About Pre-Foreclosures

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1. What Is a Pre-foreclosure House?

A pre-foreclosure is the time the bank gives notice of default to the time the house sells at an auction. Usually, the time frame is about 90 days into default. Of course this depends on state law. So basically, if you have a pre-foreclosure house, it means you are behind in your mortgage payments to the point that the bank decided to place a judgment against you for defaulting on your loan.

As a real estate investor, if you got involved in purchasing a pre-foreclosure home, you develop equity for yourself. This is because you would pay the difference between what the house will sell for and what is actually owed on the house. This means you could conceivably buy a house at below fair market value.

If you bought a pre-foreclosure home, you could buy low and sell it at a high price. This way you could maximize your profits quickly. Plus, buy investing in a pre-foreclosure house, you can save money on the real estate, since you are not paying full price on what the house originally costs or is valued at. This makes it a great deal for you. And that is the name of the game with pre-foreclosure houses.

2. Pre-foreclosure Timeline

Every state has its own rules regarding pre-foreclosure timelines, but to give you a sense of what is involved, here is a breakdown of what usually happens before and during the pre-foreclosure process.

To start with you must understand that the whole process starts with the lender. He realizes the homeowner hasn't paid his mortgage in quite a while and as such the lender takes the house back as collateral to protect his investment. At the time the foreclosure occurs, all liens are cleared from the title. At this time the property no longer belongs to the homeowner. At this time the homeowner is in default and a notice is sent to him stating this. He has 90 days roughly (some states give up to 120 while other states give more), to pay back what is owed or face foreclosure. It is during this time that he is in what is known as pre-foreclosure.

During the pre-foreclosure period, the bank will take two methods of securing the money from you before they take action to foreclose on your property. The two methods are Judicial and Non-Judicial. With the Judicial Foreclosure Cycle the homeowner has more time to take care of their default. This also gives investors more time to approach the homeowner. When the bank decides it has had enough waiting for you to pay your mortgage payments, they will contact their foreclosing attorney and request a Demand Letter be sent, which states the homeowner has 10 to 30 days to pay what is owed or foreclosure action will begin. If the homeowner should fail to pay the back mortgage, the attorney will file a suit against the homeowner. This is also referred to as a Notice of Default. At this time is when you, as an investor, get involved and contact the homeowner with your offer.

After the homeowner receives his Notice of Default, he has to appear in court on the date specified in papers filed, which is about 30 days after receiving the Notice of Default. After the court date, the attorney files a judgment against the homeowner for default of payment, at which time the homeowner has 10 days to appeal. If the appeal period lapses with no action taken, the attorney places an ad in the legal section of the paper announcing the Foreclosure Sale date, which will usually be carried out at the courthouse steps on a date specified 30 days later. This is why the 90 to 120 days was mentioned earlier, because this is time involved from the beginning of the process till the actual auction date.

The second type is the Non-Judicial foreclosure method. This is a much simpler method to work with, especially for the lender. Unfortunately, it also cuts the time involved for the homeowner down considerably. If you are an investor, you have to act fast and keep on your toes during this process because everything takes only 30 days to get completed. This is because the lender does not have to file any suit. The lender just sends the file to the attorney, who sends a demand letter to the homeowner, who has 10 or 30 days to pay back what is owed. If what is owed is not paid, the attorney goes ahead and foreclosures on the property by running a Notice of Foreclosure Sale ad in the legal section of the paper, thereby announcing the sale. The sale date is usually 30 days later.

In these situations, as an investor, you have to realize that the homeowner is in trouble and is about to lose his home. And when this happens, he also screws up his credit. Therefore, the homeowner will be happy to hear of any offer you have to provide him. You provide a good offer, he accepts, and you take over his property. He may lose the home to you, but at least he does not lose his credit record.

3. Who is Affected by Pre-foreclosures?

With the way the economy has been going lately, pre-foreclosures and foreclosures are fully on the rise. This is because with mortgage interest rates rising, which obviously means monthly mortgage payments are also increasing, homeowners are finding they can't make their monthly payments anymore. They only make so much money and bring home only a certain size paycheck. With the rising costs of running a car, they find their monthly expenses are increasing, while their monthly income is staying the same. When this happens, they end up losing in the end. Something has to give and they usually end up either going bankrupt or lose their homes to foreclosure, and have their cars repossessed.

So what are many of the causes of pre-foreclosure? Well besides the scenario mentioned above, there are many factors that contribute to a homeowner losing his home. He could have borrowed the money from a bank that proved to be scammers. This would place the loan as being deceptive. And when a deceptive loan occurs, the homeowner is the one who takes the slack for it and ends up having to pay all the money back faster, or lose the home to pay the debt.

Other than what is listed above, other factors that contribute toward pre-foreclosure include many of the following.

Divorce

The most difficult factor for going into pre-foreclosure is not just losing a job or rising mortgage payments, it is the dreaded divorce. In many households, both parents are involved in working to help make ends meet. With both incomes, this helps to lessen the load on the father or husband, so all bills can be met. But when the marriage goes sour and the two split apart, this can seriously affect not only the household, but the income as well. Now there is only one income coming in and this will adversely affect the way bills are paid.

If the wife walks out on the husband, this means the husband now has to fend for himself. He has to pay all the bills, which he may now find is not practical. So he ends up not paying certain bills and before long, he gets way behind in paying the most important ones, and before he knows it, he receives a notice from the bank or mortgage company, stating he is in default of his loan. So divorce can really have an impact and can lead a person to pre-foreclosure and possibly to foreclosure.

Behind in Payments

Another factor that can cause pre-foreclosure is when the homeowner gets behind in his payments. This was touched on several times previously. The main point to consider here is that getting behind on payments is the worse thing you can do because when you get behind, it is hard as hell to catch up. If you fall two months behind, you may be able to catch up if you forsake paying a couple of other bills. But if you get five, six, or more months behind, you are doomed, unless you can take out a loan to catch up, and even then you have more money to pay back, which puts you further in debt. Therefore, getting behind in your payments should not be an option for you.

However, if this did happen, you will find out in due course what will occur. The next step will be a notice from the bank that you are behind in your payments and you will face foreclosure if you do not pay up by a certain date. Now you get scared and start scuffling, trying to find a way around it. But you can't because your income level won't let you. So what happens? You either end up in pre-foreclosure or you decide to declare bankruptcy. Bankruptcy is an option for you, as it will help you get out of debt. You may or may not lose your home, depending on the type of bankruptcy you go for. With Chapter Seven, you could lose everything, including your home. With Chapter 13, you don't have to lose anything. You just set up a payment plan that covers all your debts. Then make these payments over a certain period and you are all set.

Medical Bills

It is unfortunate that we face many difficulties in our lives that can affect the way we pay bills. Having a medical condition does not help. If the medical condition is serious enough it can force the person affected to spend more money on medical bills than what he may have to cover it. If he does not have medical insurance, he will have to pay the cost for everything he encounters to solve his medical condition. However, if he does have health insurance, but he has a high deductable, he will have to fork out the money to pay for it. Either way, having an unexpected bill or bills does not help, especially if the person is living on a fixed income.

In this situation, what happens is something has to give. In most cases, what gives is the mortgage, since the electric and phone is normally low, so they are paid first. This leaves the mortgage which does not get paid. You figure if you miss one or two payments you can catch up. But you find that this does not happen and you end up further in debt and further behind. After you pay off your medical bills, you focus on catching up on your mortgage payments. The only problem with this method is that you never are able to catch up because you are too far behind. So what happens, soon the bank or mortgage company contacts you with a NOD (Notice of Default).

Pre-Nod Lists

If your name happens to be on a pre-Nod list, this is a sure sign you have already been placed in pre-foreclosure. This is because for those who have received a NOD, they are automatically placed on a list of those homeowners who are about to be foreclosed on. This list is sent to real estate agencies, banks, mortgage companies, and even real estate brokers. As an investor, if you are shrewd enough, you can also get a hold of this list. When you do, you'll have at your disposal names of those who have already been sent the NOD, which means they are in pre-foreclosure. You can quickly contact these homeowners and work out a deal with them. If you strike quickly you can end up taking over the property and helping the homeowner at the same time, considering that by helping the homeowner stay away from foreclosure, you are helping him keep his credit clean.

Although having your name on the pre-nod list is not practical, considering you have defaulted on your mortgage, it can be a blessing for you, if someone can come and bail you out. Unless of course you happen to gain some windfall of money and can bail yourself out.

4. Why Invest in Pre-foreclosures?

Whether you realize it or not investing in real estate is one of the best investments you can make. When you purchase a home, you gain equity. That equity increases over time. This is why people look to pre-foreclosures as a good buying opportunity. This is particularly true if this is the first home purchased or you are an investor looking to just add to your portfolio of acquired homes.

As a first time home buyer or as an investor who wants to add to his list of purchased homes, there is one thing you have to be aware of. When you are dealing with a pre-foreclosure or foreclosure, you will have imperfections to deal with. You may have to put up some money to restore the property or to fix up the place, just to make it more sellable, or to live in. This is obviously a choice you will have to consider. If you are good at fixing up places, you have nothing to worry about except to purchase the materials. If you can't do it yourself, you will need to hire someone to do it for you.

No matter the condition of the house, the one advantage you will have with pre-foreclosure houses is the motivation of the homeowner. He knows fully well his situation and what is at stake. He knows that he is about to lose his home and blow his good credit so he will be willing to take a decent deal. So once you find a homeowner in this position, you can take advantage of it. You not only can purchase a home and gain equity, but you can also help the homeowner get out of trouble. He won’t have to lose his credit, which will help him later on.

The best way to find a pre-foreclosure home is to look at the legal section of the weekly newspaper. As soon as the Notice of Default is issued, the possible foreclosure becomes public record and therefore appears in the legal section of the local paper. By looking in the paper, you can see these leads and contact them. It is best to write the homeowner first. Normally, the phone number is not listed in the ad, just the homeowner’s name and property location. So trying to obtain a phone number would not be conducive for you because of the time involved in trying to cross-reference the number to the person’s address. You never know, the phone number could have been disconnected or was unlisted.

5. Your Competition

Because pre-foreclosure listings represent some of the best foreclosure values in the foreclosure market, the competition to buy them is fierce. Buyers and real estate investors know they can get the best deals on houses, when those homes have entered the pre-foreclosure stage. The homeowner is eager to sell their house so they won't have to face foreclosure. Because of this wonton demand for the house, there are many hands that want to get placed in the cookie jar.

You'll get competition from other investors and buyers, who found out the house was up for sale and at a low price. Other competition can include people like bankruptcy attorneys, housing advocate agencies, and realtors. Each one will do their part to secure that house before you do so you will need to stay on your toes until you make that offer and pay what is required.

Bankruptcy Attorneys

When you are dealing with pre-foreclosure homes, you may just find out that a bankruptcy attorney could be involved in a house, especially if the homeowner decided to declare bankruptcy before you presented the homeowner an offer. When the homeowner files bankruptcy, the attorney handling the case has to inspect the property and find out what shape the property is in. He then has to determine the value of the property. This is especially true if the homeowner filed chapter 7. The bankruptcy lawyer may also require the house to be held by the bankruptcy court until the case has been filed. At that time the house may be taken by the court and sold to pay off whatever mortgage was left to pay. Whatever the bankruptcy court does, the original homeowner no longer owns or has access to the house. It is at this time the bankruptcy court may place an ad in the paper to put the house in an auction to sell it, since holding on to the house doesn't benefit the bankruptcy court.

As an investor, you may not want to deal with bankruptcy attorneys. Instead, you may want to wait till the auction to see if you can purchase the house then.

Housing Advocate Agencies

There may be times when a homeowner can't pay his mortgage for some reason that is contrary to the law. Perhaps the bank or mortgage company notices who the homeowner is and wishes to discriminate by raising his mortgage high enough on purpose just so the monthly mortgage payments can't be made. But the bank does it so slyly that the homeowner doesn't see that discrimination is happening to him until someone points it out. It is at this time, when the National Fair Housing Advocate Agency gets involved. The National Fair Housing Advocate Agency overseas discrimination cases when housing is involved. So as an investor, you may find them getting involved, particularly when the homeowner's has reached the pre-foreclosure stage. Perhaps he is at this stage fro no good reason. This is why the situation has to be investigated. Until such time as the investigation is completed, you cannot gain access to the property.

In most cases of this nature, you as an investor could approach the agency and find out what the status of the home is. You do have the legal right to know what is happening to the house. This is very true if you were told by the homeowner the house was up for sale due to pre-foreclosure, and you made an offer the homeowner accepted. It is at this time you would need to know if you can follow through on the purchase or wait till the agency completes their investigation first. Normally in times like this, the mortgage company gets sued for civil rights violations, which result in the homeowner reclaiming the property. If this is what happens, the homeowner may have a choice between keeping the house or selling it.

Realtors

Realtors are big at trying to claim pre-foreclosure homes. They can list these homes and get a commission for selling the home to a new homeowner. Even if you are an investor, you may have to be quick at your step, because if you don't, some realtor may just beat you to it and put the home up for sale in the market, realizing they won’t have to wait long for someone to come along and take it. They sell the property to a potential buyer, gain a commission, and go after another. As an investor, you have to beat the realtor to the punch by offering to buy the real estate from the homeowner before the realtor gets involved. Because when the realtor gets involved, the price of the house may just go higher than what you may have been offering beforehand.

Not only will the realtor raise the price, but the realtor will bother the homeowner with constant showings, timing will be involved for it may take months to market the property, and they may end up not getting the price they want for the property.

This is why you have to keep on top of the market and when you find a pre-foreclosure, get in quickly so you can give the homeowner a reasonable deal. This way the homeowner wins and you win to.

6. Marketing to Pre-foreclosures

Trying to find pre-foreclosures may be a hard one, if you do not know where or how to look. If you are familiar with the process, you have nothing to lose, but if you are not, then you will have to learn the steps involved in finding pre-foreclosures.

Legal Notice

When you are looking for a pre-foreclosure you can find them in the local Sunday paper in the Legal Notice section. When a bank sends a Notice of Default to a homeowner, this is a sure sign that property is going into the foreclosure stage soon It is at this state, before foreclosure that the homeowner goes into pre-foreclosure. As soon as the bank sends the NOD, they put an ad in the legal section that the house is going into foreclosure and will be sold at auction within a month. It is when you see this notice you have to pounce on it fast.

When you see such an ad, you may only see the address of the house. If this is the case, you will need to send a letter to the homeowner, since trying to cross-reference the house address with the phone number may take too long to do. So your best bet would be to contact the homeowner by mail. This may actually be faster, especially if the property is local to you.

When you write to the homeowner, you merely state you saw the ad in the paper concerning his property and that you would like to help him out. You can give him a pitch that will give you both a winning edge. By convincing him you can help him out of his situation will boost his confidence in knowing he'll be able to get out of his jam. Include your phone number so he can call you. When he calls you, ask for a time to meet with him at his convenience. But press on him the urgency of the situation considering his time may not be all that much, especially if he is facing non-judicial foreclosure.

Door Knocking

Another method that you may want to try is door-to-door knocking. With this method you go into a neighborhood, and go knock on every home on every block. As you do so, you ask the homeowner if he is selling his home or is a state of pre-foreclosure. If he is not, you leave your card with him, and let him know you are an investor, and if he should need to sell his home in the future, you can accommodate him. You can also ask if he knows anyone who is in pre-foreclosure, or close to it. He may know someone. When you talk to the homeowner, make sure to be respectful, polite, and courteous.

Direct Mail

If you do not feel like going from door-to-door, you can get a list of homes in your area from city hall, or from a realtors office. Then send them a letter, postcard, or flyer, advertising that you are an investor, and that if the homeowner is about to go into pre-foreclosure, or even are within a month or two of foreclosure, you can help save his day. You can help him by taking giving him a nice offer on the house, take over the property, and take over the monthly payments. This way the homeowner does have some cash in his hand, and he doesn't lose his credit. So you come out a hero in the end.

When you provide the homeowner an offer, you focus on the homeowner's net equity, not gross equity. For example, let's say the house you are interested in that is in pre-foreclosure, has a property that is worth about $100,000. Let's say the homeowner has about $70,000 left on his mortgage (this includes his last four missed payments). And let's say his monthly mortgage payments were $800. The net equity in the home would be $20,900. How is this calculated? Here are the numbers below:

$100,000 Market Value of property
-$6,000 Sales commission to sell the property with Realtor charging 6%
-$1,500 Closing Costs on resale - Title insurance, Escrow, or Closing Fee
-$1,600 payments (2) on existing loan while owner moves
<u>- $70,000 Existing loan balance</u>
$20,900

The amount you would offer the homeowner would be $20,900. This amount will get him out of the pre-foreclosure problem and you will then take over the property and monthly payments. In many cases, you won't offer this amount to the homeowner; you may only offer him half of this. Even $10,450 is better than nothing. He'll get a good amount of money so he can either buy another house, or he can go rent for a while.

Bandit Signs

Do you have any bandit signs made up? These are signs that tell people you buy houses and has your phone number and perhaps website listed. There are many types of bandit signs around. Each one has a different message on it. But the primary purpose of those signs is to get the house owner to call or visit the website listed. Once the call is made, the homeowner may be offered a price he can't refuse and take it on the spot. Or, the investor may make an appointment to see the homeowner so he can examine the property and find out just how far behind he is, how much his monthly payment is, and when he received his NOD. This way the investor can calculate a good payoff amount for the homeowner that will be lucrative for the homeowner to take so he can avoid foreclosure.

Phone Calls

The next method of marketing is by simply making phone calls. If you can get a list of names of homeowners in your area, you can make phone calls. You may be able to get your list from realtors, mortgage companies, or banks. You simply call the homeowner and let him/her know your purpose for calling. If you make about 100 phone calls, you may find one or two people in pre-foreclosure, or you may get more leads to call.

Another marketing method you could try and use is skip tracing. This is locating a person's whereabouts for any number of purposes. The word skiptracing is an idiomatic expression that means "to skip town." When they leave town, they always leave behind clues, even if minimal. Then a person comes along to trace their steps (the skiptracer).

Skiptracing is not just used by collection agencies or detectives. As an investor, you can use skiptracing as well. If you are willing to take time and initiative, you can find information about any person, considering most of the time, people leave quickly to avoid paying debts, or to avoid the law. When they do this, they usually leave some kind of trace behind.

Your job as an investor, if you really want to find these people, is to find these clues they left behind. This way you can find out where they went and take the steps to find out if they still have any property in their name, and if so, is it under pre-foreclosure or not. Maybe by the time you find the person it may be too late. But you never know. It depends on when they left and what the reason was for them leaving.

Networking

One big way to get leads is by networking. You may be able to talk to other investors, who may be able to help you find people in their area. Or, you may have friends on the inside at realtor offices who are willing to give you leads. Never overlook networking considering it is one of the best ways to get leads fast. You may be surprised that what you couldn't find on your own, you may be able to find with the help of someone else. So never underestimate the power of networking, for it may just give you the edge you need.

Title Professionals

If you are an investor, you most likely are a homeowner as well. If so, you have a title to your property. The title came from either a title professional or from someone at city hall. More than likely you used a title professional to do your title search and to issue you a title to your property. If this is the case, you already know someone who works at the agency. And if you do, you can convince the person to give you a list of those people who own homes in your area. This list does not have to be inclusive of pre-foreclosures, it just has to be a list of homeowners. Once you get this list, you simply make contact with the people on the list. Hopefully, you'll hit pay dirt and land a few properties along the way.

Listing Service

One of the best ways to get a pre-foreclosure listing is to sign up with a pre-foreclosure listing service. There are many types of listing services including multiple listing services and services providing foreclosure listings. There are also listing services that can provide pre-foreclosure listings. You just have to look them up. One such listing service is provided in the Resources section of this e-book.

With pre-foreclosure listing services, you get the most up-to-date pre-foreclosure properties around. Every listing will have verified phone numbers and other contact information. In most cases, you can log in on the Internet and obtain a fresh set of leads everyday or once a week. Every lead you get is reliable and verified accurate. The good thing about pre-foreclosure listing services is that you can also get aerial photographs of each property listed, as well as maps of the property itself and how to get to it. Normally the list is provided either by an Excel spreadsheet or by PDF.

Some listing services will even provide you with a Notice of Trustee Sale Listings so you will know when auctions are occurring and where including the time, date, and location. This listing will even tell you the minimum bid allowed.

Every listing service is different. It is up to you to check them out and find one that is suited for your needs. You may want to subscribe to more than one, considering each listing service provides different types of information. Some listing services will charge you a fee, while others may not. It depends on what you are after and the kind of service you want.

NOD at Courthouse

Since Notice of Defaults are registered as legal documents, they are usually posted to the legal notice section at the county or city courthouse. If you are looking for pre-foreclosure homes, your best bet would be to pay a visit you your local county or city courthouse and ask for the bulletin board. You'll probably see a long listing of them posted. Record the name and address of the owner and pay him a visit. If you like what you see, make an offer. If you don't like what you see, you skip it and go on to the next one.

The only problem with these listings is that the date posted may be days after the NOD was listed. So you may not have much time to get in touch with the owner and make a deal. Then again, most of them are fresh so you will have plenty of time to get in touch with the owner. You can ask the clerk how new those leads are so you'll have an idea the time frame you have to touch base with the owner. When getting in touch with owners, it is best to touch base with those who are close to you or within your local vicinity. This way you can get to the properties quickly.

7. How To Gain Access to Pre-Foreclosure Homes

As an investor you know that pre-foreclosures are a great opportunity to buy homes at very low costs and sell them at a higher price. This way you can maximize your profits quickly. But how can you buy up pre-foreclosure homes? There are steps involved to do it and do it right. These steps are as follows:

Step 1: Find a Pre-Foreclosure

If you want to get into the pre-foreclosure game, you must be able to submit a written contract to the owner of the property in question. To find this owner, you would need to look in your local newspaper for a listing or have a subscription to a pre-foreclosure listing. Finding the homeowner was covered in earlier sections of the e-book, so this will not be covered extensively here.

Once you have found the property you want, you now have to perform the following steps:

- Find out what you can about the property including its physical and financial status. You have to find out if there are any liens or loan balances beyond just the one. How about repairs? Will you need to invest heavily to fix up the property, just so it is livable or sellable?

- Inform the owner about his situation, based on what information you have gathered from the lender. Perhaps the homeowner doesn't know just how serious of a situation he is in. Once he knows the facts, he may be more inclined to negotiate.

- Prepare a written contract that gives you complete control over the house, then take this to the owner and have him sign it. If there is more than one owner, have everyone sign the contract. You can't do anything with the property until everyone is in agreement over the house.

Step 2: Begin Your Pre-Sales Marketing

As soon as you get your paperwork in order and have a signed contract, you want to start marketing the property. The sooner you do this the sooner you can unload it and gain profits quickly.

The first step in the process is to take a picture of the front of the house and put this picture on signs. You'll want to have a sign placed in the front of the property that says "For Sale by Owner," Or "Rent to Own," or both. As soon as you have confirmed the sell of the property with the owner, and he has signed your contract, you can then take the signs and place them on the front of the property. You may want to also put signs up around the neighborhood, so people will know the house is for sell.

Next, place ads in local newspapers. Let people know the house is up for sell or that anyone interested in the property can contact you. When you do this you will get flooded with phone calls. When you talk to each caller, you have to find out if the person is an investor or just wants to buy the house to live in. After finding this out take the caller’s phone number, email address, and fax number if one is available.

By the time you have gone through a number of phone calls, you will more than likely have a list of investors to choose from. Now you can evaluate the list and notify them about the property you are selling. If you are smart, you may want to also include any other properties you have that you may just want to unload now or in the near future. Don’t be surprised if you get many visits or calls from real estate agents for they will try to gobble up the property, so they can get their big commissions.

Step 3: Screen the Buyers

At this point you will want to screen all buyers to make sure they can handle the deal. You’ll have to let them know they will need to be flexible, patient, and can meet the financial qualifications as well. You must indicate to them the property is being sold as-is so you have no commitments to them other than to sign the contract and take their money. You will have to explain to them that you need the deal done within 30 days.

If after a certain reasonable amount of time you have no takers, you will just have to go to auction. You can either hold the auction yourself or hire a firm to do the auction for you. If you hire an auction company, make sure to check out at least three of them so you get the best price and deal for your money.

The advantage of using a professional auction company is they do the marketing and auction for you. They'll take care of the announcements and other arrangements as well. They will handle the auction details including screening buyers.

Even if you are not successful the first time through, keep trying as you take care of your other properties. The more you try the better chance you will have to getting the sale.

8. How to Finance a Pre-Foreclosure?

There are many ways to buy a pre-foreclosure. You can offer the homeowner cash on the spot to take over the property, and just contact the lender about the deal and make the monthly mortgage payments yourself, unless you flip the property quickly.

If you have enough cash on hand this is the quickest way to do it. However, if you do not have the cash, you may want to look into other alternative methods to pay for the pre-foreclosure.

Sub-2

If you don't want to use cash you can engage in a Sub-2. This is also known as Subject 2. Subject 2 entails having the seller deed the property over to you, but leaving the existing mortgage in place. You don't assume the loan; you just agree to make payments. Many investors go with the Sub-2 method to acquire a pre-foreclosure. It is fast, simple, and easy to negotiate with the seller. The only downside to it is there are risks involved. What if you can't make the monthly payments? Since you didn't assume the loan, the original homeowner still has to pay the loan and you are out whatever amount you already paid.

Owner Financing

Another way to pay for a pre-foreclosure is with owner financing. If you do the transaction correctly, you won't even have to pay the mortgage out of your own pocket. What you do is get an investor to go with owner financing. This means if you just obtained the property from the homeowner, where you paid him $10,000 to take over control of the property, but the property is actually worth 85K and has a balance on it of $70K, plus the mortgage interest rate is 6%, there will be a monthly payment of $420. All you do is take out financing and have the investor pay you $20,000 down and you charge him up to $600 a month mortgage payments. This way you not only get the $10,000 back and then some, but you also get to make nearly $300 on a monthly basis. Not bad for one transaction.

Of course if this is contingent if you go in that direction and you have the house. The original homeowner can't offer financing to start with because he is in pre-foreclosure, which means he can't pay for the mortgage he already has, so he can't help you with financing.

What if you did not pay any money to the homeowner yet, but you did sign a contract with him to take over control of the house. You can negotiate with an investor to purchase your newly acquired home by offering owner financing. This way you get the same kind of deal as above, except instead of you paying the original homeowner for control of the home, you take what the new investor or new homeowner pays you to pay the original homeowner. You aren't out any money at all. In fact, you actually gain in the end.

Sandwich Lease

You may want to think about a sandwich lease if owner financing or cash is not available. A sandwich lease is an arrangement where one entity leases a property from one party and leases that same property to another party. With a pre-foreclosure, what happens here is that you contact the homeowner and make a deal. You agree to help him by paying off the balance due on the back mortgage payments and then you pay him a monthly rental amount based on a lease terms. You are in fact leasing the property from him, where you pay him a monthly rent toward ownership of the house. If he agrees you sign a contract that you are leasing to buy, and how much each month will be. The amount per month is usually based on the mortgage payment amount, or typical rent payments for homes in that area.

After you have secured the deal you then find someone who will lease the house from you. You also offer that person a lease to own option. That person pays you a monthly rental which is greater than what you arranged to pay. This way you end up not paying anything out of your own pocket for the property, and you gain a monthly passive income.

Wraps

When it comes to investing in pre-foreclosures, you can always invest in the property without the person foregoing his mortgage loan. What you do is perform what is known as a wrap-around or warp mortgage. For example, let's say you find a homeowner who has a property that is valued at $300,000. He has an existing mortgage on it of $200,000. The mortgage carries an interest rate of 5.5%. The homeowner had a monthly payment of $1135.

The homeowner sells the property to you for the $300,000. You agree to do so but you agree to pay the seller interest only on the new loan at 6.5%, which makes the monthly payment at $1625. The seller will still have to pay the lender $1135 each month, but he will gain because he is getting $1625 from you. This is a monthly gain of $490. By going into this type of arrangement, the homeowner surrenders the house to the new owner, but at least he keeps himself from going into foreclosure.

Land Contract

A land contract is a contract that is between a buyer and seller of a prop0erty. If you find such a property and wish to buy it, you can engage in a land contract with the homeowner. He will hold the title or deed until you make all payments that are agreed upon at the time of the signed contract. You provide a down payment, which the homeowner will use to pay back any money owed to his mortgage company. This takes him out of foreclosure. And all monthly payments that are paid the title holder are sent to the bank to pay for the existing mortgage that was made by the original homeowner. A monthly payment is made until either a balloon payment is made which completes the sell, or a lump sum payment is offered. When that lump sum is offered, this should complete the loan the new owner took out, plus complete the original homeowner's loan. Then the title or deed gets transferred to the new owner.

In a way land contracts can be looked at as renting or leasing with the option to buy, since the same procedures are involved. The only difference with a land contract is that the document may not get recorded. In this kind of situation the buyer is at the mercy of the original homeowner, that the homeowner uses all money provided to him is used to pay off the original mortgage.

In many cases the land contract may not get recorded because the original lender may not approve of a sublet agreement or land contract. So to complete the deal, the original homeowner just signs a contract with the buyer, and does his best to fulfill the contract. If he fails to, the buyer is out of luck and out the money paid to the homeowner.

If you are really serious about borrowing money to pay for a pre-foreclosure, you can usually get a loan from a bank, as long as your credit is good. Most lenders, whether private or commercial, will be willing to lend you money, as long as you show you have the ability to pay the loan back, have a good property to offer as collateral, and make steady income, then you shouldn't have a problem with obtaining a loan. Even small local banks can give you a loan if you prove creditworthy and are stable financially.

9. Little-Known Secrets About Pre-Foreclosures

There is a little known secret regarding pre-foreclosures that not many people know about. You may not be aware of this, but those who do, use this secret to clean up and make a ton of cash by using it. This secret can literally put a ton of cash in your pocket quickly without you spending one dime of your own money.

The simple fact is that this secret can make you rich and unfortunately, there are some who do know this secret but want to be greedy and keep it from your open ears.

The fact is you can buy and sell houses without even using your own money or even without credit! This is the secret. It is true that you can. There are those who are raking in from $5,000 to $50,000 a month just by using this secret and buying up pre-foreclosed and foreclosed homes like they were going out of style.

One part of this secret you need to know about I will expose right now. There are two kinds of investors: those who get paid with strokes to their egos and those who get paid a lot of money. Those who find out about this secret whether go with the second option. And I can see why. It may be good to boost my ego. But frankly, I would rather make the money.

The second part of secret deal with the type of pre-foreclosure you want. Instead of going for just any pre-foreclosure, seek those that sell below fair market value. This way you don't pay out as much and you gain equity in the end. Plus, you want to go after a pre-foreclosure where the homeowner is willing to offer many different financing options. He is about to lose his home so beggars can't be choosy. But at the same time, with a little bit of persuasion, you can get the homeowner to accept a low ball figure that will not break your bank account.

The third part of the secret is where to come up with the money to pay the pre-foreclosure. Whether you know this or not, you don't have to use your own money to pay the property. Remember the saying in the real estate industry which goes something like this: OPM. This means Other People's Money. That's right, you don't use your own money to pay for the property. You get others to pay you for it. You can get a loan from a bank or mortgage company. You can borrow money from your friends or relatives. You can take it off of your credit cards. Wherever you go for the money, it will be a source that is not directly from you.

Another part of the secret is you don't even need credit to get money to buy the pre-foreclosure. All you need is leverage. As I said above, you can seek out those who may owe you a favor. You can get other investors to lend you the money, with the idea they take over the property, become equal owners of the property, or you sign a contract with them that you pay the investor back when you sell the house. There are many ways to get the money without credit whatsoever. All it takes is a little bit of manipulation and talking, plus know someone on the inside, and you'll get the money faster than you can kiss a cat.

Better still see if you can get the homeowner to work with you regarding the down payment. You may be fortunate enough where the homeowner can come up with some kind of deal where you don't make a down payment, but you do make monthly payments.

The key to knowing the secret is to take advantage of the system and acquire the property without using your own money to do it. This way you have the property and can next flip it or sell it to another investor and make a huge profit out of it. The key is to get educated about the real estate market and learn all you can about real estate investing. The more you know, the better you will be.

10. Organization For Success

It has been said that those who are organized are successful. This may be true, because an organized desk is an organized mind. Plus, when people are organized, they are able to get a lot more work done than those who are not. According to research, people who keep their desks organized and clutter free seem to get along better in their business and end up succeeding in business and in life. This is the same even in the real estate game.

There are so many variables to consider when you get involved in real estate. You have to keep track of leads, contacts, notices, and more. You have to constantly keep your information organized and updated, or you could miss a good deal. For instance, if you have a file of pre-foreclosures that you want to check on, but you don't keep the file close or in a place where you know where it is, how can you keep on top of it. This is where organization comes in. You take that file, and place it someplace that you know about. This way when you are ready to reference the information, you can easily get it and take care of business. But if you don't place the file in the proper place, you may spend hours looking for something that you could have easily placed in a good location.

If you have an office, make sure the desk is free of clutter and everything is straight and in its proper place. This does not mean you have to be immaculate. It just means being orderly and having everything in an arranged place. This will help you find things faster. You should have a file cabinet somewhere close to your desk so you don't have to walk too far to get to it. Perhaps a sliding file draw connected to your desk could work. Or, you could have a filing cabinet along the wall behind your office desk.

Basically, your office should be well kept, clean, and clutter free. You should have a table near the door with a couple of chairs in case clients or potential homeowners wish to visit you. You should have a fax machine and a copier. These are standard office equipment that you should have in your office. It makes you look professional and people will look at you as an altogether person.

The next factor to consider is time management. If you are going to be successful in real estate, or in any kind of business, for that matter, you must be good with time. You will have to go see properties and visit loan companies. How can you do this if you do not have proper time management? The best way to monitor your time is to have a calendar where you can put in appointments. This way you can keep track of what you need to do each day. Having everything planned will help you get everything done you need. You'll be able to close deals and make other deals. You'll be able to have the time to spend with your family because you have apportioned your time throughout the day and week. This way you spend the right amount of time during the day for your business pursuits, and you have the necessary amount of time for your family, friends, and even yourself.

This is why you'll see successful business people constantly monitor their activities. They want to cover everything possible but at the same time make the proper commitments that are necessary to make, while avoiding those that are meaningless or are time wasters.

As a real estate investor, you would do well to keep track of your time and learn to manage it well. Remember, any time lost can't be made up, so be careful and always look for ways to make the best of the time you have.

11. Take Action Now

Are you ready? Are you psyched? If so, take life by the horn and move out. Take stock of your life and see where you want to be five or 10 years from now and set your goals at a level so you can reach them. Then set more goals but at a higher level. Keep doing this until you have reached your ultimate plateau.

The fact is you cannot gain riches or success if you sit down and watch others around you take action and you just lean your head on your desk and wonder why you aren't successful. Why do that. That is for sissies and weaklings. Instead, be strong and formidable. Take pride in who you are and realize what your goal is. You are a real estate investor and you want to clean up in the real estate market. If this is the case, go do it.

There is nothing said of a person who is second rate. But there is a lot said about those who finish first. This goes for you as well. Don't be those who are satisfied with finishing second or even third. Be one that finishes first. Finish first no matter what. Let that be your goal in life to be number one. If you think that way and act that way, without being conceded, you'll find your life will be much richer for doing so. You'll find yourself accomplishing more than you ever dreamed possible.

Start your day by taking certain steps. Have an actionable plan in place where you will begin a certain routine and by the end of a certain time - like 90 days, you will have completed your mission or have fulfilled certain steps. Then plan for the next 90 days and do the same thing, but for different goals or objectives. For instance, if your first goal or objective is to learn how to find and close on pre-foreclosures, do that. Learn all you can about the pre-foreclosure process and soak up as much as you can about the topic. Then go out and take a stab at it. See if you can land one or two properties. After your 90 days, see what you accomplished. Perhaps you closed more than one or two deals. If so, great. If not, that's okay. As long as you took the effort, you accomplished something. The next time you'll do better. Your aim is to set a goal of something to shoot for in a certain time span, whether that is 30, 60, or 90 days. When you reach your goal and did complete your task. Go for another one. Keep it up all the time. This is the only way to win in life and in real estate.

12. Resources

http://www.all-foreclosure.com/foreclosures/offers.htm

http://proagency.tripod.com/ask1.html

http://www.thetitleprofessionals.com/

http://searchwarp.com/swa14244.htm

http://www.defaultresearch.com/

http://www.folio101.com/listsplus/choose_package.asp

http://www.thecreativeinvestor.com/residential/