy. My dreams of providing for my family were way bigger than my pitiful bank account. I loved being a fireman, but I wasn't earning much money. I made only $40,000 a year. At one point I was so broke, I was using my MasterCard to pay off my Visa, my Visa to pay off my American Express, and my American Express to pay off my MasterCard. I tried all different ways to find success but failed miserably. I kept thinking that if I worked harder I would get ahead, but it wasn't happening. I even tried a bunch of "get-rich" dead ends.

Then a friend who was a house painter told me about a real estate investor he worked for who had a property in San Bernardino, California, that he wanted to sell at a wholesale price. I'll never forget that first REO deal—at 6747 Sepulveda Avenue. My friend told me the house probably was worth around $75,000 rehabbed, but the investor was willing to sell it for $42,000. At this point I was ready to file bankruptcy, so I was willing to try anything. I looked at the house, and while still in front of it, checked with three real estate agents about the property's after-repair value. Each said it was worth $75,000 to $80,000, so I contacted the investor. He told me he had the property under contract for $38,000, and that he would assign the deal to me for $4,000 cash. He already had lined up 100 percent financing from a hard-money lender he used.

A hard-money lender is willing to put up cash for a deal at a significantly higher rate of interest than conventional lenders—generally 3 to 5 points higher—plus various fees. Using these lenders can make sense, especially if you're just starting out, because they typically will lend you 60 to 70 percent of a property's ARV and don't require you to jump through hoops the way a conventional lender will. That means it's not about your credit rating; it's about the property's value. Using a hard-money lender may mean spending an extra $5,000 to $7,000 on a deal, but your loan will be funded quickly and simply.

I was broke and desperate, so I took out two $2,000 cash advances on credit cards to provide the $4,000 cash and financed the rest through the real estate investor's hard-money lender. The price for the house was $42,000 plus fees that included title, escrow, closing costs, and fire insurance. The house needed work, and of course I had absolutely no idea how to rehab a house. I did it, though, with the help of "Home Depot University." I sold the house three months later and made $12,000 on the deal. Today, whenever I walk by that house I bend over and kiss the sidewalk in front of it. That humble little abode is what set me on the path to financial freedom. See Figure 1.1.

I used that initial $12,000 profit to stave off my creditors and then went about developing my part-time REO investing career. Since that initial real estate investor introduced me to hard-money lenders, I was able to do deals even though I was broke. Hard money doesn't come cheap, but it's simply part of the cost of a deal, and the profits more than make up for it. As I became more successful, I was

My First REO Deal

Figure 1.1 *6747 Sepulveda Avenue, San Bernardino, California. This was my first house.*

able to transition from using hard-money lenders to using private investors, who were able to provide me cash and flexibility based on my track record rather than a specific property's value. I used credit card cash advances to pay for the materials I used to fix up the houses on those first deals. I would work to rehab the properties on weekends and on my days off from my still full-time job as a fireman. I made the commitment because I had decided this was the business I wanted to be in.

Back then there were no how-to manuals with tips and tools of the trade. I learned the right way to do deals by trial and error. I quickly found out that buying and selling REOs was the best way to financial freedom because it meant dealing directly with banks and not dealing with unmotivated tire kickers—homeowners who aren't sure they want to sell, who have emotional involvement with the properties, and so on.

SAVING YOUR FINANCIAL LIFE

As a fireman, I also was a hazardous-materials specialist and emergency medical technician (EMT). In my job I saved the physical lives of hundreds of people and their pets. My new mission is to help save people's financial lives. What I'm about to share with you can breathe new life into your finances. My system will save you plenty of headaches. Remember, I've been there. I had to learn all this.

REO deals can go wrong in many ways, but I am going to show you what you need to know to avoid the traps. This book explains how to find the best deals, get the best financing without using your own money, and then quickly either sell the property or rent it out. How would you like an extra $10,000 or $20,000 from just one deal? Buying and selling REOs is a plausible and practical way to dramatically increase your financial wealth today and your comfort level for the future. You can do this.

When Californian Scott Cheramie tried REO investing my way, he closed on his first deal within a week and then flipped the property for a $32,000 profit.

Teresa R. Martin, an attorney in New York, bought an REO triplex in her market, also without any money of her own, and then opted to hold it as a rental property with a cash flow of more than $1,000 a month.

DOES THE JEFF ADAMS APPROACH TO REO INVESTING WORK?

Here's a sample of what some of my students have to say about my approach to buying and selling real estate:

"Using these strategies, I put $125,554.51 in my own pocket. . . . I can't thank you enough."

—Cory Harrington, San Antonio, Texas

"I highly recommend his [Jeff Adams's] program to all investors who are looking to get into REO investing and become highly successful."

—Teresa R. Martin, Esq., New York, New York

> "Within one week of enrolling in your program, I was able to close on my first REO deal. I was able to resell it for a profit of $32,000. . . . I think your program is great, and I could not have closed on these deals without it."
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> —Scott Cheramie, California
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> "The last deal I did, I made a profit of over $32,000 using the strategies that are in your system. I can't say enough good things about the . . . system and the amount of profit it has brought into my company."
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> —Dale Steinman, Chanute, Kansas

AVOIDING THE MISTAKES

Many people set out to get into the real estate investing market with grandiose ideas to conquer it, but the market ends up conquering them because they don't know what they're doing. They get the wrong kind of guidance or none at all, they don't follow through, and they end up strapped for cash and out of luck. For example, many real estate gurus urge their students to buy every rental property possible. It's the take-care-of-your-cash-flow-needs-tomorrow philosophy. But they neglect to account for the importance of accounting for your cash-flow needs today. That's what almost happened to me. I tried buying rental properties. But my tenants were less than ideal, and they ended up trashing the properties. I was putting in twice as much cash as I was taking out, and I was getting further and further behind financially.

I had to learn everything myself. I didn't have the benefit of others' experience and insight. That's why I decided to create my own step-by-step approach and get it down in a book. In the following pages, you'll learn about the tools you need, with step-by-step instructions on how to use them. You'll learn how to find the best REO deals in your market, find buyers for those properties, access private lenders and cash, close quickly, and flip those properties for quick cash or turn them into ready streams of income as rental properties.

REALISTIC COMMITMENT

"Yeah, right," you're thinking. "That's what they all say."

Often when we hear a persuasive motivator we get really excited about an idea or approach to getting ahead financially; we have the enthusiasm and desire to do something, and sometimes we are even willing to shell out cash up front. Then that initial fire in the gut is tempered by the reality of all the work and time required simply to break even, let alone be successful. The enthusiasm for embarking on the path to financial security gets lost somewhere in our everyday survival.

That's why I've designed the approach in this book to require as little as 10 to 12 hours a week. With the right focus, direction, and drive, almost anyone can realize real financial gains buying and selling REOs. I'll show you what it takes to present yourself as a strong buyer and seal the deal. You'll also learn about the different exit strategies available, with checklists to follow along the way.

This system can help virtually anyone—whether you're a beginner or a seasoned professional, whether you're looking for full-time employment or a part-time supplement to your income, whether you have cash on hand or not. You can learn to be real-estate-wise, to understand market realities, to know how and where to find the money, and to create an REO buying and selling system that works for you.