Short Sale Success Secrets with Foreclosures

If you're active in real estate investing, you may already realize one of the biggest issues real estate investors face: Finding Great Deals.

Foreclosures at a 52-year High

With foreclosures at a 52-year high, there are thousands of deals available on the market, if you know where to find them and how to secure them. The first challenge you'll face once you locate the property is that most of these homeowners are mortgaged to the hilt. They have no equity, and big loan payments. In fact, many actually owe more than the property is worth!

Most investors will walk away from these deals because they see no obvious profit. That's because they don't know about the Short Sale.

WHAT IS A SHORT SALE?

The concept behind the short sale is simple: your goal as a real estate investor is to convince the bank to sell for less that is owed as payment in full. Of course, this concept is easy - buy the foreclosure from the bank at a big discount, sell the real estate, and make money! So how does it work?

Success with short sales can be accomplished in the following steps:

Step 1: Do your research.
Many new real estate investors make the mistake of waiting until some subscription service sends you the list. The disadvantage is that a ton of other investors are also getting the list. If your first contact is to send a letter, forget it. Your letter will be lost in the huge pile the homeowner is getting from all sorts of other investors, credit repair etc. 99% of the time these go directly into the trash or a big basket unread. If you go directly to their door you've got a chance.

So if you're going to mail, be the first to act when the default notices are printed in the local newspaper. Or be the first at your courthouse, if that's where they're filed first. The key to finding investment-worthy properties is to act quickly. Be disciplined and mail out the letters the very same day-in fact take them to the post office. In this business, the early bird really does catch the worm.

Tip for Success: If you don't have a company that publishes your notices of default, check with local title companies or bankruptcy attorneys to see if they offer these services; you need somebody familiar with the subject that visits the courthouse often.

Step 2: Develop your marketing strategy.
When you have located foreclosures, make sure your timing is swift. Mail your initial letters of approach to the homeowner the same day you discover the property. Placing ads in your local papers also helps to generate leads and find homeowners eager to avoid the credit penalties involved with foreclosing.

Tip for Success: A typical advertisement strategy taught in real estate training is to get listed in real estate or credit section of the classifieds. These ads typically have a bold, to the point headline, such as “Avoid Foreclosure” or “Stop Foreclosure, Today!” If you are targeting a specific property type, or reaching for higher market values, specify this in your ad. (Instead of simply “Avoid Foreclosure,” add your target market to the bottom of the ad. Example: “Avoid Foreclosure, call 1-800-555-1212. 500K and up.” You'll make more money in real estate by reaching for high-value properties, and an ad like this shows your prospects that you specialize in helping those with higher value homes avoid foreclosure.

Step 3: Work with the homeowner.
You can't get anywhere without the cooperation, and often gratitude, of the homeowner. The homeowner you are working with has obviously run out of options, but you'll need their trust and confidence if you plan to short sale mortgages. Remember, in these situations, you are often looked at as the “rescuer”. Make sure you explain the homeowner's part in the process thoroughly. Once they deiced to allow you to work with them, there is important paperwork you need them to fill out and sign:

1. an “Authorization to Release” form that gives you permission to contact the lenders and the foreclosing attorneys.
2. A sales contract - signed but leaves the purchase price blank. You may need to change the numbers as you negotiate with the bank
3. A financial statement - to show they can't afford to make the payments

4. A hardship letter - to explain in personal terms what happened.

Tip for Success: Remember that this is a stressful time for the homeowner. It's easy to get caught in the excitement of a prospective short sale profit. You can get them to make a decision when you are able to convince them that this is the right option for them emphasize the benefits of working with you, and then ask for them to take action. Make sure to let them know that once your contract is signed, and the bank accepts it; they'll be free to move on with their life.

Step 4: Negotiate with the bank.
Although banks don't enjoy taking a loss, it is a simple fact of the lending business that short sales are a necessary evil for lenders. Indeed owning the property (a non-performing asset) is even more expensive than selling it for a loss. Consider:

Banks use short sales to drop unwanted property quickly without having to deal with the REO office and go through the long process of putting the home back on the market. When you speak with the Loss Mitigation department, remember, this property is actually costing them money! Federal regulations require somewhere between 0,000 and 0,000 (or more!) to be held in reserve by lenders, which is many times over the actual price of the bad debt.

When you call the bank and ask for the Loss Mitigation Department (the department that handles properties that are in foreclosure) tell the person handling the account that you are trying to help Mr. X with his foreclosure and you are willing to buy the property from him, but due to the condition of the property/declining values/etc. you are only willing to pay X amount. This is where your negotiations begin.

Be firm and polite, but don't ever make threats to not buy or be forceful in your approach. Loss mitigators are often busy and overworked, and they want to see you as somebody who is minimizing the damage - and hassle - of the bad debt.

Tip for Success: Larger banks are the easiest to deal with when working with short sales and foreclosures. This is because the larger banks have more resource, more experience, and more loans! While there are some larger banks that don't work with short sales at all, other banks, such as Wells Fargo or Fairbanks Capital, tend to work with a much larger volume of short sales.
Once you have worked with enough short sales, you'll find that you have inside contacts at some of the larger banks; be friendly, ask them about their day, Develop a rapport. Sometimes, they'll open up about problems they're facing or current trends, which of course, you'll need to keep on top of!

You don't have to be a real estate pro to see the potential for making money with short sales, and now you definitely have some great tools to get started. Great deals in real estate are out there, and with today's market, your potential for profit is limitless. Just keep in mind: do your research, market your services, and treat the homeowners and lenders with respect. When you use this approach with short sales, you can make a win-win for everybody, especially the officers at your own bank when you cash in on your profit!

In the next article, we'll discuss the tricks and tips in convincing the bank to take a big discount on the short sale.

Best of Success,

About the Author

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