LEARNING MADE EASY

2nd Edition

Foreclosure Investing

for dummies®

A Wiley Brand

Get up to speed on the foreclosure process

Buy and sell foreclosure and bank-owned properties

Beat other investors to the punch

Ralph R. Roberts
Foreclosure expert and author of *Flipping Houses For Dummies*
with **Joe Kraynak**
and **Kyle Roberts**

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Introduction

When most people think about foreclosure investing, they envision a process of buying a property at auction for much less than it's worth, fixing it up (or not), and then immediately putting it back on the market for tens of thousands of dollars more than they paid for it. They think it's a quick and easy way to earn big bucks in real estate.

Truth is, the process is far more complex and risky. Do you know, for example, that when you "buy a house" at a foreclosure sale, you may not actually be getting the house? You may end up paying $100,000 for a junior lien against a property (such as a construction lien) and have your position wiped out by the buyer of the senior lien (the first mortgage)! What you thought you'd be getting for your $100,000 investment is actually a worthless piece of paper. Or maybe you get the house and find out that the current residents are legally allowed to live there for a year or whenever the latest government mandate prohibiting foreclosure expires. You're stuck paying the mortgage, insurance, and property taxes, and you're awake all night worrying about what the current residents are doing in (and to) your property.

When it comes to foreclosure investing, what you don't know *can* hurt you. I've seen it happen time and time again to very intelligent but ill-informed investors. They miss opportunities by not fully understanding the foreclosure process and get burned by not fully understanding what they're buying or what they need to do after buying a property in foreclosure.

To capitalize on foreclosure opportunities while minimizing your risk, you need the guidance of an experienced professional. In *Foreclosure Investing For Dummies,* I serve as your guide, providing the information and direction necessary for your success.

About This Book

Foreclosure Investing For Dummies isn't a quick-cash, no-risk, no-work guide to building wealth through foreclosure investing. People who want that sort of thing can stay up late at night and watch real estate investment "gurus" peddle their products, or they can attend any of the readily available "free" foreclosure investment seminars that make the rounds.

This book guides you in the methods of making money the old-fashioned way: earning it fairly. I've been investing in foreclosures and assisting distressed homeowners for more than 30 years. I've achieved great success and experienced my fair share of failures. I've had homeowners provide glowing testimonials of how much I've helped them, been accused of trying to steal homes from "little old ladies," and assisted homeowners when con artists have tried to steal their homes. Sad to say, even lost property in foreclosure myself.

In *Foreclosure Investing For Dummies,* I show you how to invest in foreclosures the right way. I steer you clear of the many pitfalls inherent in foreclosure investing. I show you how to properly and thoroughly research properties so you know what you're getting into before you buy or bid on a property. I step you through the process of finding the best opportunities with the maximum potential profit and lowest risk. I lead you through the process of buying foreclosures before auction, bidding for them at auction, and purchasing them after the auction from the lenders that have foreclosed on them. I present various ways to cash out and realize your profit after the sale. And I show you how to do all this without misleading and cheating distressed homeowners.

I wrote this book so you could approach it in either of two ways: You can flip to any chapter for a quick, stand-alone mini-course on a specific foreclosure-investing topic, or you can read it from cover to cover. At the end of the book is an appendix of the foreclosure rules and regulations across the 50 states. Although I encourage you to research the foreclosure process in your local area carefully, you can flip to the appendix to get up to speed on the basics.

Foolish Assumptions

In some books that cover advanced topics, authors must assume that their readers already understand some basic topics or have acquired beginning-level skills. If this book were about molecular biology, for example, you'd have to know what a molecule is.

The biggest foolish assumption I make in this book is that you own the home you live in. You've been involved in at least one closing and signed the documents that the closing agent passed around. When you own a home, you instantly become a real estate investor. You begin to grasp the value of real estate as an investment. You gain firsthand knowledge of the benefits of owning a home, understand the challenges of maintaining it, and take on the responsibility of making mortgage payments. You can empathize with homeowners who are about to lose their homes in foreclosure.

If you're not a homeowner, sell this book, and put the proceeds toward a down payment on a house. If you live in the Detroit metropolitan area, contact me, and I'll find the perfect house for you and your family. I'll even give you credit on the purchase of the book. Or stop by the office, and I'll personally sign your copy. After you've purchased a house and have lived in it for a few months, pick up the book. I'll be waiting for you.

Other foolish assumptions I make include, but aren't limited to, the following:

- **You're committed to success.** Investing in foreclosures is hard work and requires *sticktoitism* (pronounced stik-to-it-izm) — a word I've been using since the 1970s to describe the determination and dogged perseverance required to build wealth in real estate. I could use *stick-to-itiveness,* which happens to appear in the dictionary, but I like my word better.
- **You can talk to people.** You don't need to be a social butterfly (although that helps), but you do need to be able to network, ask questions, and haggle with people. If you don't have some basic people skills, you should team up with someone who does. Effective word-of-mouth networking leads to the best opportunities, and in almost every situation, you'll need to talk with homeowners, county clerks, sheriffs, lenders, and a host of others involved in the foreclosure process.
- **You're dedicated to developing mutually beneficial solutions.** I hate to see "investors" ripping off homeowners, and I'd really hate to see anyone use the information in this book to take advantage of distressed homeowners. You can earn plenty of money investing in foreclosures by acting with integrity and presenting reasonable solutions that meet the needs of all parties involved.
- **You're able to treat foreclosure investing as business.** Understand that you're not the cause of the homeowners' distress. More than likely, you can't solve their problems. Very likely, many others have tried to help the homeowners solve the root cause of the problem (and failed) before you came along. What you can offer are truth and useful information. You must be empathetic without jumping in to save a drowning family that may drag you under both financially and emotionally.

Keep in mind that a *real* problem is something that money can't fix, such as an untreatable illness or a death in the family. Most families, if they choose to, can move on after experiencing a financial calamity. Foreclosure isn't the end of the world, although at the time, homeowners may perceive it to be.

Icons Used in This Book

Throughout this book, I've sprinkled icons in the margins to cue you in on different types of information that call out for your attention. Here are the icons you'll see and a brief description of each.

REMEMBER

I want you to remember everything you read in this book, but if you can't quite do that, remember the important points I flag with this icon.

TIP

Tips provide insider insight from behind the scenes. When you're looking for a better, faster, cheaper way to do something, check out these tips.

WARNING

"Whoa!" This icon appears when you need to be extra-vigilant or seek professional help before moving forward.

Beyond the Book

In addition to the priceless information and guidance you'll find in the nearly 400 pages of this book, you can access the *Foreclosure Investing For Dummies* Cheat Sheet online. Just go to `www.dummies.com`, and enter "Foreclosure Investing For Dummies Cheat Sheet" in the search box. The Cheat Sheet includes a complete checklist of everything you should have before you bid or make an offer on a foreclosure property, step-by-step instructions for buying properties in pre-foreclosure, step-by-step instructions for buying properties at foreclosure auctions, a list of foreclosure auction websites, and a list of the ten most common mistakes to avoid when investing in foreclosure properties.

Where to Go from Here

Foreclosure Investing For Dummies is constructed in a way that's similar to the foreclosure process itself. It presents you with opportunities and with information to capitalize on those opportunities in three key entry points in the foreclosure process: pre-foreclosure, foreclosure, and post-foreclosure.

For a quick course on foreclosure investing, check out Chapter 1, which provides an overview of the foreclosure process along with some tidbits on how to profit from the various stages of the process. Skip to Chapter 3, where I guide you in selecting your preferred entry point. The chapters in Part 2 are indispensable in preparing you for a successful investment venture. If you choose to invest in pre-foreclosures, skip to Part 3, were you discover how to research properties and deal directly with homeowners. Part 3 also contains a chapter (Chapter 8) that's essential for all foreclosure investors: properly researching a property. If you're interested in purchasing properties at auction or after they've been repossessed, Part 4 provides all the information you need to know. And when you're ready to cash out on your investment, skip to Part 5.

TIP

In a few chapters, I include fill-in-the-blank forms and worksheets. Although you can fill them out in the book, consider making copies to write on. These forms and worksheets are indispensable for gathering research data, evaluating properties, and presenting options to homeowners facing foreclosure.

1

Prepping Yourself for Foreclosure Success

IN THIS PART . . .

Get up to speed on finding, researching, bidding on, buying, and selling foreclosure properties at all stages of the foreclosure process, from pre-foreclosure to post-sale.

Tell the difference between judicial and nonjudicial foreclosure, and figure out which approach your state follows.

Identify the different stages of the foreclosure process, and discover the benefits and drawbacks of opportunities for acquiring properties at each stage.

Find profitable opportunities by connecting directly with homeowners in pre-foreclosure; wheeling and dealing when foreclosure notices are posted; bidding at auctions; or buying properties after a foreclosure sale from banks, government agencies, and other investors.

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.