

Chapter 1

Wrapping Your Brain around Foreclosure Investing

In This Chapter

- ▶ Taking a bird's-eye view of the foreclosure process
 - ▶ Building a team of advisors, 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
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Whenever you're developing a new skill, having an overview of the process provides you with a context for understanding. In the case of investing in foreclosures, 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. And realizing the benefits of thorough research can prevent you from buying a property that's destined to send you to the poorhouse.

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 once you own the property. In a nutshell, I give you the basic structure for investing in foreclosed properties, and as soon as you begin buying foreclosure properties, you can start plugging in the details — attention to detail is the key to success.

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. Actually, the process is more drawn out than that, following this typical scenario:

- ✔ Homeowners stop making mortgage payments.
- ✔ After about 15 to 30 days, lender sends a payment reminder.
- ✔ If the homeowners still don't respond, the lender continues to send notices and call the homeowners.
- ✔ If the homeowners still don't contact the lender, the lender turns the matter over to its collection and harassment department, who continues to pester the homeowners with letters and phone calls.
- ✔ After about three missed monthly payments, the lender transfers the matter over to outside counsel, which is normally handled regionally. The attorney sends an official notice, warning that foreclosure proceedings are about to begin.
- ✔ Homeowners don't reply or present a solution that the lender deems unsatisfactory. At this point, the homeowners can usually stop the foreclosure by negotiating a suitable solution with the lender.
- ✔ 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 9 for details on how to track foreclosure notices. (The county legal newspaper serves the public and provides the legal community with an automated system, but these are private, for-profit publications, not freebies that the county publishes.)
- ✔ 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.
- ✔ The sheriff or his representative may visit the house prior to the sale to post a foreclosure notice and inspect the property, because sometimes redemption rights 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.)

- ✓ The day before the auction, the lender may adjust the price up or down, but may not artificially inflate it. Frequently, lenders reduce the opening bid to make the property more appealing to investors and rid themselves of it.
- ✓ 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.
- ✓ 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 then take possession of the property following any redemption period as explained next.
- ✓ 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 redemption period expires 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 REO (Real Estate Owned) department, which prepares it for sale.
- ✓ Previous owners move out or are evicted.

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.



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 assistance, but the longer you wait, the fewer your options. Educate yourself and communicate with your lender. Homeowners who panic become very vulnerable to foreclosure rescue schemes. Do your research, know your options, and don't deal with someone who's claiming to be your friend. A good place to seek help is Freddie Mac's Don't Borrow Trouble Web site at www.dontborrowtrouble.com.

For more in-depth coverage of the foreclosure process, including variations in different areas of the country, skip to Chapter 2.

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:

- ✓ **Pre-sale:** 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.
- ✓ **Post-sale:** After the lender repossesses the property, 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 an entry point that's right for you, refer to Chapter 3.



Begin tracking properties early in the process, even if you choose to buy properties later in the process. 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 the homeowners and their lenders to work out a mutually acceptable solution. In a few cases, you can help the homeowners keep the property; for example, 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 best 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.



Your goal during the pre-foreclosure stage is to present the distressed homeowners with all of 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 with some of the best opportunities to assist the homeowners and purchase a property at an attractive price. In Part III, 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 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 and 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 “Doing a Little Detective Work,” later in this chapter and in Chapter 8.
- ✔ **Buying a junior lien thinking 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 over 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 a 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 don'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.
- ✔ **Paying more for a property than what it's worth.** In the heat of an auction, your enthusiasm to outbid fellow bidders often leads novice investors into paying more for a property than what it's worth. This almost guarantees that you'll end up taking a loss on the property.
- ✔ **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. You also need to insure the property, because you're not covered by the homeowner's insurance policy (if they have one).

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 purchased a house for \$75,000 that was worth \$150,000. By the time I took possession of the property, the previous owner had taken the carpeting, the entire kitchen including the kitchen sink, the bathroom fixtures, the furnace the central air conditioning unit, the doors, and anything else they could carry out hoping to cause harm

to the next owner. I turned it into my insurance carrier, received \$25,000, and sold the house for \$100,000 to another investor. After expenses and holding costs, I walked away with about \$35,000.

The investor who bought the property decided to rent it out 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. He then rented out the property to cover his mortgage payments.



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

Working with homeowners prior to auction and waging bidding battles against other investors during an auction may not appeal to you, but you can still 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* (Real Estate Owned) department (sometimes referred to as the *OREO* or 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 IV show you how to find and buy REO properties and 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 the properties were paid for with profits from illicit activities
- ✔ HUD (Housing and Urban Development) and VA (Veterans Administration) houses that were repossessed when homeowners defaulted on HUD or VA 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 Department of Transportation purchased for road improvements and then must dispose of after completing the improvements



When buying 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 Advisors

Flying solo on foreclosures may seem like a good idea. After all, if you get other people involved, they may become rivals and pick up on your carefully guarded secrets. Flying solo, however, is a good way to go bust or at least limit your potential profit. Developing synergistic relationships with top performing specialists has been a key to my success and the success of almost all of 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.

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 over helping you work nights and weekends, then 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 since he is surely going to want to

spend some of that money with you, he'd better dig his potato out of that chair and help.

I strongly recommend against any attempts to invest in foreclosures without the full consent and eager assistance of your spouse. 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."

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

- ✓ Real estate agent
- ✓ Real estate attorney
- ✓ 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 to profitable foreclosure properties.



With a solid team in place, you take on the role of manager and major decision maker and 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.



When I say “cash,” I’m not just talking about the money you have stuffed in your mattress. I’m talking about borrowing certified funds from a bank or other lending institution. 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 enough to achieve their goals, while you take possession of a profitable property.
- ✓ **Confidence:** Cash provides you with the confidence you need to pitch offers to both homeowners and lien holders, 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 of “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 out with only a few bucks in their pockets, including yours truly.



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

Doing a Little Detective Work

When you decide to invest in foreclosure properties, you take on the role of private detective. To protect yourself from the many inherent risks of foreclosure investing, dig up the essential facts and figures, so you know what you’re buying, what it’s worth, and your options for purchasing the property for less to maximize your profit.

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

- ✓ Names of the homeowners
- ✓ Amount owed on the property
- ✓ Lien-holder names and contact information
- ✓ Physical condition of the property
- ✓ Homeowners' current situation 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 short chapter. For additional details, see Chapters 8 and 9.

Finding foreclosures and seized properties

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

- ✓ The neighborhood grapevine, including neighbors, churches, local cafes, clubs, and even people contacting you directly for assistance when they know that you buy distressed properties
- ✓ 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
- ✓ Web sites that list foreclosure and government-seized properties
- ✓ Real estate agents
- ✓ Attorneys, particularly bankruptcy, divorce, and probate attorneys
- ✓ Lenders

Online foreclosure information services range from excellent to total rip-offs. Some services deliver timely information, while others deliver out-of-date information that's totally useless. In the beginning, you should do your own footwork.



Word-of-mouth leads are often the best leads. Make sure 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 have to look for properties. See Chapter 6 for networking tips.

Investigating the property's title and other documentation

Before you commit to purchasing a property, you have 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) on it. In short, you need to know what you're getting yourself into before you get yourself into it.

Fortunately, most of the critical documentation about a property is accessible to the general public and the title company you use:

- ✔ **Title:** The title shows the names of the property owners and lien holders and any legal judgments on the property. I once purchased a property from a mother and daughter, only to discover later that the daughter I bought the property from wasn't the daughter who owned it. The right 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, which includes 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.



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:

- ✔ **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.
- ✔ **If possible, get inside to take a look around.** You don't want to get picked up for voyeurism or run off by an angry homeowner, but if the homeowner invites you in, accept the invitation. See Chapter 8 for additional suggestions on doing drive-by and walk-around inspections.



If the house is currently listed with a broker, make an appointment to view the house. This is an excellent way to get the inside scoop without being accused of being a peeping Tom! You don't have to tell the broker what you know about the property or why you're interested in it.

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



This cursory inspection offers you only a glimpse of the property, and in foreclosure investing, sometimes that's all you get, especially if you're purchasing the property at an auction. When buying a property prior to auction directly from the homeowners, make your offer conditional upon a satisfactory inspection, and then have the property professionally inspected before closing to uncover any costly defects and provide 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; for example, if the repair costs \$2,500 try to get a reduction of \$3,500.

Guesstimating a property's true value

An essential component of successful real estate investing is developing an exit strategy or end game. 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 MLS (Multiple Listing Service) sheets on comparable homes that have recently sold in the same neighborhood and quickly provide

you with a good idea of how much you can sell the property for, assuming 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 what the agent is sure she can get, not what she hopes she can get. Provide your agent with as many details as possible about the property, so she can look up similar properties that are truly comparable to the one you're thinking of buying.



Never enter into a real estate deal unless you have at least two exits — a plan A, typically for selling the property at a profit, and a 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, but you should always have a plan B, because real estate transactions and markets are not 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 is trying to sell their property out from under them.

In a way, they're right. You probably 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 will see better results working with you than working 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 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 other outstanding loans
- ✓ The names and contact information for all lien holders — lenders, contractors, or 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 — sell the house, move to a rental unit, relocate, scale 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 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 workable viable solutions. See Chapter 8 for additional details.

Setting and Sticking To Your Maximum Bid

Even the most cold and 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. They then have to work twice as hard to make a profit on it.



Before you bid on a property or make an offer to the homeowners, you should have a pretty 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 a maximum price 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 setting, 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.



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 owner decide to redeem the property just before you wrap up the project.

Even when the redemption period is over, you have no guarantee that the previous homeowners are going to quietly and orderly vacate the premises when their time runs out. In some cases, you can gently encourage the homeowners to move out. In other cases, you have to forcefully evict them, 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 seller 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.



After dropping off the deed to have it recorded, make sure you obtain title insurance to protect you from any hidden claims against the property. Some title companies do not 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:

- ✔ Call your insurance agent to obtain a homeowners 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.)
- ✔ File an affidavit proving 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.

Convincing 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 broom clean and in the same condition it was in or better than when you first inspected it. The key to success in this area is to provide 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.



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 evict homeowners who resist moving out.

Cashing Out: Realizing Your Profit

Assuming you purchase a property for the right price, you've already profited from it, but you don't see that profit until you cash out your chips. Various cash-out strategies are available, which I discuss in the chapters in Part V. 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 cash out 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.



The trick to repairing and renovating a property cost-effectively, as I explain in Chapter 17, is to plan well in advance and improve 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. If buyers want a \$250,000 house, they buy into a \$250,000 neighborhood.

Marketing and selling to get top dollar

Your goal when selling a house is to sell it quickly at a price that's pretty 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 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 up the landscape, remove the clutter, tastefully furnish and decorate the interior, set out some 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 19.

Cashing out equity by refinancing

When you purchase a property for less than its market value, you automatically have equity in the property. Renovations to bring the property up to its market value add more equity.

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 does, however, provide you with capital to fuel your next investment or to pay for additional renovations.

For more about refinancing to cash out equity, skip to 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 also available:

- ✔ Negotiate a short sale. (See Chapter 15.)
- ✔ Lease the property. (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 lien holder. (See Chapter 19.)