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Volume 4 Issue 10 October 2009



The Three Faces of Foreclosures/ by Andy Heller

So you want to invest in residential foreclosures? Not sure quite where to start? It is helpful to understand first that there are three faces to "foreclosures", each with very different characteristics.

The first face of foreclosure investing is the "pre-foreclosure". The pre-foreclosure period begins when a homeowner gets behind on his or her loan, and ends with the foreclosure sale. The pre-foreclosure phase itself is divided into two stages.

The first stage covers the period of time beginning when the homeowner misses their first mortgage payment, and ends in the final month preceding the impending foreclosure sale. During this time if a homeowner is not already marketing their home, it will be up to the investor to reach out to and find these distressed homeowners through ads ("We buy homes fast" and "We have CASH for homes") and networking.

The second stage occurs during the final month leading up to foreclosure. The precise laws differ from state to state, but most states require some form of public notification of a pending foreclosure. Investors can seek out these notifications, and many have ample contact information for the investors to approach the distressed homeowner. Many larger communities have a number of online and subscription services which compile the pending foreclosures in a specific geographic range. You can also network within your local real estate investors association and/or do an internet search (e.g. "foreclosure listings in order to find these publications and services).

The pre-foreclosure face offers wonderful wealth generating potential to investors. They can approach distressed homeowners, and give them some quick cash when there is ample equity in the homes. There are also opportunities to work with some of the foreclosing lenders directly (with the

distressed homeowner's approval of course), as it is in the lenders interest to avoid costly foreclosures.

Pre-foreclosures may be arguably the most written about method of finding discount property. It is amazing how many distressed homeowners wait to the last minute with their properties, always thinking they would be able to bail themselves out. It is then, with little time left on the clock, that some of these distressed homeowners realize that the only viable remaining option is an investor in a position to move quickly.

On the plus side pre-foreclosures can be very, very lucrative. A typical pre-foreclosure might have an investor paying off a distressed homeowners \$220,000 loan, giving the distressed homeowner \$25,000 in cash to restart their lives, and taking over the \$350,000 property. The primary negative associated with pre-foreclosures is the taxing emotional element associated with constantly dealing with homeowners involved in a downward spiral. Simply put, this will not be feasible for every investor.

Almost twenty years ago we were one of those investors fresh out of one of those "get rich quick" seminars. Our model was to focus on pre-foreclosures, and we went to one and only one home. The family we visited was the most likeable family. The husband was a veteran, and both he and his wife lost their jobs within a short time of each other. When visiting the home their little girl took my hand and showed me the "doggie window", the hole in the kitchen door for their family dog to go in and out of the house. I left this visit emotionally drained and with a sour feeling in my stomach. This was the last pre-foreclosure we ever visited.

The second face of foreclosures is the "foreclosure sale". This occurs when the loan on the home is not brought current by the distressed seller or the home is not sold.

Again, the procedures and process have slight differences from state to state, and prospective investors will need to educate themselves as to the foreclosure sale process in their respective state. For many states, the sale of the property takes the form of an old fashioned auction on the courthouse steps (in many states this occurs on the first Tuesday of every month).

Like pre-foreclosures, this also can be quite lucrative. However, unlike pre-foreclosures, there is no emotion element other than controlling your adrenalin at the foreclosure sale. The main drawbacks are that often investors are bidding on property they have not been able to access (this makes assessing repairs

**Don't Miss Thursday
November 19, 2009
10 mistakes even your
Tax Professional
can make
Joe Craft, CPA**

and

improvements quite challenging), an investor may need to quickly assess the title and any liens quickly (this can lead to mistakes and can be costly), and many states require certified funds at sale or within a very short time frame (such as 24 hours). While investors can make a lot of money with foreclosure sales, having access to large sums of cash or fast financing limits these to a subset of experienced and well-financed investors. If you're interested in this face, we suggest you go to a foreclosure sale and see how one works firsthand.

The third face of the foreclosure process is the "post-foreclosure". If the property is not sold in pre-foreclosure and not purchased by an investor at the foreclosure sale, then it goes back to the bank or other lien holder who secured the loan.

With interest only, 100% financing, and other loans offered today requiring little down payment, record numbers of properties are going through the foreclosure process without attracting investor interest in the pre-foreclosure or foreclosure stage. These properties eventually land on the desk of someone within a financial institution (bank, mortgage company, etc) that has the responsibility of disposing of these properties. Many institutional lenders carry dispose of so many properties that they have entire departments dedicated to this task. Oftentimes, these departments are referred to as REO (real estate owned) or Post-Foreclosure Departments.

When contacted by investors, institutional sellers will generally fall into one of three categories There are many ways to find these institutional sellers. We teach how to find and approach institutional sellers as well as the agents that many institutional sellers utilize to sell their inventory of properties. (For more information please go to www.regularriches.com).

The first category is those institutional sellers that will be happy to work with an investor directly,

Steals, Deals and Classifieds©
UPCOMING MEETINGS

Deals Exchange Network

WHEN: 1st Tuesday of Every Month 6:30 PM - November 3rd 2009

WHERE: Doubletree Suites, 400 Soldiers Field Road, Boston, MA

WHAT: Networking, Deals Exchange, Featuring: Cost: \$25 for visitors,
 FREE for Members of Boston AREIA

Joe Craft, CPA * November 19, 2009**

Top 10 mistakes even your Tax Professional can make.

It's your money!! So no one is going to watch it like you will!!

You don't have to know every detail of how your accountant does your taxes – but you know what they say: You don't know what you don't know.

So come and find out! It may change your investing life!

The more you know about your money and taxes, the more you'll keep of the money, and the less you'll pay of the taxes.

5:30 - 6:15 PM - POWER HOUR - Networking - members only

6:30 PM - Meeting Location: Best Western,

380 Winter Street, Waltham, MA

Free to members, Visitors only \$25 at the door.

How to Buy Low, Rent Smart and sell HIGH with bank-owned foreclosures and 'rent-smart' lease options!

Featuring ANDY HELLER

WHEN: Saturday, November 14th, 8:30 AM–5:00 PM - working lunch included!

WHERE: Southern New Hampshire University, 25 Pelham Road, Salem, NH

COST: Only \$29 for members; \$59 for non-members; \$99 day of event

TO REGISTER: Visit www. BostonAREIA.com and click on Meetings

What is PHP and why do smart investors want this designation?

The National PHP designation is a nationwide education-based program sponsored by the National Real Estate Investors Association and designed to recognize the high level of knowledge and professionalism among the designation holders.

Having a basic education in a variety of real estate-related courses will not only increase an investor's ability to reach their goals in real estate investment, it will also raise the investor's level of professionalism and status in the eyes of the public and government officials. It also aids in encouraging legislators to think of educated investors as a larger group for political action.

Having a PHP Designation will help you:

- ~Build credibility
- ~Demonstrate your professionalism
- ~Learn while you earn (credits, that is)
- ~Help raise public awareness
- ~Put yourself in a position to be recognized as an investor who adheres to a high standard of excellence and ethic

In 60 Hours of Study You Will Learn

Rehabbing-Short Sales
 Property Management-Tax Laws
 Financing-Finding & Analyzing
 Deals-Legal & Ethical Issue
 -and MORE

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Brockton, MA 134 Spring St 6 Bed Single Family

\$105,00 Great Single family Rehab to flip or hold. Fabulous 6 bedroom home with potential for a large extended family or rent by the room. Some rehab necessary. This is a chance to buy in the really HOT Brockton market and not have to deal with REO overbidding. Newer windows, original hardwood floors and woodwork. Rehab estimates of between \$35,000 and \$50,000 depending on what you do. Conservative ARV of \$230,000. Needs a cash offer. Pictures avail at www.bartonpropertygroup.com

Contact Phone number: 508-444-0249
Email: info@bartonpropertygroup.com

Milton, MA

Price: \$395,000 Each 2-40,000 sf buildable perked lots w/2 additional 40,000sf lots. Can sell as package deal.
Contact Name: Jim Rich
Contact Phone number: 508-369-4847

Brockton, Ma: Great Multi-Family buy and hold

Cash Price: \$120,000 26 Bolton Place, Brockton, MA Fabulous 6 bedroom home with potential for \$2400 rent. This is a chance to buy in the really hot Brockton market and not have to deal with REO overbidding. Newer windows, vinyl siding, renovated in 2002. Minor rehab necessary. Short sale can be approved quickly for a cash offer. This one CASH FLOWS! Photos available at www.bartonpropertygroup.com
Contact Phone number: 508-444-0249
Email: info@bartonpropertygroup.com

Westford, MA Single Family

Price: \$360,000 Repairs: \$72,450 ARV \$600,000 6400sq ft-3200 sq ft finished on 1st fl, 3200 sq ft unfinished 1.58 acres 173 Carlisle Rd, Westford MA, Middlesex County Huge single family located in a very de-

sirable area on Westford Carlisle town line and opposite the terminus of the recently completed Bruce Freeman bicycle trail. Rehab consisting primarily of finishing the entire second floor to turn the property into townhouses, low income housing or multi-family apartment building. Rehab during the winter months, be ready for Spring. Great profit property

Contact Name: Michael J. Sexton
Contact Phone number: 978-413-4484

Mixed Use Commercial Property- Lincoln, MA

Description: I have for you a fantastic 4 story Mansard building with 3 retail storefronts & 4 office spaces 7100 sqft with 28 parking spaces on .38 Acres. Each unit with private bathroom. Retail long term tenants, offices currently vacant as former tenant occupied whole space and outgrew. Located in commercial district near commuter rail and easily accessible to major highways. CURRENT gross monthly rent \$4,000/mo Value play is to tenant up office space then sit back and collect your cash flow. PROJECTED gross monthly rent \$9,000/mo Asking Price-\$800,000 Motivated Seller-bring all reasonable offers - Serious Investors please

Contact Name: Debbie Jean
Contact Phone number: 508-439-2172
Alternate Phone number: 508-449-4062
Email: debbiejean66@gmail.com

24,000 Square Foot Mansion - Great Deal for Builder/Developer

This is a 24,000 square foot SFR mansion located 10 minutes north of Boston in very desirable suburb. Price - Previously listed for \$2.5M, willing to talk to right buyer for \$1.7M. Highest and best use for this

property is to convert to 10-12 condos. 10 similar condos/townhomes in this area have sold in the high \$400's, low \$500's in the past 6 months. Repair costs - The house is in good shape but converting to condos will obviously be a major project and you will need to see home yourself to estimate costs. Seller is flexible on terms, possible financing or equity partnership. She is willing to talk and make a deal with the right developer/builder. If you have the ability to complete a project like this please call Patrick for more details.

Contact Name: Patrick Clapp
Contact Phone number: 617 721-2627
Email: pclapp@hotmail.com

Bank Owned - Venice, FL Lakefront 3.4 Acres - \$74,900

Bank owned lakefront 3.4 Acres on Lake Geraldine - Located in a luxury home community in Venice, FL with white sandy beaches just minutes away. - Community features a boat slip for quick bay access - Next door neighbor is an \$1.5m estate home - 08' Tax value is \$173,900 See me for photos and more information. Great for a self-directed IRA. Won't last long. Al Piecuch Exceptional Properties Group Realtor/Investor in NH & FL

Contact number: 603-930-0718
Alternate Phone number:
Email: Al@NHtoFlorida.com

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TAX TIP OF THE MONTH

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- Joe Craft, CPA



Joe Craft, CPA

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bypassing listing the property with a real estate agent. The second category is institutional sellers that will at first indicate plans to list their REO property, but can be persuaded by the skillful investor to delay the listing until the investor has a chance to see property and make an offer. The third category is those institutional sellers that will not consider working with an investor directly, but will instead list their properties with selected real estate agents.

One of the key benefits of purchasing post-foreclosures is that the sellers have no emotional tie to the property. For financial institutions, this is a simple business transaction.

Further, investors seeking post-foreclosures should remind themselves that institutional sellers are in the business of lending money, not managing real estate. At some point, if a bank or lender has too many properties on their books, the number of REO properties will need to be reduced, sometimes quickly, and oftentimes at a discount to investors. It is not as common to acquire post-foreclosures at 30%+ investor discounts as is possible with some pre-foreclosures (and even some foreclosures), but the available pool of properties at investor discounts of 10-20% is plentiful.

If the investor's sale or rental model minimizes the marketing time and holding costs associated with each purchase, the investor will find post-foreclosures to be a good source of discount real estate. Many predict this source will increase significantly in the coming years due to record numbers of new loans today offered with little or no down payment required. Our model allows us to minimize holding costs and marketing time, so we have elected to focus on post-foreclosures as our primary source of finding discount real estate.

"Foreclosures" is a buzz word that attracts the interest of many new real estate investors. It is helpful to understand from the start that there are actually three very different and unique "faces" to the foreclosure process. Most established investors that buy foreclosures are actually focusing primarily on one of these three "faces". Therefore, for new investors who are just getting started, take a look at the characteristics (time, money, risk, emotion element, potential profits) of each of these "faces" of the foreclosure process and select the one that is the best fit for you.

Whichever one you select, implemented properly, the three faces of the foreclosure process all have the potential of putting a smile on the face of the investor. That is the one common denominator of the three very different faces of the foreclosure process.

Andy Heller and Scott Frank are co-authors of the Fortune Magazine recommended book "Buy Low, Rent Smart, Sell High". Combined, they have been investing in residential real estate for over forty years and have purchased and sold approximately 100 residential properties on a part-time basis. Visit them at www.regularriches.com.

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- Why the BPO is so important
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- How to create the HUD for the short sale package
- What constitutes a seller hardship and how to present it
- What makes the bank want to work with you?
- Why is the bank taking so long to get back to you?
- When you should use a short sale specialist to negotiate with the bank
- How many deals you can expect to work on to get a viable deal
- How to decide on your exit strategy
- Should you buy and hold, rehab, or try for a simultaneous close?
- And what is a simultaneous close, anyway? Aren't they illegal?
- How to find end buyers
- How to work with the end buyer's lender
- What to do when the end buyer's lender won't play ball
- How to close the deal when your end buyer's lender requires 3, 7, or even more days of "seasoning"




Kim Harrington

November 21, 2009
Class location:
EXIT Homestead Realty
5 Andover Road
Billerica, MA
Time: 8:30-4

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