7 Steps to Fortunes at Foreclosure Auctions

THE LeeArnold
SYSTEM OF REAL ESTATE INVESTING

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7 Steps to Fortunes at Foreclosure Auction

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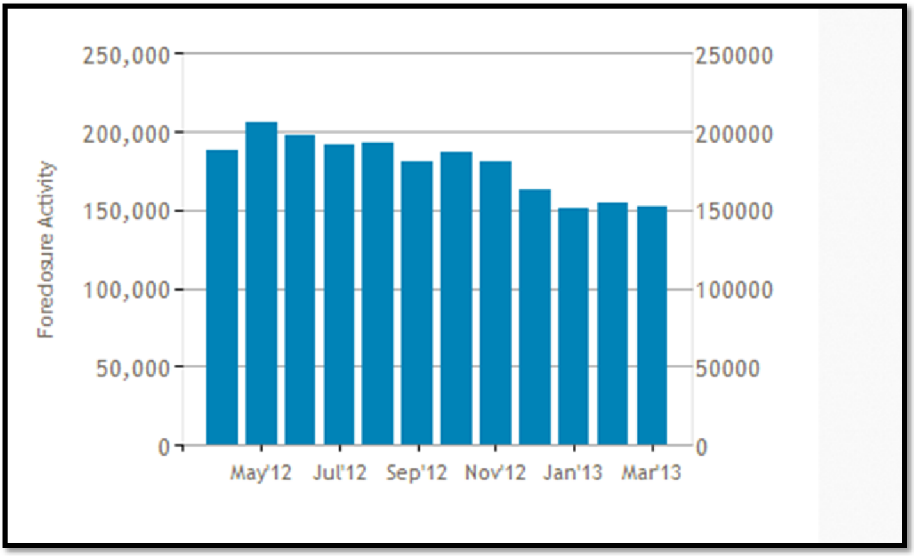
OPPORTUNITY

> Introduction: A Word About Foreclosure in Today's Economy

In this book, I'm going to give you everything from the identification of the leads themselves, to how you need to safely and intelligently vet the deal. By the time you are finished, you will know whether or not you do indeed have a good deal and then how to actually bid on it. In this text, we're going to cover the **7 steps to Fortunes at Foreclosure Auctions**.

The State of the Foreclosure Market

Here's the foreclosure activity now this is nationwide chart based on the activity we've seen and May, June, September, November as well as January and March of 2013. You can see that the foreclosure trends are declining.



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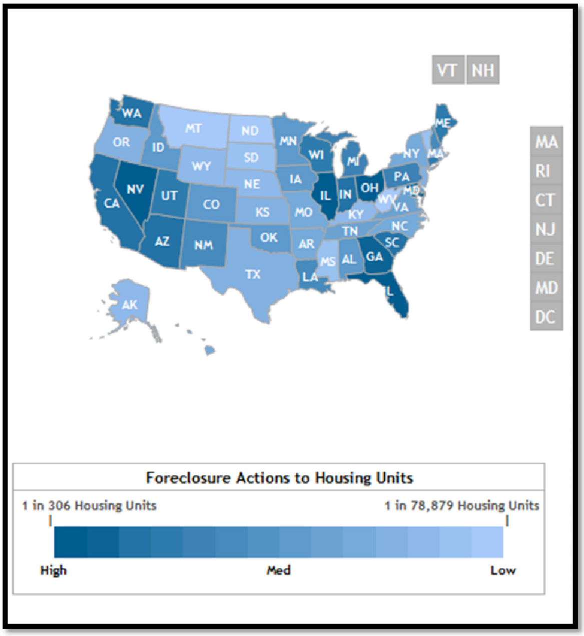
> Introduction: A Word About Foreclosure in Today's Economy

Don't be concerned by these numbers. I can assure you that I'm not and I've been playing in the foreclosure space for the last 15 years! Regardless of it being a good economy or a bad economy, or whether or not their are a lot of foreclosures or no foreclosures, **there's always opportunity**! It doesn't matter what's happening in the economy, people are passing away, people are getting divorced, people are losing their jobs, people are moving out of state and these are all of the things that trigger foreclosure.

The top 5 states for foreclosures activity are: Nevada, Florida, Illinois, Ohio, and Maryland. Now don't be concerned if you don't reside in one of these states because as you know, there are foreclosures happening in every market, on every day throughout the country. You just have to understand how to tap into your local market-place to take advantage of what's going on there.



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> Introduction: A Word About Foreclosure in Today's Economy

I was heavily involved in the foreclosure business in Salt Lake City where I was covering four counties. In each county, we would literally pull up each and every auction property and vet it, then we would provide the documentation, due diligence, comps, and values to the investors and bid on the ones chosen by them at the auction.

In 2002, the Olympics visited Salt Lake. After that, from 2002 to 2004 we saw this huge spike in foreclosure activity. We went from tracking about 380 files a week, to a peak in 2004 where we saw about 630 foreclosure filings per week. Then it dropped down again coming into 2005. It got thinner and thinner, and by 2006, which was the peak of the market, we were only seeing around 200 properties or so in any given week going to auction So, I understand that yes, there are ebbs and flows, there are highs and lows, but we've never seen a market where there's absolutely no foreclosures.

Why Invest at a Foreclosure Auction

One of the advantages of foreclosure from an investor's standpoint is that they're very fast. You can acquire property very quickly. For the person who's looking to deploy capital, that is sitting on a substantial amount of cash and needs to deploy it and get it out into the marketplace, he/she can either call up a real estate agent and have them search, submit offers on multiple properties and low-ball everybody, hoping to close on a property in the next 2-3 months, or he/she can quickly do some foreclosure research and buy a piece of property at auction in just a couple of days.

As you know, we have a consulting program where I fly consultants out to a client's chosen market for a period of 3 days. Our mentoring manager, Regan Richmond, was just in Ohio working with one of our clients , Don Holman. During the time Regan was there, they identified some great leads, vetted out the foreclosure properties, checked the title, and then went to auction. They picked up two houses in a period of 3 days. Understand that foreclosure is very fast, so from an acquisition standpoint, it's an incredible strategy and you can do a lot of deals in a short period of time.

There is also no waiting for escrow to close. It's a fairly paperless procedure, meaning there's no title insurance and there's no loan documentation to deal with. In most markets you have to have cash to bid. In other markets, you just need to have a small down which allows us to come in and do more deals. Understand that they're very clean and quick, but anything that is clean and quick can also be wrought with substantial liability. I want to make sure that you guys are prepared to accomplish what you need to do at the auctions.

There are no negotiations with homeowners or banks, which every investor prefers. When I was running my foreclosure club, I noticed that a property worth $230,000, with a lien against it for $200,000, had an opening bid of $100,000. My thought was if the bank is willing to take $100,000 at the auction, would they be willing to take $100,000 a few days, a few months, or a few years before the auction. That's how we started pursuing short sales.

As many of you know, Congress has made it very challenging in many markets as has the Department of Real Estate. In many markets, to approach homeowners in foreclosure, you have to be a licensed agent. You cannot provide bail-out assistance and you can't charge homeowners upfront fees. The process is really becoming wrought with liability. However, if you're going to pursue this form of real estate investment, then certainly getting licensed is justified, but if you're just looking to buy houses at a great price, and get in and out of them very quickly, then foreclosure auction investing is by far one of the best directions you can go.

With foreclosure auctions, there is instant equity potential, and the property you are bidding on should be priced significantly lower than it's worth.

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> Step One: Research

What state you live in really determines how you will research and find your foreclosure auction leads.

Judicial Foreclosure Market

If you are in Judicial Foreclosure Market, then you will be searching for leads at the county courthouse. Judicial is typically any market that is east of the Rockies. That's not going to include certain markets, but I can tell you that if you are in New York, New Jersey, Florida, Georgia, South Carolina, North Carolina, Ohio, Pennsylvania, Indiana, etc., you are dealing primarily in a judicial market. This means the foreclosure process begins by the bank filing a lawsuit against the homeowner. The document that you are looking for in that scenario is a "Lis Pendens" which is Latin for lien pending.

From there, what you need are a number of things. First of all, you need the property address. You need the amount the bank is suing the homeowner for, which is typically the full debt payoff of the mortgage. You need the homeowner’s name(s), if they are a married couple and on the title together.

Understand, if there are multiple mortgages on the property, a lis pendens filing must be filed for each one of them. So, if you're dealing with a first mortgage, there's a special lis pendens filing for the first lien holder and a second lis pendens filing for a second. You need to make sure that you're capturing both the lien amount of the first and second, and any other corresponding liens below that.

Non-Judicial Foreclosure Market

Any state west of the Rockies, like California, Nevada, Arizona, Oregon, Washington, Idaho, New Mexico, or Colorado, you're dealing in a non-judicial foreclosure market. You will procure your leads at the county recorder’s office. In a non-judicial foreclosure state, it's not a lawsuit that's required to regain possession of real property, rather it begins with a notice of default filing, on behalf of the lender, to the owner-occupant or the holder of the mortgage.

The information that you're going to gather is the same regardless of the market. We need the first and last name of the homeowner, and the total amount they owe. It's imperative that we get the total debt payoff of the mortgages (first and second) against the property.

Once we have the address and the amount owed, you need to know these next two things, if you get these two things, I can assure you that you'll be very successful in real estate. First thing, find out the value of the property. If you're bidding in markets outside of your own area, value of the property can be as simple as a Zillow or Trulia search, or any one of these free websites. Some of you would argue, "Lee, that's not a good estimation of value and you should never buy using those sites." I completely agree with you. I'm not looking for perfection, I'm looking for a close estimation. I don't care if there's a 20% swing high or

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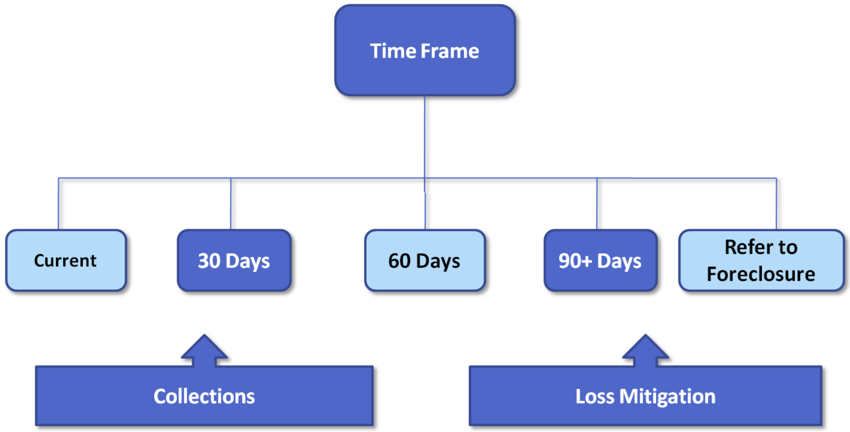
low because a 20% swing to me is not going to kill a deal.

For example, if I pull the notice of default or lis pendens against a property and I see that they've got a first mortgage for $80,000 and I do a quick Zillow search and see that value is around $150,000, I don't care if the value is really $130,000 or the value is really $170,000. I'm still sitting in a healthy return spot, right? Of course, I'm still going to do more due diligence on the property to determine if it is indeed something that I should consider bidding and buying.



When a loan is current, everything's great. When you go 30 delinquent the bank sends you a reminder letter that's usually very nice. "Hey, you obviously forgot about us this month. Make sure you get current because we value you as a customer and would like to maintain the relationship." Then 60 days comes by and the next thing you know, you get another nasty-gram from the bank. By the 90th day the nasty-gram gets real ugly. That will take us now into the referral to foreclosure proceeding, which then begins the timeline.

The timeline from the judicial filing of the lis pendens to the non-judicial filing of the notice of default is varied by state. I can tell you this, in most markets the fastest foreclosure is about 6-9 months from the homeowner missing the first payment. It takes 6-9 months from the time the bank will attempt to collect, attempt to play nice, refer the file to foreclosure, and then take it to the auction. If the homeowner files bankruptcy, challenges the suit, counter-sues the lender for committing fraud or for misrepresenting the documents then it can take 2-4 years.

I actually just had a conversation a few days ago with a person that had been in their home for 5 1/2 years, without making a single payment and had still not gone to auction. One of the advantages of really truly understanding the foreclosure process, both judicial and non-judicial, is it's very helpful if you are out working with homeowners in that situation, you can help them stay in there home for a long time. Also, if you are pursuing short sales as a direction, if you know the guidelines of the law, you can keep the homeowner in the house for 3 or 4 years, this is information that you can leverage when submitting your initial offer. You can say, "Look, not only am I putting in an offer to buy the property, but I've got to let you know that I'm a short sale expert. I've been doing

> Step One: Research

this for a long time. If you're unwilling to work with me, then I'm going to encourage my client to do things within the guidelines of the law, like filing bankruptcy or counter-suing, that may cause the foreclosure process to drag on for 3 and 4 years."

If you are a lender, one of the best states to lend is in Texas. If the borrower defaults for any reason, as long as you post the foreclosure filing within the first Tuesday of the month, you can foreclose and regain possession of the property within a period of 3 weeks.

Foreclosure Timeline: Non Judicial vs. Judicial State

Judicial Process	Non-Judicial Process
Use state court system during foreclosure	Use trustee to process foreclosure; courts not required
Homeowner carries the deed	Beneficiary (investor) carries the deed
Default recorded at county courthouse	Default recorded at county courthouse
Bank Investor must go through courts before foreclosure process can be initiated	Bank Investor does not have to go through courts to initiate foreclosure process
Court verifies default status; sends homeowner Notice of Default	No Notice of Default required; may send Notice of Trustee Sale notification
In most states, homeowner has 60 days at this stage in the process before home is sold at public auction	In most states, homeowner has 22-30 days at this stage in the process before home is sold at public auction

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Where do you find foreclosures?

1) The county recorder's office for notice of default filings (in non-judicial states)

2) Bankruptcy Filings, foreclosure is often the next step.

3) Legal Notices in local newspapers

4) Driving around neighborhoods and looking for the tell-tale signs which are poor upkeep, notices on the door or windows, and padlocks on doors.

You have most likely heard of "shadow inventory." Shadow inventory is property that has been vacated by the owner or the borrower, where the bank has not taken the property through the formal foreclosure proceeding. They are holding the property until the values come back up, and in the meantime, they continue to write it off and do not take the loss until they sell it. I’m sure you have seen these types of properties around town. They are vacant, there are no signs of life, the grass is brown, crumpled up papers strewn the front porch, and an old piece of paper is taped on the window.

The bank may very well have numerous types of these properties, throughout the country, that they are in the process of pooling them together to sell them in what is called a "tape” of delinquent mortgages that can be purchased. You can also buy tapes of REO's where the bank has foreclosed on 50 different properties and they're selling them now in what's called a "bulk sale." These are all leads you can identify as you're looking at these properties .

The Non-Judicial Foreclosure Auction

1) The Notice of Default starts the foreclosure process.

2) 90 days for the borrower to reinstate the loan.

3) If 90 days pass and the borrower has not brought the loan current, the bank or the title company advertises the foreclosure auction or trustee sale in the "Legal Notices" section of the newspaper.

4) Ad must run at least once a week for 3 consecutive weeks, with the final ad one week prior to the sale date.

5) "Public Outcry" takes place on the steps or in the lobby of the courthouse.

6) Bidders must be ready to pay immediately or show proof of certified funds for the required deposit and balance must be delivered within 24 hours of the sale.

7) Trustee's Deed is issued after the sale is complete.

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The Judicial Foreclosure Auction

1) Issuance of a Summons starts the foreclosure process.

2) The defendant is given a specified amount of time to respond.

3) Time passes, borrower has not brought the loan current, a default judgment is entered based on the amount owed to the lender.

4) A judge will order the property to be sold at auction (Sheriff's Sale).

Again, if you are in a non-judicial market, like California, Nevada, Oregon, Idaho, Washington, you have to have all cash to bid. In the state of Utah, you need to have a $500,000 cashier's check ready to go. In Arizona, you have to have a $10,000 cashier's check ready to go.

As I mentioned earlier Regan, our Director of the prestigious Inner Circle Consulting program, was recently in Ohio with one of our consulting students, Don. They bought two properties in two different counties. One county they had to have a cashier's check for 5% of the loan amount. In the other county, they had to have 10% in a certified check. Then they give you 30-60 days to come up with the remaining balance.

Many people have called and asked, "Will you do foreclosure auction financing?"

I can tell you this, if you are bidding in a market such as Utah or Arizona, where you have to have to have $5,000 or $10,000 to bid, as long as you

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have the $5-10,000, we can typically come in with the remaining funds. We haven't done that because there are actually faster, less expensive alternative markets. In fact, we've gone as far as just referring people in Utah and Arizona to those lenders just so that they can get it done quicker. Our main goal is always the success of the real estate investor.

In state like Ohio, Pennsylvania, or Illinois, where it's a judicial foreclosure process and you need 5 or 10% down and the remaining funds can come in the next 30 days, Private Money Exchange or Cogo Capital can fund as long as you have the 5-10% down initially.

One of the houses that Regan and Don bought was a $44,000 house, which fixed up was worth about $95,000. Great deal. At 5%, he would have to come in with $2,200 down. If you put it at 10%, he would have to come in at $4,400 down. Most people can get a cash advance against a credit card to use at the foreclosure auction, bid on a property, and, provided it’s a qualified property and fits in our criteria, then have Private Money Exchange fund the remaining amount in the next 30-60 days. These are just some of the options that are available to help you get engaged and started.

The Judicial Foreclosure Auction

The sheriff's sale is advertised similar to a trustee's sale, except for these differences:

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1) The successful bidder is issued a "Certificate of Sale" and actual ownership is not transferred until a specified redemptive period expires.

2) Previous owner still has the opportunity to deliver funds to satisfy the court's judgment.

3) If the owner does not redeem the property, the successful bidder is issued a Sheriff's Deed and given full rights to the property.

Let me just throw in this disclaimer, if you will. I don't have time to go through each of your states, nor the individual county you're interested in bidding on here. I would encourage all of you to identify where the foreclosure auctions are being held in your market. Go there and just engage the crier that's representing either the trustee or the attorney that's handling the lis pendens filing and glean as much information as you possibly can.

> Two: Determine

Let’s talk briefly about determining the value of the property. This goes back to the two things that you've got to know. What is it worth? What can we get for it?

I see this with a lot of new investors; they make the mistake of giving people too much information. I had a gentleman call me the other day and say, "Lee, I've got this amazing deal. Will you fund it?"

I said, "Tell me about it."

He said, "Oh man! It's in a beautiful neighborhood. It's a 3 bedroom, 2 bath. It doesn't need that much work. It's a rambler. It has a great school district. It's a nice neighborhood, lots of kids running around. It has s a swimming pool."

All the while, I'm thinking, "Woah, woah, woah. Too much information."

I only need to know two things on every deal you've got. I don't care if it's residential. I don't care if it's commercial. I don't care if it's dirt. There's only two things I need to know. What is it worth? What can you get it for?

Some of you would argue that upsides, cashflow, rent roles and cap rates need to be considered. To be sure those are important. But before all else, what is it worth and what can you get it for? If you tell me,

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> Two: Determine

"Lee, right now it's worth $100,000, but after I convert it to a duplex or triplex, or convert it from a triplex to a single family home because it's in an historical neighborhood, it's going to be worth $180,000." Then I can work with that information.

We're in the process right now of funding a deal in Spokane, WA where they're buying a property for $60,000. It is by far the ugliest, tiniest, piece of junk house on the block. Our client is buying this little junky house for $60,000, but they're investing $90,000 into the renovation and repair (which I don't recommend for most people). That type of significant renovation and repair work is not for the faint of heart, but they're buying it for $60,000. They're putting $90,000 into it. They're into it for $150,000. However, because of where it is situated and the kinds of houses in the neighborhood, that property will easily sell for $280,000 when they're done. They're looking at about $110,000 profit on that deal. There are times that it makes sense to go above and beyond in your renovation and rehab because of the highest and best use.

> Three: Check

The next thing we need to check is title claim. The last thing you want to do is bid on junior mortgages or junior liens when you don't know what the senior debt is.

Let me give you an example.

If the property is worth $150,000 and you're bidding on a mortgage for $50,000, you think, "Oh man, this is great! I got a deal for $50,000!" You buy it for fifty grand and then check title and discover that there is a 1st mortgage in front of yours for $80,000. Now you have to pay the $80,000 to actually own the property. You've essentially lost your $50,000.

Title is imperative! There are two things that you don't do at an auction.

1. You never buy a property that you haven't checked title.

2. You never buy a property that you have not seen physically.

Oftentimes you can glean a lot of information from sites on the Internet like Google Earth and Zillow, or by contacting local real estate agents. I really encourage you, if you've never bought at auction, drive by **<u>every</u>** property that you intend to bid on.

What Google Earth does not give you is a sense of the neighborhood.

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When you visit the property, you see and hear little noises and nuances. Do you get a good vibe when you're there or does that house give you a weird vibe? You just can't get that online. One of my requirements is that you not only check for clear title, but you also drive by the property and make sure that you are indeed getting what you anticipate getting.

Alert: Listen for "This property is sold subject to all liens and encumbrances."

When you go to an auction, the crier, or the sheriff representing the seller or the bank in this matter is going to give you a list of disclaimers. I'll break them down for you.

This property is being sold as is without representation or warranty as to title or condition. You buy today, you own today. Buyer beware. Any nuances or oddities discovered in the property after you've purchased them fall on you, the buyer. Basically, you need to know that the foundation is good. You need to have a pretty good idea that the plumbing and electricity are sound.

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> Three: Check

The question is, "Lee, if it's vacant, and the power company has turned off the power and the water's been turned off, how can we check and test those things?"

The answer is, "You can't." You can do a lot of due diligence, but there are some things that you're going to gamble on. The good news is that you can do a pretty close estimation. If the house has been built in the early 1900's, then you already know to go to the back of the house and you look at the electrical box. Are there two lines coming from the pole to a very old-looking glass receptacle, wrapped ceramic knob? This knob and tube wiring means you're going to have to rewire the whole house.

The other thing you can look at are the spigots coming out of the house. If you've got a rock foundation where they've used rock and mortar, and you can see the pipes sticking out through the bottom, that's probably going to be a lead pipe. If you've got lead pipe running out of the house, there's a good chance there's lead pipe running through the house, which means you're going to have to re-plumb the house.

You can mitigate a lot of these types of very expensive repair costs if you simply pursue properties that were built after 1978. This is going to eliminate lead-based paint concerns, lead-based piping issues. This is going to eliminate electrical problems or having to update stuff. If you want to make that your strategy, if you want to limit risk as much as you can, then only shop for properties built after 1978.

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> Three: Check

Focus on Lien Position

1) Focus on "lien priority" or which loan was recorded first. Biggest rookie mistake: Bidding on a second lien at the auction. Second liens are "subject to" senior loans.

2) Do your homework before the auction.

Note: It's in the junior lien holder's interest that you pay a higher price, because they get what's left over.

I have a brainteaser question for you. Feel free to participate.

When you buy a junior lien at a foreclosure auction (meaning there's a 1st for $100,000 and you bid on the second for $50,000, do you own the property?

The answer is "Yes."

When you buy a junior lien at a foreclosure auction, you do own the property, but there is a "subject to" caveat in the statement. You own the property subject to paying off the senior debt. You own the property, but you are responsible for the $100,000 first. Just so we're clear on this, you are responsible for the $100,000 lien.

Does that mean you have to stroke a check for a hundred grand? Not always. If the senior debt is privately held, there's a very good chance

> Three: Check

the senior debtor may be interested in just having you take over the payments and continue to service that mortgage. I've also seen scenarios where the second lien holder is foreclosing and the first is still current.

The reason this happens is because homeowners get really bad advice from people that don't know what they're doing. They get into trouble financially, and some nit-wit tells them, "If you just continue to make the payment on your first, then the second can't foreclose on you." That's wrong. The second can indeed, and will foreclose. But if nobody bids on the property, the second has the same position challenges that we do as third-party bidders.

When you foreclose on a second lien that you own, you own the property if nobody bids. You own the property subject to the first. So what do you do in this scenario? Let's say the homeowner has moved out and it’s a rental property, you could say, "Hey look, I'm going to go the auction to bid on the second. I'm curious if you would just let me take over the interest payments on your first." You could own the property in that instance, and now, rather than stroking a $100K check, you can just take over the senior note debt and agree to make the monthly payments. Great job everybody!

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> Three: Check

A Story of Two Liens: Why Position Matters

Example Foreclosure deal on a First trust deed:

-First-Trust Deed: $150,00

-Second-Trust Deed $50,000

-Market Value: $180,000

-Opening bid: $154,500 (principal balance, accrued interest, foreclosure costs)

-You win the bid and have immediate equity of $25,500!

I would question why in the world you bought that, because that's not enough margin. I would not buy that deal, but if you understand that in this scenario (here's to answer the question that was raised: Don't the liens get wiped out?) The answer is, the liens do indeed get wiped out - if they are junior.

We had a situation on a note that we

> Three: Check

funded. We had two loans with identical dates:

Sept 11, 2012 - Our loan was for $85,000. The time was 12:30pm.

Sept 11, 2012 - The second loan was for $5,000. The time was 12:30 pm.

The question then becomes, "Which note is the senior note?"

The lender called me and said, "Hey Lee, I'm really concerned because it appears that there is a senior mortgage."

What the title showed was this:

Sept 11, 2012 - $5,000. 12:30 pm.

Sept 11, 2012 - $85,000. 12:30pm.

Based on this, it appears that the $5,000 is in first lien position, which would mean my lender's position was in second. If the first forecloses for $5,000, then the second gets wiped out.

I said, "Hold on, hold on. Let's check the recording number."

On the first loan we had a recording number of 12324832398. The other one we had was 12324832397.

Understand that all recording offices in the 6600+ counties spread out

> Three: Check

throughout the country have a numbering system attached to them. If you have two loans with identical dates and times, the saving grace is the numbering sequence on the recording date stamp. In this case, you can see that our mortgage, what we thought was a first of $85,000 was indeed recorded first because it was numbered at 97 and the $5,000 second was numbered at 98. This is one of those things you can do to ensure that you are indeed in first position. That's one of the tricks of the pros. What happens to the second lien? It gets wiped away.

Back to the story of two liens, let's look at a deal on the second trust deed:

-First-Trust Deed: $150,000

-Second-Trust Deed $50,000

-Market Value: $180,000

-Opening bid: $48,000 (principal balance, accrued interest, foreclosure costs)

-You still have to pay off the first lien.

I've seen people go down to the auction and bid on these. In fact, I was at an auction a few years ago and there was a beautiful duplex, valued at $180,000. The opening bid was $38,000.

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If you go to the auction often enough, you become a regular and you get familiar with all the other regulars.

In fact, all the guys that used to bid in Salt Lake hold a Christmas party every year where we enjoy each other's company and talk about all the money we cost each other throughout the year. We all have these deals, "Man I can't believe you outbid me by $100 on that deal! You cost me $50,000." It's very interesting that these people would all get together now and share a meal. That's the nature of the business.

So, the crier opens bidding on behalf of the beneficiary of the property located at XYZ Street at $38,000. We're all silent. Then this guy in the corner timidly raises his hand, looking around at all of us. He bids, "$38,001?" The crier looks at him and then looks around and says, "$38,001 going once, $38,001 going twice, sold to the gentleman in the back of the room."

What he does not know, that all of us regulars know, is that there's a first mortgage in front of that $38,000 second that he just bought for $150,000. Really he just paid $188,000 for a duplex worth $180,000. I felt so bad for this fellow because I kid you not, he's walking up to hand the crier his check and he makes the following statement, "I listened to the tapes, I read all the books, I had no idea it was going to be so easy!"

I will tell you this, foreclosure auction is not for the faint of heart and I don't believe that it is something you should be perfecting with books

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and tapes. If you're going to pursue this particular strategy, I would highly recommend that you get somebody local who is doing this and is willing to teach you, or you get one of our consultants to come out and work with you on this. There's a lot that can go wrong and you need to be aware of all of them. Protect yourself.

Some would argue, "Lee, mentoring is very expensive."

Even if my mentoring costs $25,000 to $50,000, wouldn’t you rather pay that to do it the right way, or would you rather not pay $50,000 and buy a duplex for $188,000 that's worth $180,000. Look at your risk-to-reward ratio.

To do a title search, you need to research the county records to find an abstract of title. I'm looking for the vesting information on the deed itself.

Now, if a property that's being foreclosed on and the lien transfer, or the title transfer, of the property to the buyer was done through a quitclaim deed, there should be cause for pause. It doesn't mean that we're not going to buy the property. It simply means that we need to research why the seller or the grantor of the deed decided to do it through a non-liability written transfer document, which is a quitclaim deed. Quitclaim deeds in the industry are referred to as the title clearance deed recording. There's no "hair" attached to them. Let me explain.

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> Three: Check

If you transfer property through a grant deed or a warranty deed (grant deeds are in a judicial foreclosure market, warranty deeds are in a non-judicial foreclosure market) you're basically saying to the buyer, "I am assuring you that title on this property is clean, from the date the property was built. This house is built in 1900, and you transfer title through a grant or warranty deed, you're basically saying to the buyer, "I'm guaranteeing to you that title is clean going back to 1900."

This is the reason for title insurance. If you're selling a piece of property through a title company, and the buyer is giving title insurance to the seller and vice versa, you're fine to transfer it through that method.

Special warrant deed says, "I will guarantee the title to you, the buyer, but only since the date that I acquired the property." If it's built in 1900 and I bought it in 1999, I'm guaranteeing that title is clear for the last 14 years that I've owned the property. If you're getting insurance in the sale, that doesn't really matter.

Here's where quitclaim deed becomes the cause for pause. A quitclaim deed says, "I will give you title to this property, but I'm not going to guarantee that title is clear at all. Not from the date it was built in 1900, not from the date I acquired it in 1999." Quitclaim deeds are often used in cash transactions where the buyer and the seller don't want to pay title insurance or escrow. But if you're going to take title through a quitclaim deed, make sure you understand how to read title.

> Three: Check

Finally a trustee's deed, or a sheriff's deed, is what is used to transfer property acquired at a foreclosure auction to the new buyer, or the bidder at the auction itself.

Persist--don't take no for an answer. If you're happy to sit at your desk and not take any risk, you'll be sitting at your desk for the next 20 years.

– David Rubenstein

How do You a Title Search?

You can do this a couple ways. You can call up a title company and order a "PR" which is a preliminary title report, or you can contact the foreclosure trustee. It used to be that you could get a trustee sale guarantee, or a TSG report. Some trustees would allow you to buy them for $5. We used to buy these predominantly because they were the cheapest way to go. However, most companies have gone away from that, which is fine because most of this information is now online. You can do title reports on the property if you have the right tools or software. You can check public records online, and determine if they have any other types of liens against them. This is why it's imperative that you have the homeowner's name.

Also, make sure that the person who signed for the mortgage is the person who is on the title of the property. If you have a property subject to, with somebody else on title, you now have two separate parties that have to be researched: the person who agreed to take on the mortgage and the person who allowed you to quitclaim deed the

> Three: Check

property to them.

If this is the direction that my client wants to go, I have them contact the county recorder's office or the county courthouse and ask if they are going to be teaching a title class. These are usually a free, public service. You can learn, in great detail, in your particular county exactly what I'm sharing with you here. I can't make representations for the 6600+ counties spread out across the country, that is on you to find out.

If you're working with us from a consulting or mentoring standpoint, we actually pull all that data and come out armed to the teeth, so that we can show you how to buy, where to buy, what to buy, and when to buy.

In checking for title, you want to make sure you're checking for:

- All deeds both senior and junior.

- Mortgages, both senior and junior.

- Mechanic's liens

- Homeowner's association liens (typically junior to the first lien that's being foreclosed on, assuming that you do have a first lien)

- Tax liens

Understand that mechanic's liens and homeowner's association liens

> Three: Check

are also subject to the date of the filing as well as the recording numerical system of entering, as I just got done showing you. As long as the recording entry are these liens: mechanic's liens, homeowner's association liens, garnishments, child custody or child support liens, are dated after the first mortgage, they are junior and they will be wiped out at the auction.

However, there are two types of liens that will not be wiped out regardless of the entry number. These are:

- Property taxes - You need to make sure you check with the county assessor's office and determine how much tax is owed. If you're going to bid on a property worth $100,000, and the opening bid is $45,000, you need to take into consideration the property taxes haven't been paid in 6 years, so there's a $12,000 outstanding payment. It doesn't matter what you buy the property for whether it be the opening bid of $45,000 or $55,000, you are going to be responsible for the $12K in back property taxes. Be aware of that before you buy, because that will be be added into your total cost.

- IRS liens - Typically junior, and here's why. If you file your taxes and you end up owing the IRS a bunch of money and you don't pay it, the first thing that they're going to do is look at the assets that you have in your portfolio. For the IRS to be in a senior position, you have to own the property free and clear. Now the IRS can foreclose out the lien because there's no junior or senior mortgages that they're dealing with.

If you have a mortgage against it, that's going to show in public record. When the IRS comes in and attaches their lien, it's obviously going to be junior to the senior debt from when you purchased the property. Does that mean that the IRS lien gets wiped out at the auction? The answer is yes, eventually. The IRS has a 120-day "right of redemption," where, if they have recorded a lien that is junior to the first mortgage foreclosing, and that property does indeed foreclose, the IRS has 120 days that they now can conduct their own sale and foreclose the property so that the IRS can recover any monies that are due them.

Here's the caveat: the IRS will have to pay either the bank or the third party bidder, who acquired the property at the auction, a 6% interest on their money for the 120 days that it sat there in limbo. If you buy a property for $100,000, and the IRS decides that they are going to conduct their own sale and foreclose, they will have pay you back your $100,000 in principle (so you're not out any principle), plus 6% interest ($500/month x 2 months = $2,000) so the IRS would give you a check for $102,000.

That seems pretty cool there. Well, not if you're paying 12-14% interest for hard money. If all you've got was 6%, and you agreed to pay 12%, you now owe the hard money lender 6%. Not a good risk to reward ratio!

OPPORTUNITY

> Three: Check

Here's the cool part about the whole IRS and their right to sell business. They rarely do it. There's usually not a significant enough margin for them to invest the time to market and conduct their own sale and foreclose and pay you back everything that you're owed plus 6%. It happens very rarely.

The second thing you can do is call the IRS before you begin renovation and negotiate with them. If there is a junior IRS lien against the person who lost the home of say $60,000, you can call the IRS and say, "You've got this lien for $60,000 against this property. Number one, are you going to hold your own sale and redeem it? Or can I pay you $500 for the filing fees to make you go away?"

Nine times out of ten, the IRS is going accept the $500 to go away. Understand that the $500 is not to negotiate away a $60,000 tax lien. It is simply to pay for them to do the paperwork to move the lien off of the property, but that lien still sticks to the person who owes money to the IRS. It's not an elimination of the lien, it's simply a removing it from the title .

Other things we've got to look for are easements, or rights of way granted for use:

1) Public Utilities

2) Canals

> Three: Check

3) Access to neighboring properties. You want to check your tax parcel and your tax ID or your tax description. These are usually meets and bounds that begin at a point in the northwest quarter of the 14th block moving 120 degrees westward. You want to look at that to make sure that the neighbors haven't built a fence on your property, or your property hasn't built a fence on your neighbor's property because now you're just going to find yourself in some type land litigation and it's just not worth it. Check the legal description of the property to make sure that what you are indeed buying is what you think you're getting.

We had a situation where this gentleman I knew (unfortunately he wasn't one of my clients, because we would have caught this for him) went down and he bought what he thought was a beautiful house on 10 developable acres of land. He didn't look closely enough to discover that the existing owner had already subdivided the property on its own little quarter acre lot and had offset the other 9 3/4 acres. Unfortunately, he way overbid for the property, not knowing that all he was getting was a house and a quarter of an acre. Are you getting what you think you're getting?

The legal description is actually recorded as a matter of public record for the lis pendens or the sheriff's sale filing. If it's not on there, when you buy it, you actually now have a suit against the crier or the trustee who sold the property because they misrepresented what was actually being sold.

OPPORTUNITY

> Four: Sort

If you're dealing in any large metro area, like Phoenix, which is a huge, huge county that covers over 120 miles, and you try to cover it all, you'll run yourself ragged.

Here's what you need to do, first of all, define what area you are interested in buying property in and then only shop from there. It will actually make your research at the county recorder's office simpler since you can do a search by zip code. Just get the zip codes of the areas that you would be interested in buying. Then call up your local real estate agent and have them pull listings from those particular areas. Now you're only tracking 4 zip codes in an entire county instead of trying to shop and look at all of them.

You can also sort them by price. Some of you are risk-adverse for anything over $150,000. Simply look at properties where the foreclosing asset doesn't have a mortgage greater than $100,000.

You can also sort by the types of properties. If you don't want to be bidding on commercial or land, only bid on properties that are single occupant residencies. If you're concerned about major renovation costs, then only look at properties that were built after 1978.

As you can see every time you add a new column of data, you actually narrow your search down more and more. You may start with 600 properties in your county's auction, but by the time you're done sorting, you're down to 6. That kind of dialing down and zeroing in is really where you want to get to if you want to be successful in foreclosure auction investing.

MONEY

> Five: Verify

Sites like Zillow and Trulia are very good at giving you a benchmark values. If you look at Zillow, and Zillow says it's worth $150,000 and then you look at the underlying liens and determine that their is an underlying mortgage for $60,000, the opening bid is going to put you at $75,000. A $75,000 opening bid on a property is worth $150,000, which is a good spread. Now the next step is to call a local agent and ask for comps (or comparables).

In the comparables that you're looking for, you're going to give the agent the address of the property, and then say, "I would like you to give me sold comps within an area of 3 blocks, and 3 blocks only. I'm looking for properties that have sold in the last 90 days." 90 days is a healthy market no matter what area of the country you live in, 90 is the barometer that most people live by. Certainly if you are in the Bay Area, in California, the market cycle is about 18 days, so it moves very quickly. We want to know what sold in the 3 block radius of this property in the last 90 days.

Your agent may call you back and say, "Hey, I'm having a hard time getting sold comps within a 3 block radius. Do you want me to extend out beyond the three blocks? Or do you want me to extend the timeline from 90 days to 180 days?"

I want you to answer the question by saying, "Please do both."

What we're saying is expand your search beyond the 3 blocks of the

> Five: Verify

property, take it out 6 blocks and show me what has sold in a 6 block radius in the last 90 days. Then send me another report where you take the property and you simply extend the timeframe from a 90 days sold to 180-360 days sold, but keep it in the 3 block radius.

The Midwestern markets are typically moving at about 180 days. They are not moving as rapidly as your bordering states. Any state that touches water typically has a more rapid cycle. The reason for this is that any state that's touching water (and when I say water I mean ocean, the Gulf Coast, the Atlantic Coast, the Pacific Coast) typically has more commerce. They have importing and exporting, which equals jobs and those markets, because of the stableness of importing and exporting, typically has a more stable real estate life span or valuation because of the stability of the job market. Those markets are typically going to move a little bit more quickly.

If you're in a Midwestern market, you're looking at a little longer than

> Five: Verify

90 days, but you get the gist of it.

Verify the Value

You can also look at the Tax Assessed Value, but keep in mind, most markets are now appreciating. In fact there was an article in the USA Today last week that said, "On a blended average, nationwide property values went up 10.8%." That's varied. We know that in Phoenix, property values actually went up 32%. In Southern California, we saw properties go up 27%. In the Midwestern states, property values only went up 2% in some markets. Areas of Louisiana, they went up 1.2%.

When you blend those, you get a 10.8% average. Regardless, understand that values have gone up and with them tax assessed values should follow. I can assure you with counties being as broke as they are, they are doing anything and everything they can to get more revenue.

In fact, there was an article in the paper today about states assessing online businesses state’s sales taxes. If you're now selling online, you will have to monitor sales in all 50 states and then send checks to every one of these municipalities.

The good news is, this has not passed yet, but I can tell you when it does, it's going to kill a lot of small merchants because they don't have the accounting capacity to manage that bandwidth. It's going to be interesting to see what happens. Municipalities are looking for revenue

> Five: Verify

anywhere they can get it.

Below is what you need to verify a property's value. You don't need all of these, but having a few of them will give you a good understanding of the properties value to purchase price (bidding price).

-BPO (Broker's Price Opinion)

-MLS

-Zillow

-Tax Assessed Value

-Comps (1 listed comp within one mile of subject property and the remainder within 5 miles of the subject property)

-3 Recently Sold

-3 Listed

-1 Sold

MONEY

> Six: Calculate

KNOW YOUR COSTS!

If you're going to finance through a local lender or through us you need to know what your costs of money are going to be.

Your carrying costs/debt service.

You're carrying costs are going to be dictated by the market cycle. If you have your realtor do comps and you see that if you buy this house for $75,000, the market value for a 90 day valuation is about $165,000. If you want to sell it faster then drop your price to $155,000. If you want to sell it in 30 days, drop your price to $145,000. That then becomes your gross sale price.

You now must calculate all of your costs and all your profit from the gross sale price and deduct everything else, like your costs of money, or what are you going to have to spend every month to service the debt? If you're getting a construction or rehab loan, what's that going to cost? Oftentimes, these are presented as a second mortgage and because of that you're going to pay more in points and fees and they are typically shorter term loans so they have higher costs.

Also, when you sell the property, if you're going to utilize a real estate agent to sell it, you're going to incur a 3% listing fees, you're also going to incur 3% fees to the buyer's agent, plus you're going to have to have 1 1/2% in title insurance fees. I typically tell clients to go ahead and

> Six: Calculate

shave 7 1/2% off the top if you're going to list it through a realtor.

If you know that the property is in a very rapidly moving market, your agent pulls comps, and says, "Good grief! Everything in this market is selling in 30 days," then don't list it and keep your money in your own pocket. Or you can simply go through a discount loan broker and have them list it on the MLS for a charge of $500. That way you only have to pay the buyer's agent 3%.

For those of you who are licensed agents here, and you think that I'm trying to take money out of your pocket, please let me explain. I too, like you, am a licensed real estate broker. I earn a commission when people buy and sell real estate. However, I'm also an investor. As an investor, our job is to maximize our return on our invested dollar. Therefore, wherever and however we can save costs, we need to do that. That's just being a good businessperson.

Agents, what you can do (this is what I used to do with my brokerage knowing that my clients were going to buy properties from me at the auction and then turn around and sell them) is just a straight $500 listing fee to put it on the MLS. Put in your number and your contact information so all calls still come to you. The advantage of this , as a listing agent, is that you are acquiring all the buyer inquiries and buyer leads. Even if they didn't buy that particular property, I would still capture their name, email, phone number, and the fact that they wanted to buy a house. I was building a book of potential buyers who I would then outsource to my other agents. They would run out, drive people around on Saturday, sell the house, and then my brokerage would get 25% of the net fees. There's a million ways to skin the cat.

Calculating the Cost

Let's say you're going to take the middle ground, and sell the property for $155,000. You have determined that you can bid up to $85,000, and still net (after all your costs and fees) about $20,000 on the deal. Every dollar that you bid above and beyond $85,000 (as long as you've done your math correctly) you are agreeing to work for less than a $20,000 profit on each and every deal.

Word to the Wise: You need to be really careful, and write down your max bid before you get to the auction. You cannot get to the auction without already determining these fees and knowing exactly, within a 5% variance up and down, that you're going to make $20,000 on a deal.

If you're going to buy a bigger property, you need to make more. If

> Six: Calculate

you're going to buy a smaller deal, you can afford to make a little less.

Here's my Rule (you don't have to adopt it, this is just how I structure business): For every $100,000 in risk that I am taking on through borrowing money or buying property for cash, I need to make a $20,000 net profit.

- If it's a $100,000 or less, I need to net $20,000.
- If it's a $200,000 property or less, I need to net $40,000.
- If it's a $300,000 or less, I need to net $60,000.
- If it's a $400,000, I want to net $80,000.

Some of you are thinking, "This guy is insane! Has he even been to these auctions here in LA at the Norwalk auction?"

For you, you're going to have to make an adjustment because you have to understand the velocity of money. Where I make $20,000 per $100,000 per year, you might be able to take that same $100,000 and roll it six times because you can literally buy it, fix it, and sell it within 60 days. Where you have velocity of money, and you can turn your money more rapidly, you don't have to make nearly as much profit per deal because you're going to do more deals as you roll. You just need to analyze your market and know what to bid, where to bid, and what your revenues should end up being at the end of the day.

Calculate then get your funding ducks in a row

-Will you be using your own cash, or will you be using hard or private money on the acquisition? Now for those of you who are going to do this through a self-directed IRA, I'm going to tell you right now that unless you are in a judicial foreclosure market where they give you 30 days to come up with the remaining funds, above and beyond the 5% or 10%, you're not going to be able to use your self-directed IRA because custodians cannot work that quickly.

You can't come up and say, "Hey, I'm going to bid on this property for $75,000 and I'm going to take it up to $85,000 so I need you to wire me $85,000 to take to the auction."

They're going to say, "Woah, woah, woah. We can't release funds to you. You don't own the property." Here's what you need to do if you're going to this in a self-directed IRA environment. You need to identify a short-term interim or bridge lender in your local market where they will bring in the $85,000 for 7 days at 1/2 to 1 point. That 7 days now allows you the time to acquire the property, contact your self-directed IRA custodian, and have your self-Directed IRA purchase the property. This is how you get it done.

OPPORTUNITY

> Six: Calculate

FYI: Understand that you cannot sell the property to your self-directed IRA for more than you paid for it (to cover your 7 day carrying costs) because that's considered self-dealing. Know that the self-directed IRA can only come in and absorb the amount of funding that you got from the interim bridge lender. This is a way, or a strategy, that you can indeed use to get your self-directed IRA to funding the auction property.

Other Costs to Calculate

-What are the "Opportunity Costs" on that money? What is the cost in points and fees?

-What is the cost of refinancing to pay off the private lender?

-What are the rehab costs?

-What will it cost to market the property?

- Most importantly, what do you need or want the return on this property to be?

You calculate your profit by knowing your exit strategy.

> Six: Calculate

Are you planning to refinance and hold? Are there tenants already in the property? If you buy at the auction, are you going to allow the tenant to stay? In many scenarios, the property is being foreclosed on because the borrower was upside down, so they've been collecting rents from the tenants but not paying their mortgage, which is legal on residential property 4 units or less. If it's an FHA loan, it's referred to as equity skimming, but it's typically not prosecuted unless it's 5 or more units. Be aware of that.

Most commercial loans have what's called a "due on sale" clause of the rents. If you have gotten a loan on a commercial property and you stop making your payments, those payments now have to be deferred to the lender, whereas in residential mortgage setting, you the owner of the property, can continue to collect rents even though you're not paying the mortgage.

There's some caveats, and I would encourage you to seek legal counsel if you're going to do that because there are indeed some do's and don'ts.

If there are good quality tenants in the property, and you buy it with the expectation of keeping them there, which is actually not a bad strategy because then you don't need to rehab the house. Now you're doing a straight cap-rate analysis based on what have they been paying in rent. If they've been paying $1000 a month, they've

> Six: Calculate

been there for the last 3 years, and they love the house, then that's $12,000 a year. If you're going to pick up the property for $100,000, then that's a 12% return on investment. If you could pick it up for $50,000, that's a 24% return on investment, which makes it a really nice strategy.

What you have to concern yourself with if you're borrowing funds, is how are you going to pay that lender back?

One of my favorite strategies is to whole sale the property. Most people are too timid or afraid to go buy a property at the auction. But, I know some very wealthy investors that simply buy houses at auction with their own cash, and then turn around and wholesale the property. They mark it up 2 or 3 grand then they write a hard money note to that new buyer for 6 months. They're just rolling capital over and over again and they're never touching the property. That's a great strategy if you have the capital to do it. You can make a lot of money in a very short period of time. You may have the same challenges from a liability standpoint that anyone else does, which is ensuring that you are indeed buying what you think you are buying and that the value is there.

Pros of wholesaling the property:

- You turn over the property quickly

- It frees up capital for other investments

> Six: Calculate

- Avoids time, effort, funds, for rehabbing

Cons of wholesaling the property:

- It passes up on realizing the profit potential of fixing up and selling property for full value

Pros of retailing the property:

- Maximize the return on your investment

- Creates feeling of satisfaction in physically changing a property's worth

Cons of retailing the property:

- The cost to hold the property while repairs are completed

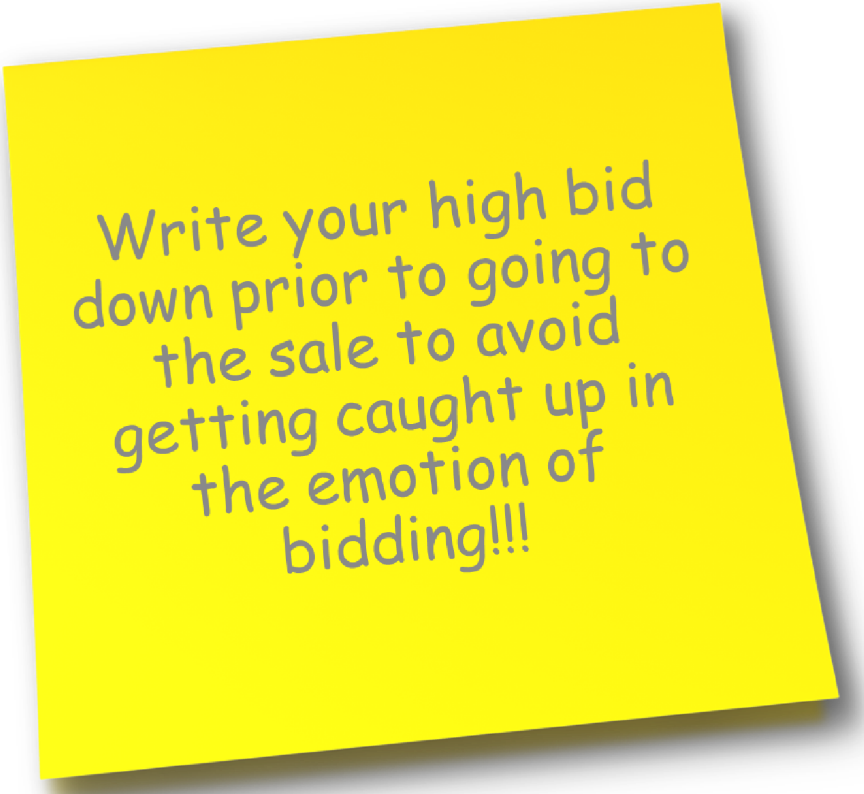
- Spending time, effort, and money rehabbing the property

If you have the financial capacity and the capital to do it with, I would encourage you to wholesale and make that your strategy. Buy it, wholesale it, carry paper, go buy it again, sell it, carry paper. When you carry paper you are originating a new note against a non-owner occupied piece of property and that note is very valuable on the secondary market. For those of you who are interested in the note play, that's a great strategy. Acquire the property, sell it to a non-owner occupant, write new paper, sell the note. You can write the note at 14%

> Six: Calculate

and sell it for 10% and keep 4% on the yield. There's just a lot of really exciting profitable high-yielding strategies! You just need to have the right methodology through which to obtain the asset.

Here's my important note: Write your high bid down prior to going to the sale to avoid getting caught up in the emotion of bidding!!!



> Seven: Bid

We've done all the research, we've calculated our high bid, we are ready, we go to the auction, and now it's time to bid. We bring checks filled out in the trustee's name or cashier's checks that you can sign over. If you are going to the auction to bid on one property, write the cashier's checks in the name of the attorney that's foreclosing, the sheriff auction. You can call them beforehand and say, "Who do you want these checks written out to?" An easier strategy is just to go down to the bank and get cashier's checks, if you're in an all cash market, where you have to have the money on site. If you know that you're going to bid up to $115,000, don't go get a cashier's check for $115,000, go get a cashier's check for $50,000. Get 2 for $20,000. Get one for $10,000. Get 2 for $5,000. Get 5 for $1,000.

Basically you're there making change and here's why:

When you bring too much cash to the closing or to the foreclosure auction, let's say you're going to bid up to $115,000. You bring a cashier's check for $115,000 made out to the particular crier and the opening bid is $85,000 and you get it for $85,001, you're going to hand them a cashier's check for $115,000 which means you have $30,000 in capital tied up and it typically takes them on average from three to six weeks to process that sale and get you your $30,000 in change. You don't want to bring all of that cash to the auction with you. You want to be able to make change in as small increments of bills as you possibly can.

> Seven: Bid

There's a situation once when I was down at the auction and this guy came in and he said, "Oh man Lee, I just bought this house, and I'm $500 in a cashier's check short. Will you give me a $500 cashier's check today and I'll give you a cashier's check for $1000 tomorrow?"

Well, I'm no dummy, right? That's a 100% return in one day. That's like 3655% rate of return annually. YES, absolutely! That kind of stuff happens all the time, so make sure that you have enough because coming up short can actually be very costly.

As I mentioned before, some states require only a small earnest-money deposit, with a relatively short follow-up period to pay the rest in full.

Bidding Strategies

- Become a "serial" auction attendee. Whether you are bidding or not, I want you to make it a goal for yourself and for your business to go to every auction that you can possibly be at. I don't care if you don't have two nickels to rub together and you are financially strapped, you need to be at the auction. One of the main objections I hear from my clients is, "Lee, where do we get the money? We want to bid at the auction but it's an all cash market and we don't have any cash so we can't participate."

Here's what you need to know. When you go to an auction, and you see all of the different people down there bidding, they have pockets

> Seven: Bid

filled with cash, and they're looking to deploy that cash either in the acquisition of property or in the lending on property. Most people who bid at the auction, in addition to being property buyers, are also hard money lenders and they get the game. They understand it. They are a great source for you to get access to capital. However, it's important for them to see you and recognize you. They need a comfort level with you before you can bid using their dollars. I mentioned that we all got together at Christmas parties and razzed each other about how much money we cost each other. This is their domain. They own it. Anytime a newcomer comes in, they see fresh meat. When they see a newbie bidding, they may bid them up on purpose to minimize profitability in the deal. They do this to keep the pool thin and the sharks hungry.

Financial peace isn't the acquisition of stuff. It's learning to live on less than you make so you can give money back and have money to invest. You cant win until you do this."

Some would argue, "Lee, that's dirty. That's unethical, and that's immoral." There's no law against it, so they can absolutely do that and they will. They do it all day, every day. They will intimidate or frighten you, if you let them. It's not uncommon, if you're a new bidder and they don't know you form Adam, that they'll sway your bid by saying things like, "Hey, you've never been here before so you probably weren't aware that that house has mold in it. You probably weren't aware that they were cooking meth in that house. You probably weren't aware that the house has a shoddy foundation and it's about to fall over." They may or may not be telling you the truth. But if you know what you're doing, you've researched the property and you've met the regulars, you may be able to decipher truth from fiction.

So, be a rock when you get down there, because if you're not confident in the property, in your bid amount, in what you're paying, in the process, your nerves can get shaken very easily at auction. Frequent the auction, get to know the scene, talk to the players and become a regular before you bid or ask for money.

Two Strategies for the Auction:

- Spiking the bid. This is literally winning the bid by intimidation. If somebody bids $100, you up them by $1000. If the bidding starts $75,000, somebody bids $75,001. You jump it to $80,000 or $85,000. When you jump it 5 or 10 thousand, that's called spiking the bid. The idea here is that you kind of shock everyone else to the point that by the time it goes, "Going once, going twice, sold three times for $85,000" you've initially knocked everyone out of the bidding. If you know that you're going to bid up to $100,000 and its opening at $75,000, you jump it to $85,000. There's risk in doing that. If nobody outbids you at $85,100, you just potentially spent $10,000 more for the property than you probably needed to. Unfortunately, there's no way for you to know that, because you don't know when somebody else is going to throw out a bid. So sometimes you just have to roll with it and pray that you didn't spike it too aggressively. There's nothing more unnerving than an opening bid at $50,000 and you jump it to $65,000 and nobody bids against you. Now you've got to be thinking, "Man, what if I would have just bid $55,100, would anybody have bid against me?"

I typically just sit back and I let everybody come in, who's going to come in and I let the bidding slow until it gets to the point where it's going once, going twice, and then I will outbid the person who has it by $100. If it opened at $60,000 and they're now sitting at $72,000, this will be the first time I am now going to jump in on the bidding. They're at $72,000 going once, $72,000 going twice, I jump in at $72,100. Now anybody who's going to bid for the most part has been vetted, they've raised their hand and said, "I'm bidding." You now know who the players are and how much cash they're working with. They've shown you their hands. You can now very easily go in and dominate the sale.

- **Chilling the bid** is the opposite of spiking. This is cooling it down. This is when there's too much testosterone rolling throughout room and you want to cool it down. Opening bid is $50,000, the property's worth $200,000. It goes from $50,000 to $60,000 to $70,000 to $80,000 so you bid $80,100. And they jump it up to $90,000 and you bid $90,100. What you're trying to do is cool the bid, you want to take the testosterone out and get people in a place where they're thinking clearly again.

Tips on Bidding

- **Timing:** Hold off on placing your bid until you notice the bidding is tapering off.

- **First Dibs:** The first and second properties on the list go for the cheapest price. A couple of good deals go by before bidders realize they'd better get cracking.

- **Don't get carried away.**

It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for.

- Robert Kiyosaki

My point in the second bullet point is this: idle capital is the most expensive capital that you can have in your portfolio. This is un-deployed capital that's not working in a deal for you. If it's sitting in your bank account, it's costing you a fortune in opportunity costs because it's not earning money. I want to put two dollars in a tub and have them make babies, that's what I'm after. I want rabbit dollars. The only way you're going to get this is by deploying it into investment opportunities where's there's an upside, you've already done the due diligence, and you know you've got a good deal.

MONEY

> Seven: Bid

In the first dibs here, I've seen too many investors get burned doing this where they've identified 10 properties that they want to bid on and they like the 7th, 8th, and 9th properties better than properties 1, 2, and 3 properties. Unfortunately, you don't get to decide which properties are bid or presented first because there's typically multiple criers. It's not one person at the sale representing 12 banks. It's usually 6 criers each representing 2 banks. You will have situations where there's three or four bidders all going at the same time. What you cannot do is not bid on a property that's come online right now because you want to bid on a different property. You have to bid on them as they come up and feel secure that you've done enough research and due diligence to identify that you'll make money on each one of those 10. Don't play favorites. Just go for the property that is available and ready to go.

Here are a few bonus tidbits of advice.

- Dress to Impress: Look like the banker or like you have the resources to back you up. Don't show up wearing Crocs, shorts, a flannel shirt, and a hoodie. This is not the image you want to present. You will get a lot more attention going down there in a suit and tie or a jacket, because people are going to look at you and think, "Who's this guy?"

I've gone to auction in suits numerous times and have had people approach me and say, "Are you the crier settling these properties?"

> Seven: Bid

I say, "No, I'm actually an investor." I usually carry my Private Money Exchange padfolio with me and everybody's looking at me like "Who is this guy? Why is he here? Is he going to take money out of our pocket?" Dress to impress.

- **Always arrive early and get close to the auctioneer.** Make friends with the auctioneer so you can ask for favors. You may need them to postpone the sale if you need more time. Or you may make a request like, “Would you mind crying the Smith sale first? I'm really interested in that one." If you know that the Smith sale is a hot property and you've made friends with the crier, they can start the bidding at exactly 11:00. Any investor who wanted to bid on it, but is 5 minutes late, will have missed out on it. There's a lot of strategy and advantage in befriending the criers at sale. You can only know who they are, though if you go frequently and often. Make the investment of inviting them to lunch. All of these are things that are going to help you be more successful at the auction.

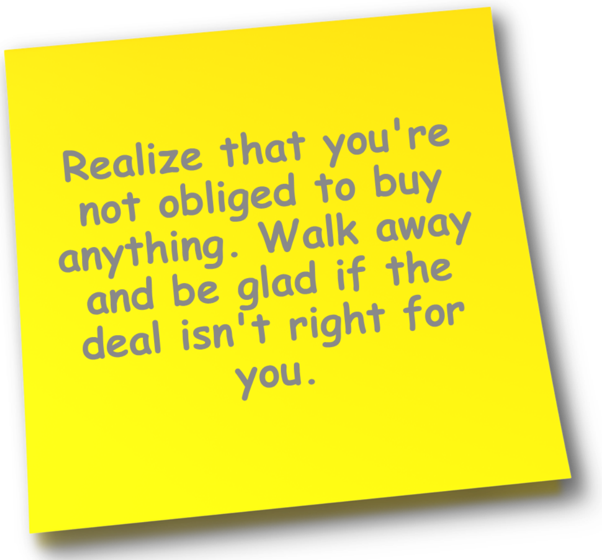
- Exude confidence. Never be desperate to own a property. Have all of your notes there. The bigger your binder, the more scary you are to all of the other guys.

- Bring backup. Bring a professional contractor or veteran rehabber with a trained eye for any extra rehab costs.

MONEY

> Seven: Bid

Important Note:



What I mean here with this is don't be in a hurry to buy anything. The reality is that you don't need to own that piece of property if it’s not at the right price. You don't need it. There's no reason in being willing to work more, for less. If you want to look at the converse of what auction buying is and what the bidding process really is, the winning and successful bidder is the investor who is willing to work for the least. I want you to think about that. You all have the same costs, right? If the property has to be rehabbed, re-plumbed, rewired, and it needs a new roof, you all still have the same costs.

Certainly if you're doing multiple deals, you have the economies of scale. You have full time crews, and you can get things done cheaper. At the end of the day, the house is going to sell for market value, it's going to be listed with an agent, and so everybody is going to make about the same money net. The more you bid, the less you make net.

I mentioned economies of scales. Here is something you will encounter. You'll go down to an auction, the opening bid is $80,000, and you know that property is worth $100,000 at best. Somebody is down there and they've bid it up to $90,000.

You're thinking, "What in the world are they doing? That thing's only worth $100,000!"

If they have full time crews, they're going to pay those people wages whether they are on the jobsite working or if they are sitting in their house watching I Love Lucy reruns. Oftentimes, the major players have crews and this is their business model, they will buy pieces of property just to give their crews work. Especially in markets where the sales are once a month, like most counties in Texas, you will see that a lot. They are simply buying work for their employees to invest into while they are waiting for the next homerun to come around.

Once we've done the research, we've gone down and we've bid. We've got the property, fix it up, clean it up, sell it and then come back rinse and repeat.

OPPORTUNITY

> Get Involved in the Circle of Wealth

After years of teaching and mentoring around the nation, I found that education doesn't mean a lick, if the person being taught doesn't have the capital to put their knowledge into genuine action.

So, I took the challenge and created a place, Private Money Exchange, where real estate investors could go for unlimited funds for their non-owner occupied investments.

While the progression seemed natural, we were missing one, very large and essential piece of the pie. The marketplace was teeming with people who had the funds, who aspired to make higher returns on their invested dollar, but lacked the desire to get involved in real estate at the ground level.

In light of this opportunity, we created Secured Investment Corp, which gave people a medium to lend on private money loans secured by real estate, and make higher returns than they were currently seeing in the stock market, bank CDs, or bond investments.

> Get Involved in the Circle of Wealth

As we combined all these facets—training, funding, and the means to lend on real property—we began to notice a progressing trend of growth and success with the clients involved.

Through this model, what we call *"The Circle of Wealth,"* we also noticed that people who entered in at the training level and borrowed funds for their real estate investments, eventually became lenders in their own right. They then helped others obtain the capital needed to grow their real estate portfolios.

This allowed everyone, on every side, to win!

It is our goal that **<u>everyone</u>** can enjoy some level of success in ***The Circle of Wealth***, and inevitably lap it several times over! We hope you're one of them!

<u>Circle of Wealth Member</u>

"I chose to work with Private Money Exchange because I have watched Lee over the past few years. I have been impressed by his attitude, ethics, and humility. My experience has shown that the company performs excellent due diligence before agreeing to an investment.

Becoming a lender was an easy business decision for me. But a thank you gift was icing on the cake. Where do I send my thank you note.

I have to believe this is a terrific place to work! Thanks for all your help."

- Susan C.

> Who is Lee Arnold?

Like most self-made millionaires, I began at the bottom of the financial food-chain. My humble beginnings started as a bag boy at a local grocery chain in Spokane, Washington working for $3.90 per hour. My first “aha moment” happened while I was aspiring to a management role at the store and was reading the life-changing book, “Rich Dad, Poor Dad” by Robert Kiyosaki. Suddenly my management aspirations looked very small, but my future possibilities became extremely big.

My second “aha moment” happened while I was sitting in a philosophy 101 course in college. My attention span was divided between the slow ticking of the clock and my professor’s long winded discussion on the economy. While the minutes ticked by, he let it slip that he was making only $45k a year. That information and the knowledge I gained from Kiyosaki’s book, made me realize I was on the wrong path to success and needed to make some very important changes fast. So, from those experiences and an influential nudge from an incredibly persuasive late-night infomercial, I went into real estate.

I began the way many people do—in the educational and training space. Like many, I went to real estate seminar after seminar and bought course after course. Through long years of trial and error, I built up a very profitable, million-dollar real estate business from the ground up. I’m proof-positive that the training system can and does work! Because of this, I decided to help others by teaching them how to translate workbook education and real estate theory into the real world of real estate investment.

THE LeeArnold SYSTEM OF REAL ESTATE INVESTING

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