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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of REO Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>268,532</td>
</tr>
<tr>
<td>2007</td>
<td>404,849</td>
</tr>
<tr>
<td>2008</td>
<td>861,664</td>
</tr>
<tr>
<td>2009</td>
<td>918,376</td>
</tr>
<tr>
<td>2010</td>
<td>1,050,500</td>
</tr>
<tr>
<td>Total</td>
<td>3,503,921</td>
</tr>
</tbody>
</table>

Source: RealtyTrac (www.realtytrac.com).

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

**WHAT IS BANK-OWNED REAL ESTATE?**

When a homeowner misses three or more mortgage payments (the number varies by state), the property goes into default and typically the foreclosure process begins. However, not all homes that lapse into foreclosure end up foreclosed or bank-owned. A homeowner in
How I Got Started

My First REO Deal

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

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

Back then there were no how-to manuals with tips and tools of the trade. I learned the right way to do deals by trial and error. I quickly found out that buying and selling REOs was the best way to financial freedom because it meant dealing directly with banks and not dealing with unmotivated tire kickers—homeowners who aren’t sure they want to sell, who have emotional involvement with the properties, and so on.
• As an investor on these deals, you can spend months on a potential transaction that doesn’t materialize.

Of course, banks won’t accept every REO offer you make. But with REO buying, no matter your exit strategy—whether you decide to immediately sell (flip) the property, hold it and remodel it to resell at retail, or hold it and rent it—you’ll expend less time and energy because you’re working directly with banks on properties with clear titles, and without the stress and delays of working with homeowners in default.

**2010 HOME SALES AT A GLANCE**

<table>
<thead>
<tr>
<th>(% of total sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Damaged REOs: 13.7%</td>
</tr>
<tr>
<td>Move-In-Ready REOs: 15.6%</td>
</tr>
<tr>
<td>Nondistressed (normal retail sales): 53.6%</td>
</tr>
<tr>
<td>Short Sales: 17.1%</td>
</tr>
</tbody>
</table>

*Source: Campbell/Inside Mortgage Finance HousingPulse Monthly Survey (www.campbellsurveys.com).*

Let’s look more closely at foreclosure and the various acquisition processes.

**FORECLOSURE BASICS**

Foreclosure is a process that extinguishes all rights, title, and interest of the owners of a property in order to sell the property to satisfy a lien against it. That’s why it often takes so long. Laws and procedures that govern mortgage default and foreclosure vary by state, but there are two basic approaches to foreclosure in the United States. About half the states use the “power of sale” approach, and the other half use “judicial foreclosure.” The former involves a “power of sale proceeding,” which is dictated by a deed of trust and the trustee (usually an attorney or title company). The trustee informs the property owner that the debt has not been paid. The lender then specifies a due date
If the bank has a big enough loan loss reserve, the Fed may prohibit it entirely from making further loans until it reduces its loan loss reserve. That can be accomplished by getting rid of—selling off—its REO properties.

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

**Real Deals**

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

**A SAMPLE OF RECENT DEALS**

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

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

If a property’s description on the MLS does not match its formal description on its title, find out why not. Make sure any remodeling and/or expansion of the property has the necessary building permits, or you could face big (and crippling) expenses.

# PROPERTY INSPECTION FORM*

<table>
<thead>
<tr>
<th>Property Number</th>
<th>Square Footage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Address</td>
<td>Bedrooms</td>
</tr>
<tr>
<td>City/State</td>
<td>Baths</td>
</tr>
<tr>
<td>Lot Size</td>
<td></td>
</tr>
</tbody>
</table>

**Neighborhood:**
- **Appearance**
- **Negatives**
- **Price Range**
- **Positives**

**Condition of Property:**
- **Major Repairs:**
- **Minor Repairs:**

**Estimate to Repair:**

**Retail Value:**

**Max. Bid/Offer:**

*For a downloadable, customizable version, log on to www.jeffadamsforms.com.*
the numbers, so figure out what you don’t know and get the help you need.

If percentages confound you, go to the Internet and try Math.com (www.math.com), specifically its three-way percentage calculator (www.math.com/students/calculators/source/3percent.htm), or eHow (www.ehow.com). Alternatively, head to the nearest gadget store and pick up a calculator that can figure percentages. Many cell phones have built-in calculators or a downloadable app that can help, too.

**HOW TO FIGURE A PROPERTY’S COST PER SQUARE FOOT**

Market value of home/Square footage of home = Cost per square foot

Example:

Market value of home: $125,000
Square footage of home: 2,500
Cost per square foot = $125,000/2,500 = $50

**Cost per Square Foot**

Your analysis of similar properties also should include the cost per square foot of each of those comparables and of any property you’re considering buying. To determine that, divide the market value by the square footage:

Market value of home/Square footage of home = Cost per square foot

To determine the average cost per square foot of comparable properties, add their prices per square foot, then divide by the total number of properties. For example, if you use two comparables (House A and House B):

House A’s price per square foot + House B’s price per square foot = Total price per square foot

Total price per square foot/2 = Average price per square foot
SAMPLE FUNDING AGREEMENT INSTRUCTIONS*

GetYourCash.com
123 Main Street, Anywhere, USA 12345
Phone: 123-123-1234
Fax: 321-321-4321
E-mail: info@GetYourCash.com

Funding and Agreement Instructions

Congratulations on working with GetYourCash.com. We look forward to funding your upcoming deals and working with you to make sure that everything goes as expected. First, please take a moment to read all the items below. Doing so will give you a better understanding of what is expected so that we can fund your deal.

- All fields of the Funding Request MUST be completed, legibly and accurately. Missing information will result in delaying your funding request.
- All required supporting documentation MUST be submitted together with the Funding Request and Fund Agreement.
- Please do NOT submit any documentation until your purchase and sale is scheduled.
- Funding will typically be available 5 (five) to 7 (seven) business days from the date of receipt and acceptance of all required documentation.
- If more than 1 (one) Attorney and/or Closing Agent is participating in the closing, please print a separate Funding Agreement for each additional party to complete.
- Closing in the name of a business entity (Limited Liability Corporation [LLC] or Corporation, etc.) is strongly encouraged.
- E-mail submitted to info@GetYourCash.com is the preferred method of returning all documentation.
• Once the Funding Request and Funding Agreement are returned and accepted (along with all the supporting documents), a member of our team will contact you.

• Please contact our office at 123-123-1234 x12 with any questions you may have PRIOR to submitting any documentation.

Best Regards,
M. Cash

Sample Funding Request*
Name: __________________________________________
Address: __________________________________________

Email: __________________________________________
Phone: __________________________________________
Social Security No. (For Verification Only): ___________
Property Address: __________________________________

Purchase Price: _________________________________
Amount Requested: ______________________________
Resale Price: ____________________________________

Attorney and/or Closing Agent (Representing Applicant)
Name: __________________________________________
Address: ________________________________________

Phone/Fax/E-mail: ________________________________
Comments: _____________________________________

Return all documentation to:
GetYourCash.com
123 Main Street, Anywhere, USA 12345
Phone: 123-123-1234
Fax: 321-321-4321

E-mail: info@GetYourCash.com

(Continued)
I understand that false or misleading information given in this application will result in cancellation. I authorize investigation of all statements contained in this application that may be necessary in the funding process.

Signature of Applicant  Date

*For a downloadable, customizable version of this document, go to www.jeffadamsforms.com.

COVER LETTERS

Throughout all steps of the REO buying process—from finding the professionals to procuring funding, making offers, sealing deals, and flipping properties—initially you as an investor have only a few seconds to grab someone’s attention. Make those seconds count, in person with your appearance and approach, and in writing with the help of a dynamite cover sheet or cover letter.

In Chapter 5, you saw an example of a direct and to-the-point cover letter to a potential lender. The same approach works when it comes to making an offer on a property. Pair that succinct cover letter with a clean offer and the right documentation for a winning approach.

“Quick,” “clean,” and “easy” are the words to keep in mind when putting together a cover letter. Keep the letter to one page so that whoever reads it will see at a glance the key information pertinent to the purpose of the letter.

A cover page for an offer on a property, for instance, should include the following:

• Buyer’s name and buyer’s company name, if applicable.
• Buyer’s contact information, including address, phone number, and e-mail address.
• Agent’s name and company name, if applicable.
• Agent’s contact information, including address, phone number, and e-mail address.
• Property address, including assessor’s parcel number (APN).