

'Foreclosures and Flips' manual by Jeff Knize

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Jeff Knize

Introduction

As an appraisal firm owner of many years, I've had my fair share of appraising foreclosures for banks and other institutions. I quickly learned the high profit margins that real estate investors were making. This eventually led me into flipping houses.

I attended many paid seminars over a period of a decade that simply did not live up to their claims. Many of the attendees (including myself) felt the cost incurred was too much for the content (that was either partly wrong or not clearly defined). Those wrong and unclear details took me on a path for writing this book. The book is not rocket science. Just a clearly mapped out plan to make money flipping houses.

The book is a best practices book to give you a better understanding of how-to buy and sell houses for a profit. It will take you through the most popular strategies, my personal experiences, and other important aspects to succeed.



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1

FORECLOSURES – Getting back to basics!

A foreclosure business can be very rewarding, part or full time. Do not be too concerned about the competition. Chances are many investors in your area will not be looking for a property when you are.

The foreclosure process has 3 periods for opportunity

- 1) When a borrower is in default of a mortgage and is in pre-foreclosure.
- 2) When the property is sold on the courthouse steps.
- 3) When the lender regains ownership of the property and it is considered an REO (real estate owned) property.

In the final stage of the foreclosure process, the lender takes back the property. When this takes place it is known as an REO or (real estate owned).

An REO refers to lenders such as banks or other institutions owning real estate. REO's are very common and have become more abundant nationwide. The largest percentage of foreclosures is primarily stacked on the segment of the market referred to as "entry level" or starter homes.

Historically, foreclosures are more abundant in lower income areas than in higher income areas. The percentage of foreclosures typically decreases as the price of homes in an area increases.

When a lender has an REO property, it's a negative reflective on their books and is considered a liability, not an asset. If a lender has too many REO properties on their books, the lender becomes motivated to sell and in turn provides an investor with an opportunity.

Buying an REO is a great way to acquire properties. The investor usually gets a clear title and the property is usually cleaned out prior to being shown. Often, they are priced far below market value to reflect needed repairs and deferred maintenance. Once the lender regains ownership of a property through the foreclosure process, the properties are often listed through real estate agents.

In my experience, I have discovered that many agents are from outside of the property area. When this occurs the realtor frequently does not have the expertise to list the property appropriately since they do not know the market. The property often is listed below market value allowing the investor an opportunity for a substantial profit.

Are all foreclosures good deals?

No, not all foreclosures are good deals! Sometimes properties are listed over their market value and the price is dropped several times before selling. Properties can be listed, cancelled and re-listed for long periods of time and often remain on the market for over a year.

For example, a lender may have a property that has been neglected by its owner and the property has depreciated significantly. It is in need of major renovations. The property is worth \$50,000 but the lender has a \$100,000 loan on its books from a previous loan on the property. The lender is having a difficult time absorbing a \$50,000 loss so they sit on the property. In most cases, the property is listed and (then after a period of time cancelled) if there were no

contracts submitted. The property is continually re-listed with a price decrease until there is market reaction.

You obviously do not want to submit a contract when a home is overpriced! This is where many new investors are making their biggest mistakes. Often times experienced investors make this mistake as well. Typically the investor is so excited about the opportunity to buy a piece of real estate and make profits they overpay and end up breaking even or losing money. Of-course, they do not know they are overpaying until it is too late!

The key to flipping a property for profit is to know the value of a property prior to submitting a contract.

It is important for you to know the “as is” value and the ARV (after repaired value) of a property prior to submitting a contract. These values will be crucial in determining your profit. If you think you know a property value and you are wrong, you will not thrive in the exciting world of real estate!

All areas have a range of prices for homes listed and sold.

For Example, if you and your neighbor have the identical style home and your home is in good condition and your neighbors is average, you are probably going to ask more for your home and you are probably going to sell your home for more.

If you are looking at buying a distressed property and the home is a three bedroom ranch that has a \$100,000 - \$200,000 price range in the area for similar homes, you will want to buy that home at the lower end of the range because of needed repairs.

Always do your homework and work with local realtors, appraisers and online services to get an accurate figure on property value

prior to submitting a contract. Make sure that if you receive comparables from any source, they are truly comparable to the property! This is how investors get burned. I frequently run into individuals and realtors that think homes are worth more than they really are.

Don't rely on comparables offered to you by realtors. Unfortunately, they may not have accurate data. Therefore, it is imperative that you are able to determine accurate comparables for the area. Prior to submitting a contract you must check and double check to make sure the property value is correct.

If you are seeking a property that is *distressed* and in need of *rehab* and the home is in an area of \$100,000 - \$200,000 for similar homes, your home is probably going to be on the lower end of the range. In an area of homes priced from \$100,000 - \$200,000, the price range would look something like this:

- 1) Foreclosures or homes in need of repair - \$100,000 - \$125,000
- 2) As is homes or homes lacking updates - \$125,000 - \$150,000
- 3) Homes with generally good maintenance - \$150,000 - \$175,000
- 4) Properties recently updated or rehabbed - \$175,000 - \$200,000

For the purpose of the above example, we are referring to an area with similar three bedroom Ranch homes. If you are buying in a similar area, you will typically have other variables as well.

Some variables include: Homes that have additions or that have garage differences. A home could lack a garage due to converting the garage to an extra bedroom or family room which is typical in areas of smaller homes without basements. In many instances, one amenity can offset value by another.

For Example: One typical buyer may want a home with a garage converted to a family room (due to needed space for a large family). On the other hand, a couple with grown children may not need the extra square footage and may prefer a garage. Study the market you are investing in to accurately determine values. And when a foreclosure is listed, you will know a good deal when you see one!



2

LOCATING FORECLOSURES FOR PROFIT

Finding your diamond in the ruff foreclosure can be as easy as contacting a local real estate office. You will need to contact an office in the same area as the properties you are looking. An experienced agent can provide you with new listings of foreclosures on the market. When searching for a real estate agent, be sure to ask the appropriate questions. 1) Are you familiar with foreclosures in the area? 2) How long have you been working in this area? 3) Are you currently listing and selling foreclosed or distresses properties? 4) Are you aware of properties that are in pre-foreclosure? 5) Can you offer me some insight in this current market?

Indicate to the agent that you are an investor and are interested in possibly buying and selling properties with them. At this time they should become very helpful.

Although it is important to use a realtor to understand the market, it is as important for you to find your way in the market. It is crucial to your success to know the area that you are investing in, as the local mailman knows his/her route.

Driving or farming an area is a good way to learn the market. Attempt to locate new properties coming onto the market and properties currently listed. Frequently visit realtors on new properties you come across and ask them for information on sold properties as well in order to study and gain knowledge in the market.

Do not be discouraged if you miss a property the day of or the next day it goes on the market. Most lenders of REO properties have

their agents submit all contracts only after the property has had a reasonable amount of exposure to the open market. The lender will then review all submitted contracts and determine which contract is in their best interest.

Buying while the borrower is in default

When a borrower is in default of their obligation, the lender will file a notice of default. Lenders are required to offer the borrower 90 days to make good on the loan. This 90-day period is referred to as a redemption period. After the redemption period a lender must advertise the property in a legal newspaper for 21 days. To locate this legal paper, you can call or go to the county courthouse for further guidance.

If you locate properties of interest to you, determining its market value is the next step. You can get a relatively clear indication of the market value by driving the property and then finding similar comparable properties in the area. This is when a good real estate agent is needed and can provide you with accurate comparable data.

In order to track down the homeowner you can try by telephone (if the number is available through various public records), knock on the homeowners door or leave an “I Buy Houses” business card, note or by sending post cards. Getting the owner to respond can be a difficult task. However, persistence pays off and you can be successful.

If you are able to locate or talk to an owner, you must be delicate and tactful in your approach. Remember, this homeowner is facing financial distress. When talking to the owner you will need to find out what the owner currently owes on the property.

For example: If the market value of the property is \$150,000 and there is \$100,000 owed, a great opportunity may present itself! On the flip side, if the property is worth \$100,000 and \$150,000 is owed, the investment would certainly not be in your best interest.

Many times when buying in this situation, there will be competition lurking around the corner. The current owner could be working with other investors and playing the market themselves. Therefore, it is imperative to stand out from the crowd and to have a plan of action.

Buying at auction

If a lender uses judicial foreclosure to recover debt, an advertisement for the sale of the foreclosed property and a public auction will occur. Anyone can attend the auction to observe or bid. However, in most cases the lender is the highest bidder. The lender has the mortgage debt as a bid and needs no additional moneys. We as bidders must have cash or pre-arranged financing.

You can find out about upcoming auctions in your area by checking real estate sections in local papers, contacting the county courthouse, or searching the Internet. A good resource that I recommend is: www.realtytrac.com Copy and paste the link in your browser to view.

If you are fascinated by the thought of auction buying, it would behoove you to stay on the sidelines and observe for several weeks. You may even want to locate a mentor or experienced professional in auction buying. This will allow you to fully understand the auction process prior to bidding. Although buying at auction can be rewarding, it is not my primary focus for purchasing properties.

Buying directly from the lender

All lenders, large and small, have REO (real estate owned) properties on their inventory. They do not advertise their misfortune because it is a negative reflection on their business.

Buying directly from a lender is not an easy task. Walking into an institution and asking for information properties can be somewhat uncomfortable. In most instances the bank or lender will not even know what you are looking for and turn you away.

In order to increase your chance of success, you will need to work on finding a bank or lender that you can build a relationship with. A good start is the bank that you currently do business with. It is more likely for an REO department to work with one of its customers or a referred family member of one of its customers.

Obtaining property information prior to its listing on the MLS

Realtors that list foreclosure properties for lenders receive the property location and useful data in advance. I frequently receive information on properties from an agent prior to the properties being listed. This gives you a huge edge over the competition!

No other agents have access until the property is listed and typically no other investor will be able to view the information before you.

Locating the right real estate agent is key! Once you find an agent that specializes in listing foreclosures, they will be more than happy to send you the property information prior to listing.

To gain even more of an edge, you can tell the agent that you will re-list all properties back through them once the properties are rehabbed. This will help to ensure the agent contacts you with more information on future properties.



3

FIND/ASSIGN/FLIP *WHOLESALE BY FLIPPING CONTRACTS*

Wholesaling is a great way for the novice as well as seasoned investors to make a sizable income month after month. If you are unfamiliar with wholesaling, it refers to buying a home below market value and reselling it (a little higher but still) below market value. As a matter of fact, many products are bought wholesale and then resold again wholesale and then again to the end user. Automobiles, parts, furniture, appliances, you name it! We are not reinventing the wheel folks we are just using what has already been in-place for decades.

It should be noted that the advantages of wholesaling and Finding/Assigning/Flipping for profit, are in direct relation to one another. We are wholesaling if we find, assign and flip a contract on a property to another buyer. We assign the contract through an “Assignment of Contract”.

When we wholesale a property we do not take ownership of it. We simply tie up the property with a standard real estate contract. When we write our name in the contract as the buyer, we add and/or assigns directly after our name on the contract. This is how you are able to assign the contract to another buyer and have them close on your behalf. At closing you will receive an assignment fee for putting the deal together. This is what I refer to as a *Find/Assign/Flip*.

In addition, we will be discussing another strategy called Find/Fix/Flip. This requires obtaining financing from a partner, investor, bank, mortgage banker, broker or hard money lender.

Assignment Fees

Money received for assigning a contract to another party is an assignment fee. Assignment Fees vary depending on the price range of the contract. However, should be approximately 5%-10% of the contract price. Therefore, on a \$100,000 contract you should be looking to receive a \$5000.00 - \$10,000.00 assignment fee.

More on Flipping

When we attempt to flip properties wholesale, we have a goal of selling quickly to other investors or rehabbers for an assignment fee. Flipping is defined as: The act of purchasing a property and then reselling it quickly for profit. Typically the property would be a fixer-upper in need of repair and would be resold to a rehabber. The property then would be rehabbed and sold on the open market.

Negative feedback on flipping

There has been negative feedback on a different type of “Flipping”. This is a fraudulent activity taking place and is coined as “loan fraud”. Illegal Flipping is defined by The Department of Housing and Urban Development (HUD) as: *“The practice whereby a property recently acquired is resold for a considerable profit with an artificially inflated value, often abetted by a lender’s collusion with the appraiser”*. Typically, distressed properties are bought and resold to an unsuspecting consumer for far more than what the property is worth. Usually, the buyer can’t qualify for a mortgage and jumps at the chance to be a homeowner.

When the buyer realizes they can’t make the mortgage payments and the home is in need of expensive repairs, the home goes into foreclosure and everyone loses, except the criminal behind the fraudulent act.

NOTE: It should be noted that this type of flipping is illegal. The intended use of this manual is to give the reader advice on flipping property legally and ethically and without conflicting with HUD's Flipping laws. For more information on this topic go to: www.hud.gov

A few advantages to wholesaling:

- 1.) No credit needed
- 2.) Cash flow generator
- 3.) No experience required
- 4.) Limited liability
- 5.) Repeatable business
- 6.) No cash needed
- 7.) No down payment required

Steps to a full circle flip

1) Find a property

Place a small internet ad or an ad in a local, legal, school, and church papers, stating: Private investor wants property. Will look at all! Any condition! In addition, continue to check classified ads for motivated sellers, work with local agents in your area to find properties under market value, use car magnets that read, "I Buy Houses" or "Cash for Houses", and/or put out "I Buy Houses" signs at major street corners. You can even drop flyers and put door hangers in the communities you are looking. I also recommend that you distribute business cards and let everyone know that you buy houses.

Sending out postcards to people facing foreclosure is a great way to attract sellers. You can go to www.realtytrac.com and sign-up for a free trial. This will give you access to search all

foreclosures, pre-foreclosures and notices of default filed in your area. RealtyTrac will also send out postcards directly to the homes you are trying to buy. There are options to add custom wording to the postcard and an assortment of standard postcards to use. I recommend using a postcard that offers solutions to a problem since we are trying to help people in distress. Postcards can be an excellent tool to assist in buying homes.

To receive a 30 day Free Trial for your own lead capture webpage, email support@uspropertybuyers.com In the subject line be sure to put – Book Offer To check out a few webpages copy and paste: www.uspropertybuyers.com/investor-websites

Farming (driving) an area is a great way to find sellers in need of your services and will familiarize you with the current market. Looking for homes in distress is an indicator that the property could become a foreclosure. If people don't keep up general maintenance on their home, it may indicate their inability to pay their mortgage payments. Be creative to find sellers. Master one of the above techniques and repeat it over and over!

I found a property. Is it profitable?

After you locate a property, you will need to determine if there is sufficient equity in order to be profitable. You will first need to study the formula below and educate yourself on property values in the area. The formula utilized is the **MAX** purchase price to be used when entering into a contract with the seller. This will allow you to assign the contract quickly to another investor with a considerable assignment fee.

The following example uses a conservative estimate in order to protect the novice wholesaler from typical errors that may occur. I recommend an ARV of .65% for beginners. If you think

you are more of a seasoned investor, you can use an ARV (after repair value) of .70% - .75%.

FORMULA: ARV (after repair value) x .65% - repair cost – your fee = MAX offer.

The formula below is one example. You will need to follow this formula in order to receive a \$5000.00 assignment fee.

ARV \$100,000 x .65% = \$65,000 - \$10,000 (repair cost) = \$55,000 – \$5000.00 (your fee) = \$50,000 your max offer to the seller.

Why would a rehabber want to buy from you and why would he want to pay you \$5,000.00 for this deal? Let take a look at the advantages for the rehabber.

First of all, if the rehabber is going to make good money on a Find/Fix/Flip, he/she is not going to be overly concerned about what you are making. The investor is only going to be concerned with their overall net profit.

On the above \$100,000 figure, this is what the overall net profit would look like:

\$100,000 ARV
-\$50,000 Purchase price
-\$10,000 Rehab cost
-\$ 5,000 Your assignment fee
\$35,000 Potential profit for rehabber

There is a potential profit of \$35,000. This excludes realtor fees, insurance costs, closing costs and holding costs. After all,

additional fees have been excluded from \$35,000 and there is still a considerable profit left over for the rehabber.

Rehabilitation costs

Don't be intimidated by repair costs. It will take dedication to fully grasp and gain a level of accuracy, but when we write a contract we only look at properties that require cosmetic work. Cosmetic repairs include: New roof, carpet, updating baths, kitchen, paint, minor plumbing issues (very typical), etc.

No Structural Issues! Structural problems can be extremely costly and very risky!

The majority of all rehab materials can be purchased at a major home improvement center such as Home Depot, Menard's or Lowe's. To get an estimate you can visit their service desk and ask to talk to one of their specialists. There are also cost handbooks for you to familiarize yourself with. If you need further assistance, ask for a referral for an approved contractor. In many cases you will find a bulletin board with business cards and can locate a contractor there as well.

Write the Contract

When writing a contract on a property, use a standard contract from a Board of Realtors or the contract located in the back of this book. You can also locate contracts at office supply stores or at a real estate office in your area. When writing the contract and adding your name to the top as the buyer, put your name and the words and/or assigns after it. Doing this will give you the option to assign the contract to another party for an assignment fee. Jeffrey E. Knize and/or assigns.

If a seller frowns on you adding and/or assigns to the contract, simply tell them that it allows you to assign the contract to one

of your partners or investors and it will allow them to close quickly.

Next, you will have to legally bind the contract by giving the seller an earnest money deposit. I recommend giving the seller \$20.00 - \$50.00. Don't forget to subtract the amount from the purchase price on the real estate contract. This way the deposit will be deducted from the sales price at closing. If the deal goes south you will not be out a significant amount of money. Be confident and tell the seller you typically close in 45 days and give him/her the deposit. You do not want to give the buyer a substantial deposit and risk losing it if the deal never closes.

While writing the contract you will want to make it "subject to" inspections and partner approval. This will allow you to get out of the deal if there are any unforeseen problems that make it an unfavorable deal. Also, it gives you a way to get your potential buyers/rehabbers in the property for an inspection and verify your estimating costs.

2) Find a buyer

After securing a contract, you will need to find a buyer to assign your contract to. I solid method is to place an ad in the local paper. The examples below are ads that have been successful. Use them as a guide:

HANDY MAN SPECIAL
Way Below Market!!!
Call 555-555-5555

FIXER UPPER SPECIAL
Way Under Market Value!!!
Cash Only 555-555-5555

HANDY MAN SPECIAL
Must Sell Fast, Cash Only

REHABBERS DREAM
Price Way Below Market

Call 555-555-5555

For Quick Sale 555-555-5555

FIXER UPPER SPECIAL
Under Market, Cash Only
555-555-5555

HANDY MAN SPECIAL
1st \$..... Takes
Cash Only 555-555-5555

DON'T LOSE YOUR HOME
To "We Buy Houses"
Call Me 1st. I Can Help!
555-555-5555

DON'T CALL ADS
From "I Buy Houses"
Call Me 1st!!!
555-555-5555

If you flip the contract prior to the ad ending, continue running the ad as to build your buyer list for the next property. Indicate to the caller that the property is sold but you will contact them when you locate future properties.

Find out what type of property they are looking for, their price range, location of interest, financing and if they can close quickly. Write down their name, telephone number, fax and email. You should consider using an auto-responder to input all of your email addresses into a database. This will allow you to send a mass email after you locate a property to wholesale. A popular company to use is AWeber. I use them and will not change services. You can locate them by going to www.aweber.com/?209568

Another way to build your buyers list and flip properties fast is by utilizing investment clubs. There are a few major clubs that are set up nationally. Go to www.reiplace.com/clubs.php, or www.creonline.com or simply Google search real estate investment clubs to find them.

Real estate clubs are a great way to network. Generally, they meet once a month and have local and national speakers. There are so many resources available to you it would be hard not to succeed!

Working the real estate clubs can make you very successful. One of my favorite ways to keep up with all of the latest technologies is through tele-seminars. You can be in the comfort of your own home listening to the seminar on the phone. Be sure to take notes. This is an excellent way to keep updated with all of the new developments in the industry.

Investment clubs are truly a great place to build your buyer list. When you attend monthly meetings you can put a flyer or index card at the investment area and indicate that you are a wholesaler. Request a name, e-mail address, number, fax, location wanted, the type of property and price range.

In a short amount of time, you can build a buyers list. You can develop business relations with the same investors that will be writing you a sizable paycheck.

As you continue to build your list and market yourself as a wholesaler, creating a solid name for yourself is crucial for long term success. Obviously, you need to act legally and ethically while doing business. This will keep your buyers coming back to you for more properties, not to mention keeping you away from legal issues. You will be on track for long term success!

Urgent: You must be prepared to answer questions from savvy investors that are on your buyer list. *Educate Yourself!!!*

It is okay for you to be a newbie (new investor) as seasoned investors will call you. But it is important to be knowledgeable on the property you are wishing to wholesale.

3) Package the wholesale deal for your buyer

An excellent way to gain credibility from your buyers is by professionally packaging up the wholesale deal. You will not only gain credibility but you can also sell properties much more quickly. When you package a wholesale deal, all of the necessary information should be included in the package. Therefore, a potential buyer is able to make an informed decision based on your findings.

A. Buy a clear clasp binder that will hold approximately 20 pages.

B. Insert a front photo of the property with the address on the front page.

C. Next insert necessary repairs and your estimates of each.

D. Include comparable sales in the area supporting your ARV (after repaired value).

E. Include active or pending comparable sales showing activity in the current market.

F. Include a business card and any other pertinent information you have available on the property.

4) Agree on a price with your new buyer

Now that you have located a buyer to assign your property to, you will need to negotiate an assignment fee with them. After you agree on your price be sure to request proof of funds from your buyer. It should be from their bank or from a line of credit or any other statement indicating the funds are available. It is extremely important you only accept a current statement from your buyer!

After you have an agreement with your buyer, fill out an assignment agreement provided in this manual and collect a deposit. Log the deposit amount directly on the contract itself and make a copy.

5) Closing the deal and collect a check

At this point you should already have a good real estate attorney to handle all of your closing needs. You will need to immediately send the original contract with the seller and the assignment agreement with the new buyer to your attorney. Your attorney will then work directly with you and the title company to close the deal. It is also important for you to follow-up with your attorney to ensure the closing is scheduled in a timely manner.

Going to the closing and collecting your check will complete a full circle flip!



Assignment Of Contract Disclosure

This form is intended for instructional purposes only. It should be noted that this form is offered by the author for instruction and the author is not engaging in professional or legal services. It is recommended for this form to be reviewed by the reader's attorney prior to use. If legal or other expert assistance is needed, including but not limited to the review of this form, the services of a competent professional should be sought (from a Declaration of Principles jointly adopted by a committee of the American Bar Association).

ASSIGNMENT OF CONTRACT

This is meant to be a legally binding contract.

Date _____

Property Address: _____

Contract Date _____

The total valuable consideration for this Assignment payable from the **New Buyer** (Assignee) to the **Original Buyer** (Assignor) for the sum of \$_____ dollars payable at closing in the form of a Cashier's Check. **Original Buyer** (Assignor) hereby assigns all their rights, obligations and responsibilities to _____, (**New Buyer**) (Assignee) for the referenced Address: _____
Dated: _____

The **Original Buyer** (Assignor) warrants and represents that said contract is in effect and in full force and is fully assignable. The **New Buyer** (Assignee) agrees to fulfill all of the same terms and conditions of the above referenced contract including all closing requirements.

The Assignee hereby assumes and agrees to perform all obligations of the Assignor under the contract and guarantees to hold the Assignor harmless from any claim or demand made there under.

Signed under seal this ____ day of _____.

Witness _____ **Original Buyer** (Assignor)

Witness _____ **New Buyer** (Assignee)

4

USING LISTING AGENTS TO GAIN AN EDGE OVER THE COMPETITION

There are two types of real estate agents, a listing agent and a selling agent. A listing agent lists a property through a local Multiple Listing Service (MLS) for a particular seller. A selling agent shows a property to a potential buyer. Both agents have the right and obligation to show the property to potential buyers.

A listing agent may list a property for a seller and also have a buyer for the property. When this happens the realtor is known as a dual-agent and is entitled to full commission.

When an agent receives full commission, it can range from 5-7 %. On the other hand, when a selling agent brings a buyer to the table the commission is split between the two realtors. The commission ranges from 2.5 to 3.5 per agent.

To get an edge over the competition, using the listing agent on properties you wish to acquire will give you a tremendous amount of leverage!

Why? A listing agent works directly with the lender selling the property. In many cases the lender has developed a strong relationship with the agent. The lender has a comfort level dealing one-on-one with the listing agent they hired. If they can eliminate a third party, they will. Furthermore, the listing agent will work harder for you and would graciously accept dual agent status. Being able to receive a commission as a listing and selling agent is an agents dream come true.

In many instances a listing agent will take less than their full commission. Just ask prior to writing a contract with them! For example, delicately say to the agent “I am interested in using you as my agent. Would you be willing to decrease your commission since I will be giving you dual-agent status?”

The listing realtor is also making a higher commission because you found them and are allowing them to become the dual-agent. Therefore, do not feel awkward presenting this question! When an agent does not have to work at finding a client and the client finds them, it is a blessing.

Allowing the realtor to act as a dual agent does not actually save you money on the purchase price. However, it does allow for the lender (paying the commission) to have a savings; giving you leverage.

A detailed look at how we benefit by using listing agents.

Assume that a lender has a contract on a property for \$100,000. Also, assume that a lender will pay 6% commission. A 3% (or \$3,000.00) commission would go to the listing agent and 3% (or \$3,000.00) commission to the selling agent. If a listing agent becomes a dual agent and cuts their commission to a reasonable 4%, that is a \$2,000.00 savings to the lender.

Example 1: You put in a contract with a listing agent on a property listed for \$100,000. You submit a contract for just under list price (or \$99,000). The listing agent has agreed to accept a 4% commission.

Example 2: The competitor puts in a contract using an outside agent or selling agent on the same \$100,000 property. They have a stronger contract coming in at list price. The commission total is 6% or 3% each agent.

Which contract would you presume is more favorable for the lender? You are correct! Example 1 would allow for the lender to save \$1,040.00.

This is because the commission difference went from 6% to 4%. Although the contract of \$100,000 was higher than ours by \$1,000.00, the \$2,040.00 commission savings further offset the transaction.

This amount may not appear to be significant. However, to a lender assuming a loss, this can be substantial. Also, the lender additionally benefits by eliminating the third party agent.

In many cases, listing realtors agree on less commission than stated above. For example, a listing agent taking one side of the commission 2.5 to 3.5% is not uncommon. In addition, lenders often favor buyers from their hired listing agents. At times they even decline significantly higher priced bids from outside agents.

Find it and gain an edge on the bidding process

You can locate listing agents by driving or farming the desired marketing area in which you are seeking. Online services are also a useful way of finding a listing agent. When you come across a new for sale sign while in hot pursuit for a property, call the listing realtor on the sign for information. After all of your homework is completed and you have located a property of interest, submitting a contract for purchase is your next step!

How much to bid and when to bid over list price?

This is an important aspect of acquiring a foreclosure.

For example, a property is listed for \$70,000, and you believe total repair costs are estimated at approximately \$10,000+/- . Your total

investment would then be \$80,000. The property comps out or has an after repaired value of \$110,000. This will give you a potential profit of \$30,000 (before insurance, holding, closing and realtor costs).

While working with your agent on a bid, you are told there are multiple contracts on the property. You should consider offering a contract above list price. Although you were hopeful to receive a profit of \$30,000, a \$25,000 profit is still above your objective.

Therefore, you make the decision to offer \$5000.00 above list price to stack the odds in your favor. In this case you are acting as a smart investor. You will accomplish all of your goals if your contract is accepted.

Wouldn't it be nice to have a crystal ball and know the exact figure of all other contracts competing with you? Unfortunately, we don't and we need to rely on our gut instinct and all available resources to make a determination. It is difficult to know exactly where your bid should be placed even if you are an expert in the market. If you are working with a listing agent they can offer you clues and provide expertise since they do know the price of the other offers.

5

COMPARABLES, LISTINGS & PROPERTY HISTORY

The Multiple Listing Service is an extremely powerful tool to the investor. In particular, property history of the MLS can be an investor's most useful tool in determining the length of time it takes for a property to sell.

Although closed information on the MLS does provide an investor with concrete closed sales data, it can be misleading. Particularly on properties marketing time or the time it takes for a property to sell/close on the MLS.

Property history reveals all prior listings on a property. Having such useful data can guide an investor as to how long it will take for a property to sell and what a future value may be. When a property is initially listed for the first time, it is considered a new listing on the MLS. Later it is automatically updated to active status.

If a market does not react to a listed property after a period of time, the listing realtor may cancel or expire the listing. At this time the property may be relisted at a reduced price anticipating the market to react.

It is possible for the same property to be listed many times on the MLS. For example, a property may be listed a total of 4 times with a total marketing time of 365 days.

The property could have been listed 3 times with a total of 350 days of marketing time and then re-listed for the 4th time and selling in a final 15 day period.

When a realtor runs comparable properties in an area for an investor, a realtor typically searches closed sales only. The closed sale comparable in the above example will only reveal 15 days of marketing time and is misleading. After an investor receives this comparable, it appears golden on paper. The 15-day marketing time can trick the investor into believing that if he/she buys a property in this area, it will resell in a similar time frame to the 15 day comparable.

Realtors typically do not offer this information. If a potential buyer finds out a property has been listed, cancelled, expired, and listed again for a long period of time, an investor may be deterred from the property.

A potential buyer may become concerned. Why has the property been on the market this long? Were there problems with the property that others noticed, etc.?

Some time ago I was at a real estate foreclosure seminar held by a “so called” real estate Guru. I was shocked to here the instructor mention to the attendees that when having a realtor pull comps to value the future of a foreclosure, have the realtor only pull closed comps.

I believe this process is a disservice. Increase your chances of success by having an agent pull all property history on properties.

Below are some tips to ask your agent when you are looking at a property and need accurate data.

1) Have your realtor pull comparables within an 8 block radius of the potential investment property. Stack the greatest weight on the closest sales similar to the property you are looking at.

2) Tell your realtor to pull comps that have closed within the past 6 months. Again, place the greatest weight on the closed sales that have the most recent dates to the present time and are the most similar to the property. The most recent are most indicative to the current market value.

3) Next tell your realtor you want all property history on the closed sales comps. Indicate that you want to know if the comp was previous listed and had cancelled, expired, closed, etc.

Do not allow the realtor to circumvent this process. Checking property history can stack the odds heavily in your favor!



6

STICK TO THE BREAD AND BUTTER PROPERTIES

It is important to stick to the bread and butter properties. It will offer you greater chance for consistent profit and increased success (at least in your earlier years of investing). Bread and butter properties are like a reasonably priced car. There are a larger percentage of individuals able to afford a Buick than a Beemer. This is true for homes as well!

As previously discussed, there is a direct correlation between “entry level” homes having the largest stake in foreclosures. The number of foreclosures decreases as the price of homes increases.

For example: There is a larger amount of buyers able to afford a \$100,000 property verses a 1 million dollar property.

So what is a bread and butter property?

This property is typically a single-family property in a stable part of town and in close proximity to shopping and schools. The property typically conforms well to the area, meaning it looks similar to the other properties.

For example, *it is not* a 1 bedroom home lacking a basement in an area of 3 bedrooms homes with basements.

It is not a 6-bedroom home with a full basement in an area of 2 bedroom homes with no basements.

What other types of properties to avoid?

Properties with incurable depreciation: A depreciated item that would be impossible or too expensive to restore or replace.

- 1) A home set back 100 feet from the street. The typical home in the area is set back 30 feet.
- 2) A property that shares a driveway with a neighboring property in an area that typically does not.
- 3) Stay away from properties with serious external or economic issues. This is considered an outside factor detracting from value.

Example: A busy highway nearby, a railroad rearing the property, commercial developments rearing the property, industry, chemical plant rearing the property, etc. Keep in mind that what conforms to the area is acceptable.

If it is typical for properties in the area to have railroad tracks in their view, (urban/metropolitan area) then it does conform and has potential.

Buying a property that does not conform may not only remain on the market for a long period of time but may have problems appraising at the contract price.

Don't buy at the bottom!

It is equally important not to look at the bottom of the barrel for properties. This is where you could find many secured properties (or in other words boarded up properties). It is likely that an area of several board ups/secured properties has other outside factors detracting from the value; (employment issues, vacancy issues, crime, theft, etc.) **The buyer is to exercise extreme caution!**

Although foreclosures in such an area may be a dime a dozen, long marketing times, possible theft, or lack of salability will have you rethinking your plan. Stick to the bread and butter property.

Staying local when in the hunt

When in the hunt for a property, stay within a comfortable radius (especially in the beginning stages). I recommend a radius not to exceed 25 mile from your primary residence. There is a strong possibility of finding a property within this radius. This will allow you to run the project smoothly and get to the property quickly. In this radius, you should find a wide range of homes to suit your investment needs.

More on conformity

Many instructors are adamant about purchasing only 3 bedroom homes. In my experience I have discovered that whatever conforms and is typical for an area does work and does sell!

A 2 bedroom home in an area of typically 2 bedroom homes conforms and makes smart investment sense. However, a 2 bedroom home in an area of primarily 4 bedrooms homes does not conform. Furthermore, a 2-bedroom home that has an extra sitting room or a private den with similar overall square footage to other homes in the area can also be a sound opportunity. It is important to look at overall square footage or gross living area (GLA) of a property. Paying close attention to the overall room count is also a key to your success.



7

FIND/FIX/FLIP: MAKE A MINIMUM OF \$20,000 PER PROPERTY WHILE DELEGATING 100% OF THE WORK

The concept of buying low and selling high is not a new discovery. Just ask Donald Trump! He is a billionaire from the very concept with real estate being his forerunner.

Having a foreclosure business is the same concept but on a smaller scale. We look for properties that make good investment sense. We then buy them low and sell them high. 1st- Find the property. 2nd- Fix the property. 3rd- Flip the property.

For your time, effort and risk, I believe properties in the \$100,000 price range, a \$20,000 minimum net profit is a good rule to live by. Of course, as the price for a property goes up so does the risk and therefore you will need to determine a profit margin that you will be satisfied with. To derive a net profit there are many factors to take into consideration. The price of holding onto the property, loan interest, rehab costs, real estate commission, closing costs, property insurance, attorney fees, utility costs and other misc. expenses associated with the property.

A \$20,000 net profit is a very reasonable and attainable goal. By sticking with this margin, you will also eliminate competitors with higher expectations than yours.

After acquiring a property, your objective can be easily managed on a part or full time basis. In most cases a full time income can be earned by offering only part time hours.

Tailor each property to your desire. The choice is yours!

1) Delegate all the repairs, doing none of the work on your own.

OR

2) Complete some repairs and eliminate potentially high contractor costs.

Please review the examples below: A a winner delegating 100% of the work. B a bigger winner completing some repairs on your own.

Example A

Purchase price	\$60,000
Repair cost by contractors	\$10,000
Realtor cost x 5%	\$5,000
Loan interest	\$1,000
Utilities	\$1,000
Closing cost / attorney fees	\$1,500
Cushion (misc.) costs x 15% of rehab costs	<u>\$1,500</u>
Total overall cost after rehabbing	\$80,000
Estimated market value of property	\$100,000
Total overall cost after rehabbing	<u>-\$80,000</u>
Potential profit after expenses	\$20,000

As you can see in example A, it is a clear-cut example of delegation. In this example your job is managing the project. Making sure work is completed in a timely manner, having needed

supplies readily available and working with contractors on quotes is your most valuable role.

Example B

Purchase price	\$60,000
Repair cost by contractors	\$5,000
Realtor cost x 5%	\$5,000
Loan interest	\$1,000
Utilities	\$1,000
Closing cost / attorney fees	\$1,500
Cushion (misc.) costs x 15% of rehab costs	<u>\$1,500</u>
Total overall cost after rehabbing	\$75,000
Estimated market value of property	\$100,000
Total cost after rehabbing (includes owner labor)	<u>-\$75,000</u>
Potential profit after expenses	\$25,000

As you can see in example **B** the profits were dramatically increased. Decreasing the overall rehab cost increased profit by over 20%.

Keep in mind that time is money. You will need to make a determination of what your time is worth.

For example, if you can have someone duplicate your work for \$10.00 an hour doing painting and your time is worth \$30.00 per hour, you should probably channel your energy towards the \$30.00 an hour and hire a contractor at the \$10.00 per hour rate.

I personally know investors who enjoy working on their projects. I also know investors that would rather delegate 100% of the work. Personally, I prefer to delegate 100% of all work needed on all of

my projects. This allows me to spend more time focusing on other properties as well as spending time with family and having fun.

Find/Fix/Flip checklist

1) Have financing in place through a home equity loan, line of credit, credit cards, bank, mortgage banker, broker, money partner, hard money lender.

2) Locate a property through local experienced agents, an MLS membership you have acquired, online foreclosures services, lenders, auctions or by locating buyers in distress. (I recommend using an experienced agent during the first year of buying and selling foreclosures).

3) Estimate all repair costs on the property. In order to be accurate in the beginning stages you may need to hire an expert for assistance.

4) Do a market analysis by using similar comparables to the property that interests you. Ask a realtor to do a CMA (Comparative Market Analysis) or call a qualified real estate appraiser for assistance.

5) Now that the closing is approaching on your new property, start making all of the necessary arrangements for the project to run smoothly. Call utility companies to have the water turned on, electricity and gas. Call a dumpster company for removal of debris, etc. In addition, below is a suggested repair order process in phases.

Phase1: Carpet removal, inspections/cleaning of furnace, air conditioning units, repair safety hazards.

Phase 2: Have all major work completed: Roof, plumbing, siding, furnace, air conditioning, electrical, etc.

Phase 3: Interior/exterior painting, update of kitchen/bath, tuck-pointing, install elbows, downspouts, etc.

Final Phase: Installation of carpeting, paint touch-ups, installation of lighting, kitchen appliances, landscaping.

Please note: The above order of repairs is only an outline and may not display all repairs on a typical rehab.

6) Now that the rehabbing project is complete, checking for recently closed comparables in the area is the next step. There may have been activity in the area causing property values to increase. You don't want to short change yourself!

7) Since you are now comfortable with a listing price, it is time to make a decision on how to list the property. Refer back to chapter 11 to review your options). Once again, I recommend using an experienced agent during the first year of buying and selling foreclosures.

8) Now that the property is listed, it is important to have the interior and exterior in tip-top shape at all times. There is a high probability of the home being shown if the listing price is close to its market value.

9) If the property is listed over its market value, you will typically find out within the first few weeks. There will be a lack of showings on the property or there may be showings and no contracts coming in. If this happens, discuss lowering the listed price with your Realtor. Also, be sure the listing agent follows up with all agents that have shown the property to potential buyers. Feedback, whether negative or positive, is useful!

10) Once you receive a contract and your Realtor gives you the proposed offer, you will need to make a decision to accept or counter-the-offer for a higher price. If you feel confident on countering-the-offer due to receiving a low contract, then go for it! However, do not counter for reasons of greed! It may backfire and you could end up with no contract at all.

11) After you receive a contract on your property, contact a Real Estate attorney to handle the deal from that point forward. An attorney will work hard for you and ensure all parties are held accountable for their responsibilities. Your attorney will additionally handle all legal aspects of the closing.

12) It is a good idea to refer back to chapter 10 (How to prepare when a home inspector comes knocking on your door). This will decrease your chances of an unfavorable report if an FHA appraiser or Home Inspector inspects the property.

13) The final step is following up with your attorney and real estate agent. Just as you were in charge of running your rehab project, it is as important to make sure the property is on schedule to close.



8

APPRAISAL AND REO/FORECLOSURE ADDENDUMS

An appraisal is an opinion of value by an expert in their field. It is an intricate part for success in the rehab business. If you are not accurate on the future value of a property after the rehabbing is complete, you can suffer a financial loss.

A CMA or Comparative Market Analysis can be obtained from a real estate agent and can be a useful tool in determining value. However, do not confuse a CMA with an actual appraisal. They are typically not as accurate and a licensed real estate appraiser can only provide an actual appraisal by definition.

Appraisals by a licensed or certified appraiser can be invaluable. An appraiser uses support and all factual data from the market to derive a value on a property. Appraisals are used by banks and lenders for a variety of reasons: Repossessed homes, collateral to make a loan, in divorce cases for equity dividing, to determine future value, tax assessment contesting, and many other value related assessments.

Now that you have some general information on appraisals, lets get into more specifics by taking a detailed look at an appraisal addendum of a Bank REO/foreclosure. Lenders and banks use this product for their Real Estate Owned properties. It is designed to assist them in placing value on their properties.

NOTE: Due to Appraiser – Client relationship and intention of staying compliant with USPAP (Uniform Standards of Professional Appraisal Practice) some data has been altered.

The REO addendum on the appraisal is very specific and requires 4 separate values.

- 1) “As Is” Estimate of market value based on a reasonable market exposure time.
- 2) “As Repaired” Estimate of market value based on a reasonable market exposure time.
- 3) “As Is” Estimate of market value based on a client-imposed restricted market time not to exceed 120 days.
- 4) “As Repaired” Estimate of market value based on a client-imposed restricted market time not to exceed 120 days.

Also, in the above addendum you will find 3 similar listed properties. There is also a complete list of “cost to cure” items with repair estimates.

As you can see the repair estimates are general. This is typical for REO addendums since many times properties are vacant and utilities are turned off. Repairs can be a hidden cost to an investor. I recommend having a cushion of 15-20% over your original estimated repair costs. Even the best estimators cannot foresee unpredicted repairs.

To view an additional REO addendum, refer to your bonus REO Appraisal. Your bonus addendum is more specific since the property was occupied by tenants and utilities were functioning at the time of inspection.



9

MLS (Multiple Listing Service)

The Multiple Listing Service is a service provided by an association of Realtors. Licensed real estate agents can input listings into a network so a large scale of members can have access. These listings are in-turn utilized by buyers and sellers of property.

Licensed professionals in the real estate industry are the primarily MLS users. Typically, real estate agents are the primary users of the service.

Fees vary for the Multiple Listing Service. In my area fees are \$100.00 per quarter and an annual fee of \$125.00.

If you receive the MLS through a membership, you will have access to more than just properties. Typically with your membership you will receive tax record data and other useful information as well.

Don't let the MLS intimidate you! Once you have a membership you will discover there is more assistance and training available than you need. Most MLS services have help desks to call and offer free classes for training. This can be very helpful in learning the ins and outs of the MLS that can be tricky to the novice investor.

Become a Realtor to get the MLS

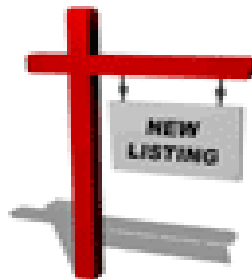
You can accomplish your goal of obtaining MLS membership by becoming a Realtor. As a real estate agent you will have additional financial responsibilities due to realtor obligations such as CE

(continuing education) classes, realtor dues, etc. The added classes will give you more knowledge in the Real Estate industry. It could accelerate your foreclosure and flip business and will allow you to have an abundance of resources.

I do not recommend it if your sole purpose is to have a foreclosure and flip business and you are able to receive an affiliate membership without becoming an agent. It should also be noted that when buying properties you must disclose you are an agent. When buying properties from private parties, the seller could frown on your agent status. This primarily happens since you are not only known as a realtor but you are also tagged with being a real estate professional. At times sellers may become intimidated and think you are trying to take advantage of them.

If you become an agent you will quickly come in contact with many other agents. You will get to know which agents list foreclosures and when. Realtors may even come to you prior to listing a foreclosure if they know you are an investor.

The bottom line is this: Having access to the MLS in some shape or form will give you 24-hour access to properties. The multiple listing service is a needed tool for all investors.



10

HOW TO AVOID YOUR WORST NIGHTMARE COMING TRUE

A foreclosure business can be very rewarding and on the flip side can be financially devastating. As slim as the chance may be, if certain precautions are not taken, a future profit can turn to a devastating loss.

Natural disasters

Your biggest safety net against natural disasters is to always have properties insured. The amount should at minimum equal your vested interest or total purchase price plus rehab costs. Ex: purchase price \$80,000; rehab cost \$20,000; insure property at \$100,000. The maximum amount should equal your expected selling price after all rehabbing has been completed. Ex: purchase price \$80,000; rehab cost \$20,000; expected sales price \$130,000; insure property at \$130,000.

Insuring a vacant rehab property can be costly but it is only a small fraction of what the cost can be if the unexpected occurs.

The story

The clock was ticking, the closing date was approaching and my rehab insurance was running out. I was informed by my attorney that there was a strong possibility we would close earlier than anticipated. That was good news since the one month insurance renewal was \$800.00. The buyers of my rehab property were eager to close and wanted access to the property ASAP.

I called my attorney and indicated my concern. The insurance on the property was due to expire and I needed to know if we would close prior to the expiration date. I was told we were not clear to

close on the loan but the lender only had a few minor requirements remaining. The closing date was set to close in 12 days and the property insurance had recently expired. Surely nothing could happen in 12 days, right?

My resources were limited in terms of insurance companies that covered rehab properties on a one-month policy. The only company I knew would charge me over \$800.00. So I decided to take my chances.

Just 4 days after the insurance policy expired, there were tornado warnings throughout the Midwest region. I will never forget being at home and getting a call from my longtime friend and rehab contractor telling me that on the news they said, “There are roofs off on Richmond”. Immediately I recall saying, “Are you kidding?” The seriousness in his voice told me otherwise.

As I drove over to the property I quickly discovered massive destruction in the area. The entire area was closed off and I realized I had to continue on foot. Luckily I found a nearby business owner who was kind enough to let me park my vehicle on his lot. It was dark and I needed a flashlight to guide me toward the property. There was chaos all around me and I was told to proceed with caution. Apparently there were debris and power lines blocking the main street. I remember having to jump over a power line and saying “this is insane!”

Fire trucks, police cars, and people were all around crowding the dark streets. I recall how odd it seemed seeing so many people yet there was an unmistakable silence in the air. It was surreal.

As I made my way on foot and turned onto the block, I remember thinking to myself something is missing. I realized it was the neighboring garage. It was plastered against my garage. I looked around and could not believe my eyes. Half of the roof shingles

ripped away, there were broken windows, power lines ripped from the house, trees and other debris covering the grounds and more. As I made my way around the house and looked inside of the house, I was thrilled to discover it was barely touched.

The power of mother nature.



In hindsight, I realized how much worse it could have been and I was fortunate. I had a terrific crew step up to the plate that worked day and night to complete the work. I managed to escape with damages totaling less than \$1000.00. I also did some of the work

on my own. The work was completed just in time for the closing!
Unfortunately, many nearby homes incurred substantial losses.

I learned a valuable lesson from the experience I have just shared with you. Considering I had no insurance on the property, I realized I took an unnecessary risk. It is not worth risking properties to be uninsured for even a day. There are too many unknowns that cannot be controlled and that could leave you with a devastating loss.



11

HOW TO PREPARE FOR HOME INSPECTION AND WHY YOU SHOULD MAKE ALL CONTRACTS "SUBJECT TO" A TERMITE INSPECTION

Preparing for a home inspection can save you time and money. Due to the nature of rehab properties, more often than not, a buyer will request a home inspection. Home Inspections are becoming more of a standard practice for home buyers and therefore rehabbers need to be prepared. A home inspection allows a buyer to have a professional look at specific items in the home and report any deficiencies. The inspection determines if there are any major deficiencies with the home. If a seller does not (provide a credit at closing or) make necessary repairs from an unfavorable report, a buyer can declare the contract null and void.

Typically, a home inspector will make some recommendations on repairs. Most repair items are realistic while some others might not be. An inspector can throw the book at you if you are not prepared. I once had a home inspector report "When closing the front door, the storm door rubs on the right side". In my opinion, a comment like that is unnecessary and is extremely petty. An older property will have some flaws. It's common and they are typically not reported.

One inspector cited 25 repairs on the property and because of the unfavorable report, the buyers backed out of the contract. When I received a second contract on the property from a different inspector was called in and cited only 2 repairs. Ironically, the 2 repairs cited by the 2nd inspector were overlooked by the 1st

inspector. Be prepared for home inspections to help decrease unfavorable reporting.

Don't forget a "Termite Inspection"

I was recently excited about a property that seemed to be perfect for what I refer to as a *Find/Assign/Flip*. I was going to flip it to another investor for \$20,000 and you probably can guess, the property had a serious termite problem. At the time of inspection I also noticed the living room floor was partially dropped (about a half inch or so). In addition, a bedroom floor was also severely dropped. The agent indicated the woman who owned the home had the bedroom packed from floor to ceiling with books and a desk. It didn't appear to be of much concern since floor joists were a common problem and we had repaired many similar problems in the past. I also knew my objective was to assign the property to a knowledgeable investor since the home was under market value.

I put in a contract on the property excited about the opportunity. There were a total of six contracts and since I had used the listing agent, I was the winning contract.

The closing was moving along smoothly until my attorney faxed over the "Termite Inspection" report. There was reported damage on the north wall of the kitchen. As I reviewed the report, I noticed there was no reported structural damage and no prior termite work observed in the past. The damage seemed to be confined to one area. I then noticed the report indicating several parts of the home not being certified and the garage and attic were not inspected. I became concerned and my gut told me to get a second opinion. Better to be safe than sorry, right? Good thing I did! The next inspection revealed there were active "Powder Post Beetles" in the crawl space. "Powder Post Beetles" are a type of termite and got their name by turning wood into powder.

The Beetles ate through 5-8 of the floor joists in the bedroom where the floor joists had dropped and ate through 4-6 living room joists. That was a close call! Always make sure your contracts are “subject to a termite inspection”. This will help to protect you from a loss.

Preparing for the inspection

There are many things that can be done to reduce your chances of an unfavorable home inspection. Here are a few major points that I have found to be helpful. I am required to follow most of these guidelines when inspecting homes being sold through FHA programs. I also closely follow these guidelines prior to listing rehab properties.

- 1) If the foundation has gapping holes or areas that you can stick a pen or pencil into, have them tuck pointed.
- 2) If a roof looks like it is crumbling, peeling or cracking and has less than 2 years of remaining life, you want to replace it to avoid inspection issues.
- 3) Make sure all windows in the home open and move freely. An inspector will cite windows that are jammed or painted shut. It is a safety hazard.
- 4) Be sure to be in compliance with working smoke detectors on each floor.
- 5) Be sure to have handrails leading to basement stairs.
- 6) If you have a mechanical garage door, be sure it reverses when meeting resistance.

- 7) Update electrical fuse service to circuit breaker service. Verify necessary change to meet village codes.
- 8) Add GFCI (ground fault circuit interrupter) outlets to baths and kitchens and anywhere else a faucet is present (within six feet from an outlet.)
- 9) Install any gutters and downspouts to provide proper drainage away from the home.
- 10) Repair or replace boilers, furnaces or central air conditioning units that are not functioning properly.

Many of the above stated recommendations are FHA requirements. It is typical for properties to be funded FHA. Therefore, it is imperative to have the work completed prior to listing the property.

Home inspectors have a responsibility to provide a quality report whether favorable or not. It should be clear that your buyer can walk if he or she is unsatisfied with the results of the home inspection.

I strongly suggest you follow the above recommendations for each property you purchase. Paying attention to these key areas will significantly reduce the chances of an unfavorable home inspection.



12

DRESS IT UP FOR A QUICK FLIP: THE SECRET TO THE SALE

A first impression should be a lasting one. That is why marketing a property prior to completion is premature and is not recommended. Your property should look complete prior to the listing.

Marketing too quickly can leave a negative impression on a potential buyer. If a potential buyer is able to see an exterior in need of tuck pointing, hanging gutters, or crumbling shingles, it will probably send them down the road to the next property. All work should be complete before listing!

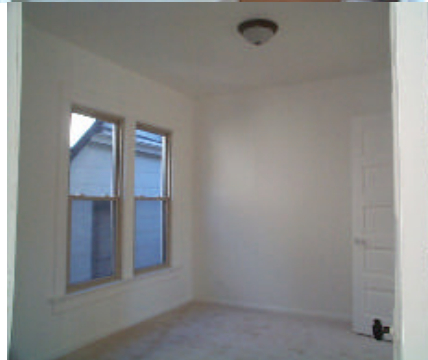
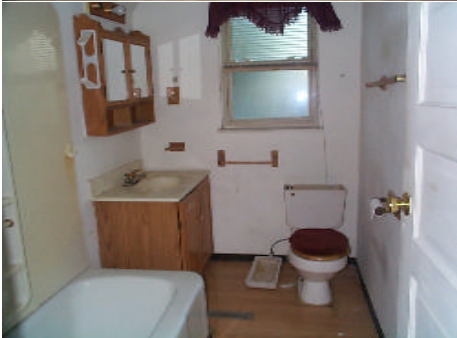
Curb appeal sells

Properties that have strong curb appeal tend to sell fast! There are many things you can do to add curb appeal to the home.

For Example:

Have the exterior professionally landscaped or do it yourself for a fraction of the cost. Add a new mailbox, repair/replace fences, add new storm doors, add a brass door knocker on the entry door, add decorative address numbers, replace exterior light fixtures, clean all windows, pressure wash the exterior, paint exterior siding, paint exterior trim to contrast, reseal the driveway if needed, add shutters for a nominal fee and repair/replace roof shingles (consider buying 25-30 year architectural series roof shingles for a slightly higher fee to impress buyers).

Before and after photo's



Also, properties that have an updated interior leave a lasting impression and sell more quickly. Typically, a neutral look is recommended. This not only allows a buyer to decorate with ease once they move in, but it is also more appealing to the typical buyer.

Do not under or over improve. Conform to the area

If the houses in the area have vinyl or ceramic flooring in the kitchen and baths, granite would be an over improvement and not a wise choice. Additionally, if the houses in the area have higher end granite in the kitchens and baths, then adding vinyl or ceramic to your property would be an under improvement. It is important to know that typically, buyers will only be willing to pay what is accepted in that market.

Offer a home warranty when selling properties

Provide a home warranty (free of charge to the buyer) is a small price to pay and the benefits are considerable. A warranty will give buyers piece of mind and covers mostly anything that goes wrong with the house in the first year of occupancy. Giving a warranty sends a message to the buyer that you have confidence in the property. Warranty companies can be located in local phone books, contacting a realtor, or surfing the Internet. A home warranty will minimize the time it takes a property to sell.

Listing price

It is important not to over price a property when listing. This mistake may deter potential buyers. I recommend for you to list your properties slightly above market value. This will allow for the typical list verses sales price differences.

Potential buyers can always submit a contract below the list price if they disagree with your price. It is also recommended that you look at comparables in the area when determining your listing price. You will want to search for active, pending and recently closed sales. This will help to assist you in determining your listing price.

For Sale by Owner

Although selling a home by owner can seem tedious, it can save you thousands of dollars. For Example, 5% commission to realtors (2.5% on each side) on a \$100,000 house is \$5,000.00. That is significant! Imagine the additional savings of \$5,000.00 in your pocket.

Placing a for sale sign in front of a house, printing flyers and placing a few ads in local paper costs roughly \$250.00.

If you are interested in selling by owner, be sure to have a flyer box attached to your for sale sign. The flyers provide detailed information about the property. You can also pay for closing costs or other fees in order to attract a buyer. Don't overcomplicate it. Here is what you need to do!

You are listing your house for \$125,000. You are hoping for a contract for at least \$121,250. A buyer approaches you and is interested in purchasing. However, he/she needs help with the closing costs. You agree to pay for \$3,750.00 or 3% of the total closing costs. Then state in the contract "the seller agrees to pay X amount of dollars toward buyers closing costs". You will still be selling the home for \$125,000 – closing costs of 3% (or \$3,750.00) = \$121,250. You met your objective and are helping someone along the way.

It is also legal in many areas to offer gift funds for a homebuyer. Did you know that it does not need to be a family member? I have done this a few times for property buyers.

The For Sale by Owner alternative

FACT: Approximately 85% of the time, homes are sold through realtors (due to the power of the Multiple Listing Service). Therefore, a realtor appears to be your best source for selling your properties.

In most cases, the listing agent is not the seller of homes listed. It is an outside selling agent that usually brings in the buyer. The listing agent is one individual whereby an entire MLS could have tens of thousands of realtors working for the listing.

Paying a 5-7% commission may not be financially feasible (due to the desired profit margin required by an investor). Locating a professional company for half the price is not a difficult task. Remember, just because a company is the most expensive does not necessarily make them the best.

A company called www.infotube.net is a very creative option and is nationwide. This company sells many products including flyer holders/info-tubes to attach to the for sale sign. You can purchase the product at you nearest home improvement center. With the purchase of the info-tube, you receive a free Internet ad and an option to print brochures for the info-tube. The company also offers a service for \$499.00 to list your property on the Multiple Listing Service.

Another company that lists homes on the MLS is called 'Home Owners Advantage'. It's a favorite of mine and it services Illinois. They have a first-rate service and is priced at only \$349.00. That is

hard to beat! I called them to input a listing and was amazed to see it completed within a few hours (and without any upfront costs). They can be found online by going to the below link:

www.affordablelistings.com

If you are not confident selling your property by owner, another option is a service called 'Buy Owner'. The service is nationwide and they offer free magazines (located in your local grocery store). Their fees are significantly lower than paying full commission.

There are also many other companies and realtors who will charge you a flat fee for putting a property on the MLS. They can be located by surfing the web. Just search the key word 'real estate services' and you will be amazed at the number of resources available to you.



13

FINANCING AND ESTIMATE EXAMPLES

There are several ways to finance a foreclosure. One of the best ways if you have a home with sufficient equity is to get a line of credit. A bank or mortgage company can assist you with the loan and may be able to loan up to 100% of your equity. Once the loan is complete, you will receive a book of checks to write against the equity in your home to use as you wish. Keep in mind that typically the interest rate on the loan will increase as the percentage of equity you receive increases.

Most banks I am aware of loan 80% of you equity. Frequently banks will increase 80% with customers that have developed strong relations and that have proven track records. In addition, private lenders and mortgage companies allow for a higher percentage on equity than 80% but do your homework! It is important to comparison shop so you are educated on lender fees.

A good reason to use a line of credit to buy foreclosures is because you are considered a cash buyer. A lender is more likely to accept your contract over another that requires financing. Other benefits from a line would include avoiding lenders that will charge high interest rates, points, appraisal fees for draw inspections and ultimately putting more overall cash in your pocket on properties.

A line of credit is a great way to use the power of leverage. For Example, a \$100,000 line of credit at 4.00% would give you a monthly payment of \$400.00. That is a very minimal payment! Using lines of credits are a fantastic way of purchasing property and will give you an extra edge you need in your foreclosure business.

FHA 203K way

The Federal Housing Administration (FHA) has a loan program that is a renovation loan called 203K. It is used for purchasing and rehabbing an owner occupied property. It is used on low-down-payment loans and is for modestly priced homes. The value is based on “as repaired value” after all work is completed. FHA releases draw amounts for work completed. For more details on this rehab program go to:

www.hud.gov/fha/sfh/shfrehab.html

Rehab loans

There are rehab loans available for properties where typically 10% down is required and 100% of the rehab costs are paid out through a draw program. In many cases, your 10% down payment can come from an outside investor, credit card, line of credit, gift or other creative ways.

To locate these companies specializing in rehab loans you can go online and Google search “rehab loans”. You can also refer to your bonus when you purchased this manual of: “50 Lenders throughout the country to fund your properties.”

Typically with a rehab loan, it is considered a draw program where funds are disbursed as rehab work is complete. Usually, four phases are set up for the required work and a work order is completed by the investor. Disbursement of funds is released when the first phase is completed and so on.

Many lending companies approve investors with less than perfect credit ratings and charge points and higher interest rate to offset their risk. Although some lending institutions may charge points and high interest rates, it can be a very useful way to accomplish your goal of purchasing a property while building a business

relationship for future properties. You must carefully consider when estimating your overall investment. Making sure the added points and interest don't leave your profit margin too low is crucial.

Please review the below examples: Example A represents a winner using a rehab funding company and example B represents a loser.

Example A

Purchase price	\$85,000
Repair cost by contractors	\$20,000
Realtor cost x 5%	\$7,250
Utilities/Insurance	\$1,000
Closing/Attorney/Appraisal fees	\$1,500
Point X 3 on \$85,000	\$2,550
Loan Interest @ 10% for 6 months	\$4,476
Cushion (misc.) costs x 15% of rehab costs	<u>\$3,000</u>
Total overall cost after rehabbing	\$124,776
Estimated ARV (after repair value) of property	\$145,000
	<u>-\$124,776</u>
Potential profit after expenses	\$20,224

In example A, there was a significant amount of points and interest. However, the property has an ARV that is significant enough to have a winner with a profit of \$20,224.

Example B

Purchase price	\$85,000
Repair cost by contractors	\$20,000
Realtor cost x 5%	\$7,250
Utilities/Insurance	\$1,000
Closing/Attorney/Appraisal fees	\$1,500
Point X 6 on \$85,000	\$5,100
Loan Interest @ 15% for 6 months	\$6,449
Cushion (misc.) costs x 15% of rehab costs	<u>\$3,000</u>
Total overall cost after rehabbing	\$129,299
Estimated ARV (after repair value) of property	\$145,000
	<u>-\$129,299</u>
Potential profit after expenses	\$15,701

As you can see in example **B** potential profits were dramatically decreased due to a higher interest rate and additional points.

Although there is a \$15,701 potential profit, it is far below our objective of \$20,000. This example represents a losing deal and I would advise you to stay away from any deal that looks similar to this one.

Although real estate services are a much needed source for selling, the bottom line is that full service commission can be a significant cost and in this case \$7250.00.

Selling “by owner” or using other favorable selling alternative previously discussed will increase profit margins.

Typically, the ARV that you come up with on property will rarely match your contract price when selling. When it varies which will be often, it is really quite simple.

When your contract price is higher than your estimate, you are fortunate to have a higher profit than expected. If your contract price is lower than your estimate, you will have a lower profit than expected. Carefully consider all factors prior to submitting a contract on property. Doing this will allow you to put the odds in your favor.



14

Bonus Section

GURU: Is defined as a charismatic leader or guide; a trusted advisor.

GURU'S REVIEWED: A detailed look at why some Guru's continue to get richer at the public's expense while over charging and up-selling along the way.

I wrote this bonus chapter to educate the reader on courses, trainings, workshops, seminars, and any other type of overpriced, undervalued product offered by Gurus. For the purpose of keeping it simple, I will refer to all of the above products as systems.

After 20 years of being on a quest for riches, I have reviewed and been a subject for dozens of products offered by Gurus. I have overpaid and even been scammed into buying products. In my experience I discovered a couple of things: 1) Whether you pay 20 dollars or 20 thousand dollars for a product, you will never get any value unless you study it and apply it. 2) You don't have to max out your credit cards or dip into your savings account in order to buy a system to make you wealthy.

Don't get me wrong. Some people have *actually* made money attending and applying what they have learned from a 2K, 5K and 20K training. You have seen the testimonials, right? Well just remember that the vast majority of individuals that spend the big money to learn never even get started! Why? One reason is that people are so stressed about all the money they have spent. Some people end up realizing that the trainer at the seminar left out the

big secret that the other trainer told them about at the free seminar they went to that got them there in the first place.

After people finally make it through the 5K weekend system, they are so exhausted by all of the up-selling and become confused! You do know what up-selling is, right? It's when you buy one of these 5K systems and you are told it is all you need to spend to be successful and to make millions. But then **BAM**, they nail you with a new product at the training! Be a "Gold Member" or a "partner" for another 5K and you can *really* make millions! It happens all the time, just about every time as a matter of fact.

I have literally witnessed people pay \$2500.00 for a real estate system and then three weeks later see the same people be up-sold into a \$5000.00 and \$10,000.00 system by the same company. The problem is that in most cases, the initial \$2500.00 investment had not been studied and applied. My suggestion is to avoid overpriced products all together.

Fortunately, I have not been a victim of a 10K or 20K system. I have, on the other hand, spent 5K on a program. Where did it get me? **ABSOLUTELY NO WHERE!** What hurt the most was how I was scammed into it and really had no recourse. I responded to a letter I received in the mail offering a solid way to quick riches. I was young and motivated for millions. I could not stand working a 9-5 job. I remember it so clearly and it happened almost 15 years ago.

I responded to the letter and made the call. I talked to a gentleman named Todd. He seemed to relate to me right away, which should have been a clue. He offered a system and three days training in Las Vegas on how to buy Real Estate (seller carried back notes). Example: If someone was trying to buy a home for a certain amount and could not get approval for 100% of the loan needed,

the seller of the home would carry a mortgage back to you for the difference. Example: The home purchase price was 100K and you were approved for 80K, the seller would carry a mortgage/note for you for the difference of 20K. Todd was telling me all about the system and how he was just like me a couple of years ago searching for riches. I was interested but didn't bite. I was as skeptical as anyone would be.

Todd persisted with calls and hooked me line and sinker when he got me to believe he had family close by and was coming to visit them and me. He also told me we would have my first note sold before I even went to the training. Todd also assured me that he was attending the training and would mentor me.

I signed on the dotted line and you guessed it! Todd never made his visit with me and was a no show in Vegas. When I arrived in Vegas for the training, I really did my best to be optimistic but it was tough. After the first day I knew the system wasn't for me and I was devastated. I was so miserable but I stayed and stuck it out. It was a draining weekend. I remember getting home on Sunday evening and being sick to my stomach. To make things worse, I didn't have the funds for the training so it was financed at a high interest rate. I really felt like I was taken.

I knew it was my responsibility to give this thing a try and with some encouraging words from my mom I finally got the nerve to pick up the phone. I thought if I could just sell one note I could pay off the loan. Basically what I had to do was find someone with a note for approximately 20K. The person holding the note is receiving monthly payments just like a bank is receiving payments on a mortgage. If I could convince the note holder to take one lump sum instead of having their small monthly payments, I would be able to make money by negotiating with the note holder and offering less than 20K. I would then be able to sell the note to a note buying company I was set up with

through the training. Are you beginning to see why this complicated business didn't work out for me?

So, I opened the phone book and randomly started calling real estate offices. I asked real estate agents if they ever heard of seller carried back notes and if so, could they put me in contact with people who had them. The agents didn't have a clue what I was talking about. I realized I wasn't in familiar territory nor was I capable of success. I went from being frustrated to angry and called Todd and the owner of the training company. The owner was shocked that Todd lied to me and agreed to cut the finance charges on my loan but insisted I owed the money. I met with an attorney and was told that my situation was very common. He said we could try and fight it but there would be no guarantees and told me the costs involved could be substantial. I determined that it would be best to use the mistake as a learning experience and take the loss.

If you feel that you were a victim of a scam, file a complaint with the Better Business Bureau. You can locate them online at: www.bbb.org Also, you can also check a specific name you are considering doing business with. If there are excessive complaints you will want to reconsider.

TRUMP CONVENTION / 70 SEMINARS

I recently attended the largest real estate convention in the nation and had the privilege to see "The Donald" in V.I.P. seating. Trump gave the electrified audience some keys to his legendary success.

Donald Trump was quoted as saying:



- 1) "NEVER QUIT".
- 2) "NEVER GIVE UP".
- 3) "LOVE WHAT YOU DO. YOU MUST LOVE WHAT YOU DO; NOT JUST LIKE".
- 4) "GO WITH YOUR GUT AND GO AGAINST THE TIDE IF YOU HAVE CONFIDENCE IN YOURSELF; ONLY IF YOU THINK YOU HAVE IT".
- 5) "STAY FOCUSED; THINK OF YOUR SELF AS GREAT AND HAVE CONFIDENCE IN YOUR SELF".
- 6) "BE A LITTLE PARANOID. GET THE BEST PEOPLE AND DON'T TRUST THEM".
- 7) "GARY PLAYER – CHAMPIONSHIP GOLFER. THE HARDER I WORK, THE LUCKIER I GET".
- 8) "FORCE YOURSELF TO WORK HARD AND DO IT".
- 9) "DON'T LET PEOPLE PUSH YOU AROUND".
- 10) "AS LONG AS YOU'RE GOING TO THINK, THINK BIG".

The big convention

There were over 70 seminars available at the 2 day seminar. The majority of the seminars were related to Real Estate and some addressed investing in the Stock Market. Wouldn't it be nice if I could tell you that at the end of each 1-1/2 hour sales pitch there was an interesting system that could be purchased for \$100.00 or less? Of course it would be nice! As previously discussed, the products at the convention ranged in the thousands and there would be an up-selling product waiting for you if you bought into the initial product.

Free seminars

Many times Gurus try to lure their victims by offering "Free Seminars". I have been to countless "free seminars". We are told to come see a famous Guru at no charge. We get there only to meet one of their sales trainers giving you a lot of fluff and a big sales pitch. At the end of the seminar, the sales trainer offers the audience a once in a lifetime opportunity. At first the sales trainer shows an outrageously high price for the course in order to "set up" his audience. The trainer continues to lower the price with discounts, acting as if you are getting a great deal. They proceed to tell you that they have limited forms in the back of the room and you better sign up quickly. In most cases a flock of attendees rush to the back table in search of the "MAGIC BOX".

I recall going to the Marriott hotel for another free seminar and to learn about, "No Money Down" investing. It was the same song and dance. At the end of the seminar I had a pit in my stomach. Since I was taken advantage of in the past, it kept me from making a purchase. The next free seminar I went to addressed Probate Investing. The seminar was at the same hotel, in the same

room and the same sales trainer was speaking but was representing a different Guru. I didn't get this! How can the same trainer be telling the same success story passionately about No Money Down and Probate Investing at two separate seminars from two separate Gurus?

How do these things happen? Gurus are corporations and they know informational products are a big business. If research suggests consumers will pay big money for a product, then why sell for any less than what they can receive?

My suggestion to you is this: if you finish this book and desire more information on the topics addressed, you can visit any local book store and purchase material in that area. Many well known Guru's have written books and most can be purchased for \$20.00 or less. You can also go online to: www.ebay.com or www.amazon.com to buy a course or book reasonably priced.

Lack of accuracy at seminars and trainings

Some time ago I had the privilege of going to a 4k training at no cost. Typically, there are new ideas presented to enhance your business.

As a real estate investor and having an appraisal firm, I always run my business legally and ethically. I never want anything to come back to haunt me. While I was at the training, I went from being excited to extremely frustrated. I went from enjoying the trainer and staff to having no respect for them at all.

During the seminar the trainer began discussing property values. In particular, he was discussing how he would get a value to come in on a property. The trainer then asked a realtor and staff

member to begin role playing with him. It went something like this:

Glen: “So if you had a property worth X and you needed it to come in at a higher amount, say at X. what would you do?”

Sandy: Well, I would call my appraiser.....

Glen said, ” Oh so you have your own appraiser that you call”?

Sandy replied Ohh Yeahhh.....

Glen would say well what if you wanted the appraised value over the purchase price at X, will your appraiser do that for you?

Sandy replied; Ohh Yeahhh.....

Glen then said so you have the appraiser in your back pocket then?

Sandy “Yep”!

They carried on for a while and discussed a similar situation with a lender and an appraiser. I remember how close I was to screaming out “You guys are full of ...#!#!#”*. I told the gentleman next to me that what they were suggesting is not realistic, nor is it legal. I am an ethical state certified real estate appraiser and would never do business in that manner. Appraisers willing to do business in an unethical manner could ultimately find their appraiser license on the disciplinary pages of the Office of Banks and Real Estate. This is all of the appraiser disciplines dating back to 1993.

You will also find realtors, home inspectors and mortgage brokers getting reprimanded and losing their licenses for being unethical.

In the above scenario, guess what would happen if someone decided to refinance a property shortly after closing on it? If I was the appraiser or any of my appraisers or the fact is, the majority of appraisers doing business, the value of the property in the above scenario would come in lower that what you originally

paid. You would actually be just as upside down as when you drove off a lot with a new car. The only thing you would have going for you is the ability to recover your loss from appreciation over time in an increasing market.

The bottom line is this: new investors are being misinformed and overcharged by many Gurus. If you truly want success you have to convince yourself that by purchasing any product offering success in any shape or form, whether it cost 20 dollars or 20 thousand dollars, the product is not going to replace hard work and dedication. You need to study it thoroughly and then apply it. You need to work the course for success!

I do not recommend paying in the thousands for any system. I do recommend starting out on a lower priced system or book which would limit cost to \$500.00 or less. After you purchase an initial system or book you must study it and apply it. Only then would I recommend for you to allow yourself to be up-sold to a higher priced product.

The principles taught in this manual are solid and are being practiced today. By following the instructions in this manual, you can achieve your goal of becoming a successful real estate investor. Don't forget! Study it and then apply it for success!



Nothing is as real as a dream. Have the courage to reach for it.
Anonymous

Determination is having the courage to stay the path.
Jeffrey E. Knize

Successful Investing,
Jeff E. Knize

www.ForeclosuresandFlips.com

Please send all comments, feedback & testimonials to:
info@foreclosuresandflips.com

PROPERTY INSPECTION FORM

Address: _____

No. of Units: _____ No. of Stories: _____

Type: _____ Design: _____ Age: _____ Square Feet: _____

	GOOD	AVERAGE	FAIR	POOR
Exterior Condition:	_____	_____	_____	_____
Foundation Type: ___ Bsmt/Crawl/Slab	_____	_____	_____	_____
Exterior Walls: Brick/Block/Stucco/ Wood/Aluminum/Vinyl	_____	_____	_____	_____
Windows: Wood/Vinyl Clad	_____	_____	_____	_____
Storm Windows: ___ Screens_____	_____	_____	_____	_____
Garage: ___ Attached/Detached	_____	_____	_____	_____
No. of Cars: _____	_____	_____	_____	_____
Porch ___ Deck ___ Patio ___ Shed ___	_____	_____	_____	_____
Other: _____	_____	_____	_____	_____
General Condition of Interior	_____	_____	_____	_____
Interior Walls: Drywall/Plaster/Wood	_____	_____	_____	_____
Ceilings: _____	_____	_____	_____	_____
Floors: Wood/Concrete/Tile/Carpet	_____	_____	_____	_____
Electrical Service: 100 amp/60 amp/Fuse	_____	_____	_____	_____
Heating: Gas/Oil/Radiant/Electric Age___	_____	_____	_____	_____
Central Air: Yes/No Window Unite: Yes/No	_____	_____	_____	_____
No. of Fireplaces: ___ Type: _____	_____	_____	_____	_____
Bathroom: Floor___ Walls___ Fixtures _____	_____	_____	_____	_____
Kitchen: Floor___ Walls ___Fixtures_____	_____	_____	_____	_____

Assignment Of Contract Disclosure

This form is intended for instructional purposes only. It should be noted that this form is offered by the author for instruction and the author is not engaging in professional or legal services. It is recommended for this form to be reviewed by the reader's attorney prior to use.

Legal advice of any nature should be sought from competent, independent legal counsel in the relevant jurisdiction. Absolutely no warranties are made regarding the suitability of any form in this manual for any real estate purpose.

ASSIGNMENT OF CONTRACT

This is meant to be a legally binding contract.

Date _____

Property Address: _____

Contract Date _____

The total valuable consideration for this Assignment payable from the **New Buyer** (Assignee) to the **Original Buyer** (Assignor) for the sum of \$ _____ dollars payable at closing in the form of a Cashier's Check. **Original Buyer** (Assignor) hereby assigns all their rights, obligations and responsibilities to _____, (**New Buyer**) (Assignee) for the referenced Address: _____
Dated: _____

The **Original Buyer** (Assignor) warrants and represents that said contract is in effect and in full force and is fully assignable. The **New Buyer** (Assignee) agrees to fulfill all of the same terms and conditions of the above referenced contract including all closing requirements.

The Assignee hereby assumes and agrees to perform all obligations of the Assignor under the contract and guarantees to hold the Assignor harmless from any claim or demand made there under.

Signed under seal this ____ day of _____.

Witness _____ **Original Buyer** (Assignor)

Witness _____ **New Buyer** (Assignee)

Real Estate Contract Disclosure

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Real Estate Sales Contract

Seller, _____ agrees to sell to

Buyer, _____, the real property set forth below and all improvements thereon (Property), and Buyer agrees to purchase said Property from the Seller according to the terms and conditions in this contract.

LEGAL DESCRIPTION:

ALSO KNOWN AS THE FOLLOWING ADDRESS:

PURCHASE PRICE: _____

as follows:

- | | |
|--|-----------------|
| (a) Initial Deposit | \$ _____ |
| (b) Sum due at closing (not including proration's) | \$ _____ |
| (c) Proceeds from a new note and mortgage to be given by
Buyer or any lender other than the Seller (new loan) | \$ _____ |
| (d) Existing mortgage on the Property which shall remain on the Property | \$ _____ |
| (e) Balance due the Seller by promissory note
from the Buyer as detailed in this contract (seller financing) | \$ _____ |
| (f) TOTAL PURCHASE PRICE | \$ _____ |

IT IS AGREED that the Property will be conveyed by a General Warranty Deed, with release of dower and homestead rights.

THE SELLER WILL PAY FOR: Revenue stamps (State, county and local); Title commitment in the amount of the purchase price from a title insurance company to be selected by Seller in the County of the Property location; Title abstract; Title opinion letter; Satisfaction of mortgage and recording fee.

THE BUYER WILL PAY FOR: Recording fees, prepaid insurance, prepaid taxes, prepaid interest, termite Inspection, appraisal fee, survey, fees associated with the procurement of financing, Property inspection, all other closing fees charged by the title company.

TITLE AND TITLE INSURANCE: Within 15 days from Effective Date, Seller shall, at Seller's expense, deliver to Buyer or Buyer's attorney, a title insurance commitment with fee owner's title policy premium to be paid by Seller at closing.

PRORATED ITEMS: All rents, water taxes or charges, taxes, assessments, monthly mortgage insurance premiums, fuel, prepaid service contracts and interest on existing mortgages shall be prorated as of the date of closing. If Buyer is to accept the Property subject to an existing mortgage requiring an escrow deposit for taxes, insurance and/or other items, all escrow payments required to be made up to the time of closing shall be made to the escrow holder at

Seller's expense and said escrow balance shall be assigned to the Buyer, without compensation to the Seller, it being expressly understood that said escrow balance is included in the Total Purchase Price. All mortgage payments required of Seller to be made shall be current as of the time of closing. If the exact amount of real estate taxes cannot be ascertained at the time of closing, Seller agrees to prorate said taxes on the basis of the actual tax bill when issued.

THE DATE OF THIS CONTRACT ("Effective Date") shall be the date when the last one of Seller and Buyer has signed this offer.

EXAMINATION OF TITLE AND TIME OF CLOSING: If the title evidence and survey as specified above disclose that Seller is vested with fee simple title to the Property (subject only to the permitted exceptions set forth above acceptable to Buyer), and unless extended by other provisions of this Contract, this sale shall be closed on or before _____ at the office of the attorney or other closing agent designated by Seller. If title evidence or survey reveal any defect or condition, which is not acceptable to Buyer, the Buyer shall, within 15 days notify the Seller of such title defects and Seller agrees to use reasonable efforts to remedy such defects and shall have 30 days to do so. Seller agrees to pay for and clear all delinquent taxes, liens and other encumbrances, unless the parties otherwise agree. Seller agrees to deliver good and insurable title to the property within 60 days of the effective date.

DEFAULT BY BUYER: If Buyer fails to perform the agreements of this contract, Seller may retain as liquidated damages and not as a penalty all of the initial deposit specified in paragraph 1 (a) above, it being agreed that this is Seller's exclusive remedy.

DEFAULT BY SELLER: If Seller fails to perform any of the agreements of this contract, all deposits made by Buyer shall be returned to Buyer on demand, plus reimbursement for any expenses incurred under paragraph (4).

ATTORNEY FEES AND COSTS: If any litigation is instituted with respect to enforcement of the terms of this contract, the prevailing party shall be entitled to recover all costs incurred, including, but not limited to reasonable attorney fees and court cost.

RISK OF LOSS OR DAMAGE: Risk of loss or damage to the Property by any cause is retained by the seller until closing.

CONDITION OF THE PROPERTY: Seller agrees to deliver the Property to Buyer in its present condition, ordinary wear and tear excepted, and further certifies and represents that Seller knows of no latent defect in the Property. All heating, cooling, plumbing, electrical, sanitary systems and appliances shall be in good working order at the time of closing. Seller represents and warrants that the personal property conveyed with the premises shall be the same property inspected by Buyer and that no substitutions will be made without the Buyer's written consent. Buyer may also inspect or cause to be inspected the foundation, roof, supports or structural members of all improvements located upon the Property. If any such system, appliance, roof, foundation or structural member shall be found defective, and the costs of such repairs shall exceed 10% of the total purchase price, Buyer may, at his option, elect to terminate this contract and receive the full refund of all deposits and other sums tendered hereunder. In addition, the seller agrees to remove all debris from the Property by date of possession.

OCCUPANCY: Seller shall deliver possession to Buyer no later than the closing date unless otherwise stated herein. Seller represents that there are no persons occupying the Property except the following tenants of the Seller :

Seller agrees to deliver exclusive occupancy of the Property to Buyer at the time of closing unless otherwise specifically stated herein. Seller agrees to provide true and accurate copies of all

written leases to Buyer within 5 days after the date of acceptance of this contract. Said leases are subject to Buyer's approval. Seller shall provide such letters notifying tenants to pay rent to the Buyer after closing as Buyer may reasonably request. Seller warrants that any rent rolls and other income and expense data provided to Buyer are complete and accurate, all of which must be acceptable to buyer.

[] MORTGAGE OR THIRD PARTY FINANCING: According to paragraph 1(d) of this contract, it is agreed that Buyer will require a new mortgage loan to finance this purchase. The application for this mortgage will be made with a lender acceptable to Buyer, and unless a mortgage loan acceptable to Buyer is approved without contingencies other than those specified in this contract within 10 (ten) days from the date of acceptance of this contract, Buyer shall have the right to terminate this contract and at that time all sums deposited by Buyer shall be returned to Buyer and Buyer shall return any surveys and copies of leases received from Seller. Seller acknowledges that there is a new institutional mortgage being placed on the property and closing may be reasonably extended to accommodate the mortgage financing process.

[] SELLER FINANCING: According to paragraph 1(e) above, it is understood that the Buyer will execute and deliver at the closing a Promissory Note to Seller which shall provide for full or partial prepayment without penalty and shall bear interest at the rate of _____ per annum beginning on _____ in the amount of _____ per month such that the amount of such payments shall amortize the debt due in _____ with all unpaid principal and interest due upon the last payment date, APPROXIMATELY _____. The said Promissory Note shall be secured by a mortgage acceptable to Buyer and providing for the full and free right of the mortgagor to transfer the Property, in whole or in part, subject to the mortgage; and the right of first refusal to the mortgagor if the mortgagee shall at any time sell its interest at a discount; future advances at the option of the mortgagee

TERMITE INSPECTION: Buyer shall be furnished at Buyers expense, an inspection report showing all buildings on the Property to be free and clear from visible infestation and free from visible dry or wet rot damage by termites and other wood-destroying organisms. This inspection report is to be furnished by a licensed pest control firm. If a report shows such visible infestation or damage, Seller shall pay all costs of treatment of such infestation and all costs of repair of such damage. If the costs of treatment and repair shall exceed 3% of the total price, Seller may elect not to make such treatment and repairs and Buyer may elect to take the Property in its then condition or, at Buyer's option, to deduct the cost of repairs from the total purchase price and complete the transaction Buyer may terminate this contract and receive a full refund of all deposits made buyer hereunder.

ZONING: Unless the property is properly zoned for residential and there are no deed restrictions against such use at the time of closing, the Buyer shall have the right to terminate this contract and receive a full refund of all deposits made by Buyer hereunder.

LEGAL USE: Seller represents and warrants to Buyer that all improvements on said Property conforms to all building codes and restrictions that may be imposed by any governmental agency either national, state or local or from a Home Owners Association, Seller also warrants that there are no building code violations on the Property and that Seller has received no notice of any building code violations for the past ten years that have not been fully corrected.

PERSONAL PROPERTY INCLUDED IN THE PURCHASE PRICE: (Strike items not applicable): storm and screen doors and windows; awnings; outdoor television antenna; wall-to wall, hallway and stair carpeting; window shades and draperies and supporting fixtures; venetian blinds; window treatments; electric, plumbing and other fixtures as installed; water softener; attached shelving; hardware; trees and shrubs; refrigerator; stove; air conditioner; any existing ceiling fans, and such other items as is listed on a rider attached hereto or below, all of which personal property is unencumbered and owned by Seller.

THIS OFFER SHALL TERMINATE if not accepted before _____ o'clock pm, _____

R.E.S.P.A. COMPLIANCE: Seller agrees to make all disclosures and do all things necessary to comply with the provisions of the Real Estate Settlement Procedure Act of 1974 if it is applicable to this transaction.

ADDITIONAL TERMS AND CONDITIONS:

(a) Where the context requires, the terms Seller and Buyer shall include the masculine as well as the feminine and the singular as well as the plural.

(b) There are no agreements, promises, or understandings between the parties except as specifically set forth in this contract. No alterations or changes shall be made to this contract unless the same are in writing and signed or initialed by the parties hereto.

(c) The provisions of this contract shall survive the closing and shall not merge in any deed or conveyance herein.

(d) This agreement shall be construed under the laws of the State of _____

(e) A faxed copy of this signed agreement shall constitute a legally binding agreement.

(f) other

NOTICES: Any notices required to be given herein shall be sent to the parties listed below at their respective addresses either by personal delivery or by certified mail-return receipt requested. Such notice shall be effective upon delivery or mailing.

TYPEWRITTEN OR HANDWRITTEN PROVISIONS: Typewritten or handwritten provisions inserted herein or attached hereto as addenda shall control all printed provisions of contract in conflict therewith.

_____ date _____
BUYER

_____ date _____
BUYER

_____ date _____
SELLER

_____ date _____
SELLER

GLOSSARY

ACRE

43,560 square feet. A measurement of area.

ACTUAL AGE

The amount of time that has passed since a building or other structure was built.

ADDENDUM

A supplement to any document that contains additional information pertinent to the subject. Appraisers use an addendum to further explain items for which there was inadequate space on the standard appraisal form.

ADJUSTED SALES PRICE

An estimate of a property's sales price, after adjustments have been made to account for differences between it and another comparable property.

AGENT

A person who has been appointed to act on behalf of another for a particular transaction.

AMENITY

Any feature of a property that increases its value or desirability. These might include natural amenities such as location or proximity to mountains, or man-made amenities like swimming pools, parks or other recreation.

ANNUAL PERCENTAGE RATE (APR)

The rate of annual interest charged on a loan.

APPLICATION

A form used to apply for a mortgage loan that details a potential borrower's income, debt, savings and other information used to determine credit worthiness.

APPRAISAL

An appraiser's written opinion to a client of the value of the subject property as of the date of appraisal. Commonly derived using recent sales of comparable properties by a properly licensed appraiser.

APPRAISED VALUE

The estimated fair market value of a property as developed by a licensed, certified appraiser following accepted appraisal principals.

APPRECIATION

The natural rise in property value due to market forces.

AS IS

When a property is sold as is, the seller does not warranty or guarantee that the property is free of defects. The buyer buys in the present state.

ASSIGNEE

The person whom is receiving interest.

ASSIGNMENT OF CONTRACT

Transfer of any contract to another. Transferring all rights and obligations to another.

ASSIGNMENT FEE

Money received for assigning a contract to another party is an assignment fee.

ASSIGNOR

The person whom is transferring interest

AUCTION

An process whereby a property is sold to the highest bidder.

BROKER

An individual who facilitates the purchase of property by bringing together a buyer and a seller.

CLEAR TITLE

Ownership of property that is not encumbered by any counter-claim or lien.

CLOSING

The process whereby the sale of a property is consummated with the buyer completing all applicable documentation, including signing the mortgage obligation and paying all appropriate costs associated with the sale (CLOSING COSTS).

COMMISSION

A percentage of the sales price or a fixed fee negotiated by an agent to compensate for the effort expended to sell or purchase property.

COMPARABLES

An abbreviated term used by appraisers to describe properties that are similar in size, condition, location and amenities to a subject property whose value is being determined. The Uniform Standards of Professional Appraisal Practice (USPAP) establish clear guidelines for determining a comparable property.

CONFORMITY

The principle that a property should be similar in design, construction and age to other properties in the neighborhood to reach their highest value.

CONTINGENCY

Something that must occur before something else happens. Often used in real estate sales when a buyer must sell a current home before purchasing a new one. Or, when a buyer makes an offer the requires a complete home inspection before it becomes official.

CONTRACT

A legally binding agreement, oral or written, between two parties.

CONVENTIONAL MORTGAGE

A traditional, real estate financing mechanism that is not backed by any government or other agency (FHA, VA, etc.).

DEED-IN-LIEU (OF FORECLOSURE)

A document given by a borrower to a lender, transferring title of the property. Often used to avoid credit-damaging foreclosure procedures.

DEED OF TRUST

A document, which transfers title in a property to a trustee, whose obligations and powers are stipulated. Often used in mortgage transactions.

DEPRECIATION

The natural decline in property value due to market forces or depletion of resources.

DETACHED SINGLE-FAMILY HOME

A single building improvement intended to serve as a home for one family.

DISCOUNT POINTS

Points paid in addition to the loan origination fee to get a lower interest rate. One point is equal to one percent of the loan amount.

DISTRESSED PROPERTY

A mortgaged property, which has been foreclosed on.

ECONOMIC DEPRECIATION

The decline in property value caused by external forces, such as neighborhood blight or adverse development.

EFFECTIVE AGE

The subjective, estimated age of a property based on its condition, rather than the actual time since it was built. Excessive wear and tear can cause a property's effective age to be greater than its actual age.

EQUITY

The difference between the fair market value of a property and that amount an owner owes on any mortgages or loans secured by the property.

FAIR MARKET VALUE

The price at which two unrelated parties, under no duress, are willing to transact business.

FEDERAL HOUSING ADMINISTRATION (FHA)

A sub-agency of the U.S. Department of Housing and Urban Development created in the 1930's to facilitate the purchase of homes by low-income, first-time home buyers. It currently provides federally subsidized mortgage insurance for private lenders.

FHA MORTGAGE

A mortgage that is insured by the Federal Housing Administration (FHA).

FINAL VALUE ESTIMATE

The estimated value of a piece of property resulting from an appraisal following the USPAP guidelines.

FLIPPING

The act of purchasing a property and then reselling it quickly for a profit.

FORECLOSURE

Termination of all rights of a mortgagor, whereby a lender can claim the property to meet the obligations of the loan.

FUNCTIONAL OBSOLESCENCE

A decrease in the value of property due to a feature or lack thereof, which renders the property undesirable. Functional obsolescence can also occur when the surrounding area changes, rendering the property unusable for its originally intended purpose.

GRANTEE

Any person who is given ownership of a piece of property.

GRANTOR

Any person who gives away ownership of a piece of property.

GROSS LIVING AREA

The sum total of all floor space, including areas such as stairways and closet space. Often measured based on external wall lengths.

HOME EQUITY LINE OF CREDIT

A type of mortgage loan that allows the borrower to draw cash against the equity in his home.

HOME INSPECTION

A complete examination of a building to determine its structural integrity and uncover any defects in materials or workmanship, which may adversely affect the property or decrease its value.

HOMEOWNERS WARRANTY

An insurance policy covering the repair of systems and appliances within the home for the coverage period.

HUD-1 STATEMENT

A standardized, itemized list, published by the U.S. Department of housing and Urban Development (HUD), of all anticipated CLOSING COSTS connected with a particular property purchase.

INCURABLE DEPRECIATION

A depreciated item that would be impossible or too expensive to restore or replace.

INDEPENDENT APPRAISAL

An estimation of value created by a professional, certified appraiser with no vested interest in the value of the property.

INSPECTION

The examination of a piece of property, its buildings or other amenities.

LENDER

The person or entity that loans funds to a buyer. In return, the lender will receive periodic payments, including principal and interest amounts.

LINE OF CREDIT

An extension of credit for a certain amount for a specific amount of time. To be used by the borrower at his discretion.

LOAN

Money borrowed, to be repaid with interest, according to the specific terms and conditions of the loan.

MORTGAGE

A financial arrangement wherein an individual borrows money to purchase real property and secures the loan with the property as collateral.

MORTGAGE BANKER

A financial institution that provides primary and secondary mortgages to homebuyers.

MORTGAGE BROKER

A person or organization that serves as a middleman to facilitate the mortgage process. Brokers often represent multiple mortgage bankers and offer the most appropriate deal to each buyer.

MULTIPLE LISTING SERVICE (MLS)

The Multiple Listing Service is a service provided by an association of Realtors. Licensed Realtors can input listings into a network so a large scale of members can have access. These listings are in-turn utilized by buyers and sellers of property. The service is utilized by professionals in their field, which are typically Real Estate Agents.

NATIONAL ASSOCIATION OF REALTORS (NAR)

This is an organization of Realtors with a mission to encourage professionalism in real estate and its activities.

OBSOLESCENCE

The process of an assets value diminishing due to the development of more desirable alternatives or because of the degradation of its capabilities.

POINT

A percentage of a mortgage amount (one point = 1 percent).

PROPERTY

Any item that is owned or possessed.

PURCHASE AGREEMENT

A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

REAL ESTATE

A piece of land and any improvements or fixtures located on that land.

REAL ESTATE AGENT

A licensed professional who facilitates the buying and selling of real estate.

REAL ESATE OWNED

Property acquired by a lender through foreclosure and held in inventory, commonly referred to as REO.

REALTOR

A real estate agent or broker who is a member of the National Association of Realtors.

REMODEL

An activity designed to improve the value or desirability of a property through rebuilding, refurbishing, redecorating or adding on to it.

RESIDENTIAL PROPERTY

A piece of property that has highest and best use as a residence.

SALE PRICE

The actual price a property sells for, exclusive of any special financing concessions.

SALES COMPARISON APPROACH

The process of estimating the value of a property by comparing it to comparable properties that have sold on the open market.

SCARCITY

An economic principal that dictates the price of a good or service through the interaction of supply and demand. When an item is scarce, its price tends to rise, given a constant demand. Real Estate is a classic example of scarcity.

SELLERS MARKET

Economic conditions favorable for sellers, reflecting rising prices and market conditions.

SINGLE-FAMILY PROPERTY

A property designed and built to support the habitation of one family.

SUBJECT PROPERTY

A term that indicates a property that is being appraised.

SURVEY

The process of measuring land to identify its location, size, and physical description.

SWEAT EQUITY

Value added to a property realized by work performed personally by the owner.

TERMS

Provisions in a contract; interest rate and payment obligations of a loan.

TITLE

A specific document that serves as proof of ownership.

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE (USPAP)

Developed in 1986 by the Ad Hoc Committee on Uniform Standards and copyrighted in 1987 by The Appraisal Foundation, USPAP forms the guidelines followed by every licensed and certified real estate appraiser in the United States. The purpose of these Standards is to establish requirements for professional appraisal practice, which includes appraisal, appraisal review, and appraisal consulting. The intent of these Standards is to promote and maintain a high level of public trust in professional appraisal practice.

WHOLESALING

A term referring to buying a home below market value and reselling it a little higher but still below market value to realize a profit.

WEAR AND TEAR

A term used to indicate the normal damage inflicted on a property through every-day use.

ZONING ORDINANCE

Act of city, county, or other authorities specifying the type of use to which property typically is in specific areas. Typical zones include single-family, multi-family, industrial, commercial and mixed-use.