IN THIS CHAPTER

- Taking a bird's-eye view of the foreclosure process
- Building a team of advisers, investors, and assistants
- Gathering critical data about properties and their owners
- Buying and taking possession of a foreclosure property
- Realizing your profit at the end

Chapter 1

Wrapping Your Brain around Foreclosure Investing

Whenever you're developing a new skill, having an overview of what's involved provides you a framework for understanding. In the case of investing in foreclosures, that framework must include the basics of the foreclosure process, the importance of having a strong team, the benefits of thoroughly researching properties, and a general idea of the different ways to realize your profit (because selling isn't the only option).

A general knowledge of the foreclosure process and the rules and regulations that govern it can reveal opportunities for purchasing properties below market value. Understanding the necessity of having a strong investment team in place enables you to begin thinking about the people who would be best qualified to assist you. Realizing the benefits of thorough research can prevent you from buying a property that's destined to send you to the poorhouse. And knowing your options for extracting equity from a property enables you to optimize your overall investment strategy.

In this chapter, I provide an overview of the foreclosure process, stress the necessity of building a competent investment team, introduce you to essential property research techniques and resources, briefly explain the process of buying and taking possession of properties, and touch on various options you have to cash out your profit when you own the property. In a nutshell, I give you a framework for investing in foreclosed properties. As you proceed through the book and gain experience, you'll develop a deeper and more detailed understanding.

Investigating the Foreclosure Process from Start to Finish

A common misconception of foreclosure is that after the homeowners miss a payment or two, the lender immediately takes possession of the property, and then turns around and auctions it off at a foreclosure sale. But the process is more drawn out than that, and it follows this typical scenario:

1. The homeowners stop making mortgage payments.
2. After about 15 to 30 days, the lender sends a payment reminder.
3. If the homeowners don't respond, the lender continues to send notices and may start to call the homeowners.
4. If the homeowners still don't contact the lender, the lender turns the matter over to its collection department, which specializes in hassling homeowners.
5. After about three missed monthly payments, the lender transfers the matter to outside counsel, which is normally handled regionally. The attorney sends an official notice, warning that foreclosure proceedings are about to begin.
6. The homeowners don't reply or present a solution that the lender deems to be unsatisfactory. At this point, the homeowners can usually stop the foreclosure by negotiating a suitable solution with the lender.
7. The attorney begins the foreclosure process by posting a foreclosure notice in the county's legal newspaper or in the local newspaper. The homeowners can still reinstate the mortgage at this point by catching up on the payments and paying any additional late fees and penalties, which occurs quite often. See Chapter 8 for details on how to track foreclosure notices. (The county legal newspaper serves the public and provides the legal community an automated system, but it's not free.)

8. Foreclosure paperwork for the property arrives at the civil division of the sheriff's office, which is assigned the task of handling the sale. The trustee or attorney handling the foreclosure sets the opening bid and typically advertises it in the foreclosure notice. The opening bid is the balance of the mortgage plus penalties, unpaid interest, attorney fees, and other costs that the lender has incurred during the process.
9. The sheriff or a deputy may visit the house before the sale to post a foreclosure notice and inspect the property, because redemption rights sometimes change if the homeowners abandon the property. (Some states have a *redemption period* after the sale, during which time the homeowners can buy back the property by paying the full amount of the loan along with taxes, interest, and penalties. This period can last up to a year.)
10. The day before the auction, the lender may adjust the opening bid up or down but may not artificially inflate it. Frequently, lenders reduce the opening bid to make the property more appealing to investors and to rid themselves of it.
11. The property goes on the auction block for sale to the highest bidder or is turned over to a trustee to liquidate the property and pay the lender.
12. An investor purchases the property at auction or from the trustee or the lender buys the property. If nobody bids higher than the opening bid which the foreclosing lender submits, control is handed over to the lender, who can take possession of the property following any redemption period, as explained next.
13. In some states, the high bidder (or lender, if nobody bids more than the opening bid) takes immediate possession of the property. In states with a redemption period, the new "owner" must wait until the expiration of the redemption period and a final court hearing with the homeowners before they can do anything with the property. If the lender takes possession of the property, the lender transfers the property to its Real Estate Owned (REO) department which prepares it for sale.
14. The previous owners move out or are evicted, and the new owner takes possession of the property.

The foreclosure process is a lose–lose situation for both the homeowners and the lender. The homeowners lose the property, and the lender takes a loss on the loan and often pays additional costs to resell the property to recoup a portion of its loss.

REMEMBER

If you or a loved one is ever facing a foreclosure, contact the lender immediately to explore your options. Seek help sooner rather than later. Shame, anger, and denial may discourage you from seeking help, but the longer you wait, the fewer your options will be. Educate yourself, and communicate with your lender. Homeowners who panic become very vulnerable to foreclosure rescue schemes designed to strip them of any equity built up in the home. (*Equity* is the profit the owners would realize if they were to sell the property and pay off the mortgage.) Do your research, know your options, and don't deal with someone who's claiming to be your friend. A good place to start is the USA.gov Foreclosure page at `www.usa.gov/foreclosure`.

For more in-depth coverage of the foreclosure process, including variations in different areas of the country, see Chapter 2. For details about the foreclosure rules and regulations in your state, check out the appendix. If you're investing in foreclosures outside the United States, search online for a reliable government website that contains details about the foreclosure process in your area.

Picking Your Point of Entry

As a real estate investor, you can step in at any stage of the foreclosure process to acquire properties and enact other profitable transactions:

- **Presale:** Before the property is auctioned or transferred to the trustee
- **Sale (or auction):** When the sheriff or the court auctions the property or after control of the property is placed in the hands of the trustee
- **Postsale:** After the lender repossesses the property, when you can purchase the property from the lender or from its REO broker

In the following sections, I describe these three entry points. For more advice on how to select the entry point that's right for you, see Chapter 3.

TIP

Begin tracking properties early in the process, even if you choose to buy properties later. By tracking properties early, you pick up on the history of what's going on and develop a clearer idea of how much to pay for the property.

Scooping other investors during the pre-auction stage

As soon as homeowners realize that they can't make their payments, you can mediate between them and their lenders to work out a mutually acceptable solution. In a few cases, you can help the homeowners keep the property, such as by negotiating a *forbearance* with the lender that provides the homeowners extra time to catch up on their payments.

Did I just say "help the homeowners keep the property"? Yes. Your long-term interest is best served by doing what's best for the homeowners. Sometimes, that means you receive no profit from your efforts. In a huge percentage of cases, however, the homeowners' best option is to sell the property and find more affordable housing arrangements. By being sincerely concerned with their best interests, you place yourself in a position to acquire the property if the homeowners can't or won't take the action necessary to keep it.

TIP

Your goal during the pre-foreclosure stage is to present the distressed homeowners all the options and enable them to make well-informed decisions. See Chapter 9 for a complete list of options.

Stepping into the foreclosure process during the pre-auction stage provides you some of the best opportunities to assist the homeowners and purchase a property at an attractive price. In Part 3, I show you exactly how to research and buy homes before homeowners lose them in foreclosure.

Bidding on properties at foreclosure auctions

Some investors prefer to step into the process at the auction stage, because they're uncomfortable dealing with distressed homeowners, who are often in a state of denial and unwilling to sit down with an investor to discuss their options. At the auction stage, you buy the property in a less-emotional atmosphere. In most cases, however, you still have to deal with the homeowners when the time comes to take possession of the property.

Now, don't run out and start scooping up properties at foreclosure auctions just yet. Uninformed investors often get burned by diving in before they learn to dog paddle. Foreclosure auctions are packed with peril, often trapping novice investors into making costly mistakes such as these:

- **Buying a property without researching the title:** A title history reveals who really owns the property, the amount currently owed on the property, and the priority of the mortgages: tax lien (top priority), first mortgage (next in line), second mortgage, and so on. Do your research, as explained in "Performing Your Due Diligence" later in this chapter and in greater detail in Chapter 8.
- **Buying a junior lien thinking that it's a senior lien:** When you buy properties at a foreclosure sale, you're really buying mortgages. The first mortgage on a property is called the *senior lien,* which gives the buyer the most control of the property. Additional claims against the property are called *junior liens,* which often get wiped out during foreclosure. Buy a junior lien by mistake

and you may have just bought yourself a worthless piece of paper. Only thorough research of the title, as explained in Chapter 8, can steer you clear of making this common and potentially very costly mistake.

- **Buying a property without inspecting it:** A house may look valuable on paper, but until you see it with your own eyes, you won't know for sure. The house may have significant fire damage, toxic materials, foundation problems, or a host of other defects. Check out Chapter 8 for details.

  REMEMBER

  Your eyes or no buys. Never, ever buy a property without seeing it. Later, you may have a trusted member of your team check out properties for you, but when you're getting started, do the checking yourself.

- **Paying more for a property than it's worth:** In the heat of an auction, your enthusiasm to outbid other investors can make you highly susceptible to paying more for a property than it's worth. This approach almost guarantees that you'll end up taking a loss on the property.

A MORATORIUM ON FORECLOSURES?

The COVID-19 pandemic gave foreclosure investors something new to think about: moratoriums on foreclosures and evictions. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, prohibited banks from foreclosing on government-backed loans. That prohibition expired on July 31, 2021.

The CARES Act also gave homeowners with government-backed loans the right to ask for and receive forbearance, which enabled them to stop making payments for a specified period. Although, officially, the relief applied only to federally owned or federally backed loans, many private lenders followed suit. As a result, foreclosure investors had far fewer opportunities, and some were trapped in limbo; they owned the property but couldn't evict the previous owners or move forward with repairs and renovations, and they were still responsible for paying property taxes and insurance.

Although the COVID-19 foreclosure and eviction moratoriums may be over by the time you're reading this book, keep in mind that they're always a possibility, and they're probably more likely to occur now that there's a precedent for them. They can happen at the federal, state, and local levels. This warning shouldn't discourage you from investing in foreclosures; it's just another risk to keep in mind.

- **Failing to account for the redemption period:** Most states have a mandatory redemption period, during which time the homeowners retain possession of the property and can redeem the title by paying off the mortgage in full, along with any penalties and back taxes. You need to have enough cash reserves on hand to pay the property taxes on the property and to insure the property during this time. If you don't pay the property taxes, another investor may be able to purchase a tax lien or deed at a tax sale and take control of the property; tax liens have priority (even over first mortgages). You also need to insure the property, because you're not covered by the homeowners' insurance policy (if they have one).

REMEMBER

Never bid on a property at auction until you've done your homework. Reading this book from cover to cover is a start. Brush up on the foreclosure rules and regulations in your area, and always research a property thoroughly before bidding. Research the title, and inspect the house as closely as possible with your own two eyes, as shown in Chapter 8.

Buying properties after the sale

If working with homeowners before auction and bidding against other investors at an auction don't appeal to you, you can profit from investing in foreclosures after the foreclosure sale.

If nobody at the auction offers the minimum acceptable bid, the lender buys back the mortgage. If the state has a mandatory redemption period, the lender waits until the period expires and then passes the property to its REO department (sometimes referred to as the *OREO* [Other Real Estate Owned] department, not to be confused with the cookie), which prepares the property for resale and typically hires a mortgage broker to place it back on the market. By dealing with a lender's REO department or its mortgage broker, you may be able to purchase the property at a price that's discounted far enough below market value to turn a profit of 20 percent or more.

The chapters in Part 4 explain how to find and buy REO properties and the following other properties that government institutions and law enforcement agencies take possession of and then often sell at deep discounts:

- Properties seized due to nonpayment of taxes
- Properties seized by customs and law enforcement agencies because they were paid for with profits from illicit activities

- Houses that were repossessed when homeowners defaulted on HUD (U.S. Department of Housing and Urban Development) or VA (U.S. Department of Veterans Affairs) loans
- Fannie Mae and Freddie Mac properties that were repossessed and then turned over to these government-sponsored loan programs
- Bankruptcy properties that are being liquidated to pay off loans
- Properties that the U.S. Department of Transportation purchased for road improvements and must dispose of after completing the improvements

WARNING

When you buy a property from the government or a bank, don't assume that you're getting a good deal. Homes are typically sold in their "as is" condition. You must still research the title carefully and inspect the property with your own two eyes. If you see ads or late-night infomercials selling lists of bank-owned properties, don't fall for the hype; these lists are usually outdated long before they arrive in your mailbox.

Assembling a Team of Experts and Advisers

Flying solo on foreclosures may seem like a good idea. After all, any professional help you get will eat into your profits, right? Flying solo, however, is a good way to go bust or at least to limit your potential profit. Developing synergistic relationships with top-performing specialists has been a key to my success (and to the success of almost all the top real estate investors around the world).

In addition to providing expert guidance and advice for seizing opportunities and avoiding common pitfalls, experts deliver leads to potentially profitable properties, affordable financing, and quality contractors. They can assist you in managing your finances and in renovating and selling your property for top dollar after you purchase it. And, by delegating some of the workload to others who are better equipped to handle it, you free up time and resources for finding the most profitable opportunities.

In Chapter 4, I explain how to assemble a solid foreclosure investment team consisting of the following members:

- Real estate agent
- Real estate attorney

STAND BY YOUR MAN — OR WOMAN

Tell your spouse or significant other about your plans to invest in foreclosure properties and ask for help. If your spouse is a couch potato and would prefer to remain anchored to a lounge chair than to help you work nights and weekends, you're likely to find yourself swimming upstream — right into a concrete dam.

Your better half needs to know that you're planning on earning tens of thousands of dollars per deal, and because you'll probably be spending that money together, there's no room on the team for a couch potato.

I strongly recommend against making any attempts to invest in foreclosures without the full consent and eager assistance of your partner. I would hate to hear that after reading this book, you and your better half stopped calling each other "honey" and "sweetie pie," and started calling each other "plaintiff" and "defendant."

- Mortgage broker
- Accountant
- Title company
- Home inspector
- Contractors

In Chapter 5, I lead you to sources of financial capital to fuel your investments, and in Chapter 6, I lead you through the process of developing a strong support network that virtually ensures that you'll never run out of leads on profitable foreclosure properties.

REMEMBER

With a solid team in place, you take on the role of manager and decision-maker, and you can create an efficient system that minimizes risk while maximizing profit.

Getting Your Financial Ducks in a Row

In real estate, cash is king. In foreclosure investing, cash is the grand, high-exalted mystic ruler. Investment capital enables you to step in at any stage of the foreclosure process and buy out anyone who has a claim on or an interest in the property.

REMEMBER

When I say *cash*, I'm not talking about the money you have stuffed in your mattress. I'm talking about borrowing certified funds from a bank or other lending institution or from a private investor. See Chapter 5 for details.

Cash gives you the upper hand with the four Cs:

- **Credibility:** With cash, you have instant credibility that you can deliver on your promises without hesitation. In most cases, homeowners need cash to escape their current financial crisis. Lenders need cash to cut their losses. With cash on hand, you can give homeowners and lenders what they need to achieve their goals while you take possession of a profitable property.
- **Confidence:** Cash provides you the confidence to pitch offers to homeowners and lienholders, knowing that you can deliver in a timely manner.
- **Creativity:** Putting together a foreclosure deal that satisfies all parties often requires a great deal of creativity. With sufficient capital, you liberate your imagination from financial limitations.
- **Competitiveness:** Multiple real estate investors often compete for the same property. Cash gives you a competitive edge because it enables you to execute a deal much more quickly. Both homeowners and lenders are eager to put the current crisis behind them. An ability to act quickly often separates the successful investor from the wannabes.

The question "Where am I going to get the money?" often derails the novice investor before the train leaves the station, but many of the most successful investors started with only a few bucks in their pockets, including yours truly.

REMEMBER

Don't let a lack of investment capital discourage you. In Chapter 5, I explain how to estimate just how much money you need to get started; then I steer you toward sources of capital that can fuel your foreclosure investments. At first, the cost of investment capital (mostly interest) may chip away at your profits, but as you develop a stronger financial position, the cost of money gradually decreases.

Finding Foreclosures and Seized Properties

The first step in foreclosure investing — finding potentially profitable properties — is often the most difficult for first-time investors. Plenty of foreclosures and seized properties are available, but where do you look for them? The answer to that question varies depending on which part of the foreclosure process you choose to focus on, but here's a list of where you can find leads on foreclosure properties:

- The neighborhood grapevine, including neighbors, churches, cafes, clubs, and even people who contact you directly for assistance when they know that you buy distressed properties
- Auctioneers
- County offices, especially the sheriff's office
- Drive-bys (driving through neighborhoods looking for *dontwanners* — homes that are unkempt, indicating that the owners don't want them)
- Foreclosure notices in local papers or legal publications
- Bankruptcy notices in local papers or legal publications
- Divorce filings and decrees in publicly accessible court documents
- Foreclosure listing services (websites that list foreclosure and government-seized properties)
- Government-owned listings (see a list of links to the top government sites at `www.hud.gov/topics/homes_for_sale`)
- Real estate agents
- Attorneys, particularly bankruptcy, divorce, and probate attorneys
- Banks and other lenders

Online foreclosure information services range from excellent to total rip-off. Some services deliver timely information; others deliver out-of-date information that's totally useless. In the beginning, dig up leads the old-fashioned way: through networking and research.

TIP

Word-of-mouth leads are often the best leads. Make sure that everyone you know and meet knows that you purchase distressed properties and work with people who are facing foreclosure. Some investors have so many distressed homeowners contacting them for assistance in foreclosure that they don't even need to look for properties. See Chapter 6 for networking tips.

Performing Your Due Diligence

After you find a potentially profitable foreclosure property, the real work begins: performing your due diligence to avoid getting burned. To protect yourself from the many inherent risks of foreclosure investing, dig up the essential facts and figures so that you know what you're buying and what it's worth, as well as your options for purchasing the property for less to maximize your profit.

Thorough research requires you to dig up the following essential information:

- Names of the homeowners
- Amount owed on the property
- Lienholder names and contact information
- Physical condition of the property
- Homeowners' current situations and motivations
- Market value of the property

The following sections introduce you to the types of research to perform as part of your due diligence, but proper research requires much more than I can cover in this chapter. For additional details, see chapter 8.

Investigating the property's title and other documentation

Before you commit to purchasing a property, you need to know who really owns it, how much the current owners owe on it, to whom they owe the money, how much they owe (if anything) in back taxes, and whether the property has any *encumbrances* (liens, judgments, or zoning restrictions). In short, you need to know what you're getting yourself into before you get yourself into it.

Fortunately, most of the following critical documentation about a property is publicly and easily accessible if you're working with a title company (which I recommend):

- **Title:** The title shows the names of the property owners and lienholders and any legal judgments on the property. I once purchased a property from a mother and daughter, only to discover later that the daughter from whom I bought the property wasn't the daughter who owned it. The owner daughter eventually took possession of the property, and I was left with some nasty, time-consuming legal battles. By checking the title, you can avoid similar mistakes.
- **Title history:** A title company can provide you with a title history that shows the change of ownership over the years. In some cases, this history reveals gaps in the transfer of the property from one homeowner to the next. A gap in the history may be a warning that someone else can lay claim to the property later and take you to court.

» **Property history:** Your town or city keeps a history of every property, including all building permits issued on the property. If the property has an additional structure that was built without a permit, it may not have been built to code. Any information you can gather about the history of the property can assist you later in evaluating its market value and spotting any red flags.

WARNING

Never purchase a property without fully researching its title and any other public documents recorded on that property. In Chapter 8, I guide you through the process of researching a property and assembling a detailed dossier, which is essential for making sound investment decisions.

Inspecting the property with your own eyes

Tattoo the following message on your forehead: *My eyes, or no buys.* You can look at the title work and other property documents until your eyes cross, but you don't know the condition of the property unless you see it for yourself. I recommend that you do the following:

» **Visit the property and the neighborhood it's in.** Never try to assess the value of a property in a vacuum. The condition of the neighborhood affects the sale price.

» **Walk around the property and inspect it from all four sides.** The front of the house can look like the Taj Mahal while the back or sides look more like a bombed-out bunker. See Chapter 8 for additional suggestions on doing drive-by and walk-around inspections.

» **If possible, get inside and look around.** You don't want to get arrested for trespassing or run off by an angry homeowner, but if the homeowner invites you in, accept the invitation.

TIP

If the house is currently listed with a broker, make an appointment to view it. This approach is an excellent way to get the inside scoop without being accused of trespassing or voyeurism! You don't have to tell the broker what you know about the property, why you're interested in it, or anything else that might increase the asking price.

See Chapter 8 for more tips on inspecting the property with your own two eyes.

TIP

This cursory inspection offers you only a glimpse of the property, and in foreclosure investing, that's all you get sometimes, especially if you're buying the property at an auction. When buying a property directly from the homeowners before auction, make your offer conditional upon a satisfactory inspection, and have the property professionally inspected before closing. This inspection will uncover any costly defects and give you a ballpark estimate of the cost of repairs and renovations needed to bring the property up to market value. If the property requires repairs, try to negotiate a price reduction instead of canceling the deal. If the estimated cost of repairs is $5,000, for example, try to get a reduction of $6,000.

Guesstimating a property's true value

An essential component of successful real estate investing is developing an exit strategy or endgame. Before you agree to pay a certain price for a property, you must have a fairly accurate estimate of what you can sell it for. Otherwise, you risk overpaying and losing money on your investment.

Estimating the market value of a house is easiest with the assistance of a real estate agent who's knowledgeable about property values in the area. A qualified agent can pull up Multiple Listing Service (MLS) sheets on comparable homes that have recently sold in the same neighborhood and quickly provide you a good idea of how much you can sell the property for, assuming that it's in marketable condition and the market remains relatively stable.

Don't let your agent or the word on the street pump up your expectations or estimates. Tell your agent that you want an estimated sales price based on reality, not hope. Provide your agent as many details as possible about the property to ensure that the estimate is based on truly comparable properties.

REMEMBER

Never enter into a real estate deal unless you have at least two exit strategies: Plan A, typically for selling the property at a profit, and Plan B, just in case Plan A doesn't pan out. Your Plan B may be to lease the property, live in it, or sell it for slightly less than you planned to sell it for, but you should always have a Plan B, because real estate transactions and markets aren't always predictable.

Investigating the situation and the homeowners

The more you know about the homeowners and their situation, the better able you are to assist them in extricating themselves from their current predicament. Unfortunately, homeowners who are facing foreclosure often feel isolated, ashamed, resentful, and defensive. They may not be very forthcoming about the details that landed them in their current situation, and they may see you as merely an opportunist who's trying to sell their property out from under them.

In a way, they're right. You *do* want the property, and you want to make a profit. But that doesn't change the fact that the homeowners are trapped and need to explore their options. Your job at this stage is to convince the homeowners that they'll see better results working with you than with someone who's not quite on the level. In Chapter 9, I show you how to approach distressed homeowners and explain their options.

When you meet with homeowners, listen at least twice as much as you talk, and try to gather the information like the following that can enable you to provide more valuable guidance and assistance:

- The total amount owed on the first mortgage and all other liens on the property, including any back taxes owed
- The current monthly payment on the house and on any other outstanding loans
- The names and contact information for all lienholders (lenders, contractors, and others who have a claim on the property)
- The amount of time before the property goes up for auction
- The value of any possessions the homeowners have that can be liquidated
- A list of any family members who may be able to help
- A clear idea of what the homeowners see as their options, such as selling the house, moving to a rental unit, relocating, or scaling down to a smaller house

This brief list can start you on your information-gathering mission, but as you talk with the homeowners, other issues and opportunities often present themselves. Create a thorough record of your discussions with the homeowners so that you can begin to paint a portrait of them in your mind. The more information you have, the more creative you can be in developing viable solutions. See Chapter 9 for additional details.

Setting and Sticking To Your Maximum Bid

Even the coldest and most calculating real estate investors become enthusiastic about properties. They may fall in love with a particular house or simply get so caught up in the heat of an auction that they bid too much for a property. Then they have to work twice as hard to make a profit on it.

REMEMBER

Before you bid on a property or make an offer to the homeowners, you should have a clear idea of how much you can afford to pay for a property to earn the desired return on your investment — usually, no less than 20 percent. Write down the amount, and make a firm commitment to yourself to stick to it. Bid or offer no more than your upper limit, no matter how hyped you become during the bidding or negotiations.

In Chapter 10, I show you how to set the maximum price you'll pay for a property when preparing an offer to purchase directly from homeowners. In Chapter 11, I lead you through the process of preparing a maximum bid for an auction and let you in on some strategies for effective bidding.

Taking Possession of the Property

When you buy a house, you usually expect to move into it on the agreed-upon date. You and the seller sign a purchase agreement in which the seller agrees to vacate the premises and turn over the keys on a specified date. Sometimes, the buyer requests possession at closing. In other cases, the seller agrees to move out one or two weeks later.

With foreclosures, the transfer of a property can be a long, drawn-out, and messy affair. In some areas, you take immediate possession of a property as soon as you offer the winning bid and pay the trustee or courtroom clerk. In other cases, the homeowners retain possession of the property for the duration of the redemption period, which can last up to a year in some areas.

WARNING

While you're waiting for the redemption period to expire, you may be tempted to start working on the house. Don't. You may invest $10,000 in renovations only to have the property owners decide to redeem the property just before you wrap up the project. They may thank you for the free $10,000 in renovations, but don't count on it.

Even when the redemption period is over, you have no guarantee that the previous homeowners are going to vacate the premises in a quiet, orderly fashion when their time runs out. In some cases, you can gently encourage the homeowners to move out. In other cases, you must have them forcibly evicted (by the sheriff, not you), which is always a painful process for all parties.

In the following sections, I provide an overview of what to do to take formal ownership of a property and eventually take possession of it. In Chapter 16, I reveal your responsibilities as the new owner and cover the eviction process in more detail.

Completing the essential paperwork

When you purchase a property directly from the homeowners, you and the sellers attend a closing in which a title company's agent or an attorney shuffle all the paperwork and file the necessary records.

When you purchase a property at an auction or sheriff's sale, however, you receive the deed, which you must then record at the Register of Deeds office to have your name officially added to the title. See Chapter 11 for details.

TIP

After dropping off the deed to have it recorded, make sure that you obtain title insurance to protect you from any hidden claims against the property. Some title companies don't offer title insurance for foreclosure properties or properties you pick up at a sheriff's sale.

Paying property taxes and insurance

As soon as you purchase a property, either from the homeowners or at an auction, you become the official owner of the property, even though you may not be able to take immediate possession of it. As owner, you're in charge of insuring the property and paying property taxes. Be sure to do the following:

- Call your insurance agent to obtain a homeowner's insurance policy for the property.
- Pay the property taxes as soon as they're due. (You may need to pay back taxes when you purchase the property.)

DON'T FORGET THE INSURANCE

As soon as you buy a foreclosure, even if you can't take possession of it right away, call your insurance agent and buy a homeowner's insurance policy for the property.

I once purchased for $75,000 a house that was worth $150,000. By the time I took possession of the property, the previous owners had taken the carpeting, the entire kitchen (including the sink), the bathroom fixtures, the furnace, the central air conditioning unit, the doors, and everything else they could carry out, hoping to stick it to the next owners. I turned the claim in to my insurance carrier, received $25,000, and sold the house to another investor for $100,000. After expenses and holding costs, I walked away with about $35,000.

The investor who bought the property decided to rent it instead of selling right away. He refinanced to pull about $50,000 equity out of the property, used the equity to cover repair and renovation costs, and still had a little money left over. Then he rented the property to cover his mortgage payments.

» File an affidavit proving that you paid the insurance and property taxes. If the homeowners decide to redeem the property, an affidavit enables you to recover any taxes and insurance payments you made during the redemption period.

See Chapter 16 for details concerning your responsibilities as a homeowner during the redemption period.

Persuading the current residents to move on

As the official owner and soon-to-be possessor of the property, your goal is to encourage the homeowners to move out without trashing the place or forcing you to evict them. You want the property to be broom-clean and in the same condition it was in when you first inspected it — or better. The key to success in this area is providing the homeowners an easy exit. Following are some suggested perks for assisting the homeowners out the door:

» Offer cash for keys and a *nonredemption certificate* — a signed agreement that the homeowners promise not to redeem the property.

» Provide a dumpster in which the homeowners can toss anything they don't want to move.

» Offer to pay for a moving van, or pay a portion of their relocation costs.

» Offer to pay the first month's rent on a rental unit.

WARNING

Don't hand over the cash until you get what you need. I've experienced several incidents in which homeowners took cash, agreed to move out, and then stayed put. Chapter 16 offers some additional suggestions along with instructions on how to have homeowners who resist moving out evicted.

Cashing Out: Realizing Your Profit

Assuming that you purchase a property for the right price, you've already profited from it, but you won't see that profit until you cash out your chips. Various cash-out strategies are available, as I discuss in Part 5. The following sections provide a brief overview of your cash-out options.

Repairing and renovating the property to maximize its value

The most common way to maximize your profit is to repair and renovate the property and then place it back on the market in the shortest possible time. Time is of the essence, because every day you hold a property costs you — in monthly payments (if you financed the purchase), property taxes, insurance, and utilities.

TIP

The trick to repairing and renovating a property cost-effectively, as I explain in Chapter 17, is planning well in advance and improving the property only enough to meet or slightly exceed the going price. Transforming a $150,000 property into a $250,000 property in a neighborhood where most homes sell for around $150,000 is a huge mistake. Buyers who want a $250,000 house buy in a $250,000 neighborhood.

Marketing and selling to get top dollar

Your goal in selling a house is to sell it quickly at a price that's close to its market value. To accomplish that goal, follow these marketing guidelines:

- **Set the price right the first time.** Don't set a super-high price hoping that the fish will bite. Your investment property is likely to linger on the market, during which time holding costs will continue to chip away at your profit. An asking price that's in line with comparably priced homes is best.
- **Get the word out through a successful real estate agent.** If you're thinking of saving money on real estate commissions by selling the house yourself, think again. Homes sell in about half the time and for more money through a real estate agent. What you may save in commissions, you end up losing through holding costs and by having to sell for a lower price.
- **Begin marketing as soon as you take possession.** Marketing begins as soon as you begin your renovations, especially if you start renovating the exterior first. Neighbors notice and begin to gossip, and word-of-mouth advertising begins to take off.
- **Plant a For Sale sign on the front lawn when renovations are nearing completion.** A For Sale sign removes all doubt that the house is for sale.
- **Stage the house impeccably.** Clean and scrub inside and out, mow the lawn, freshen the landscape, remove the clutter, tastefully furnish and decorate the interior, set out fresh bouquets of flowers, and let the buyers stream in.

For additional tips and strategies to sell your property quickly and for top dollar, check out Chapter 18.

Cashing out equity by refinancing

When you purchase a property for less than its market value, you automatically have equity in the property. Renovations that bring the property up to its market value may add more equity, assuming that you don't overspend.

You can cash out the equity by refinancing it for more than you paid for it to realize your profit almost immediately. Keep in mind, however, that by refinancing for more than the purchase price, you take on a larger mortgage, and the increased interest chips away at your total profit over time. Refinancing, however, does provide you capital to fuel your next investment or cover the cost of renovations. For more about refinancing to cash out equity, see Chapter 19.

Profiting in other ways

Selling and refinancing are two of the quickest and most common ways to realize the profit from foreclosures, but other strategies are available:

- Negotiate a short sale. With a short sale, you persuade lenders to accept less than they're owed, which increases equity in the property, providing you creative ways to help the distressed homeowners out of their jam. (See Chapter 15.)
- Lease the property to renters other than the previous homeowners. (See Chapter 18.)
- Lease the property back to its previous owners. (See Chapter 19.)
- Sell the property to the homeowners' family members. (See Chapter 19.)
- Sell your position in the property to another lienholder. If you control the first mortgage, for example, you can sell it at a markup to a construction company that has a lien against the property so that the company can protect its interest in the property; otherwise, it risks losing all the money it's owed. (See Chapter 19.)