

Making Money in Real Estate Series



A Fortune In Foreclosures

By Maurice L Roberts

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Introduction

My name is Maurice Roberts and from the beginning I would like to point out that buying foreclosures is not the answer for everyone. But, if you are willing to do a good deal of legwork, this book may represent a real boon for you. And, if you are interested in foreclosures as investment vehicles, I will venture that you will find this book a source of accurate and useful information.

I learned the hard way many years ago that there really is no such thing as 'the free lunch', the old saying that luck is the combination of preparation and opportunity is as true in this business as in any other.

My true goal is to be sure you know that there will be effort required on your part to track down the amazing values that are waiting for you in this field. Real estate remains the greatest of all investments.

If you intend to become rich...you need to learn everything about buying foreclosure houses and investment properties below market value and making right investments that will bring you real financial independence. In other words you just need to know "How To Do It."

This course show you the proven techniques and realistic strategies expressly designed to make you the most qualified person in your town who knows where to find the bargain properties first and more importantly how to act upon these opportunities.

You have probably wondered why the rich seem to get richer, without really working hard, while you continuously struggle to save enough money for retirement some day. Have you ever wondered what it would be like to have a successful home business of your own?

A business that you could operate in your spare time with the great potential to not only bring in tens of thousands of dollars each month but also provide a lifetime of financial security and peace of mind. This is the kind of lifestyle you could be enjoying as a successful real state investor.

One of the most profitable real estate investments available anywhere has been foreclosure investing. Vast fortunes can be made in the buying and selling of foreclosure properties. It is not difficult to build your wealth fast with foreclosure. The only requirements are knowledge and commitment.

Real estate has created more millionaires than all other wealth-building systems combined. It has and always will continue to generate large sums of money for those who recognize the opportunity and participate in it.

With this manual, You can get into this potent real estate game and take full advantage of the finest opportunity available for building your wealth.

This wide-ranging information crammed guidebook shows you step-by-step why foreclosure property is the best investment in today's economic climate and how to build a sound, solid investment program that makes inflation work for you instead of against you.

Now you can truly enjoy all the luxuries that financial independence brings.

Maurice L. Roberts



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How Do Foreclosures Come About

In accord with Webster the word "foreclosure" means "to stop" or "to prevent." These days we are familiar with the word mainly because of its reference to mortgages.

In law, to 'foreclose' a mortgage means to cut off a borrower (known as "mortgagor") from his right to redeem a property.

Foreclosure provides the legal means by which a property owner may be stripped of that property right because of his failure to live up to the terms of the contract he made when he borrowed the money and pledged his real property as security for the loan.

First understand that banks do not give mortgages. That may be surprising to many people, but it is nevertheless true. Banks loan money and take back mortgages as security for the loan.

Although the underlying principles extend back to English common law, today's foreclosure procedures can be affected by state, county, and even local municipality laws. Unfortunately, there is no national code for foreclosures; in all probability, things would be a great deal simpler if there were!

All over the country, property owners are being foreclosed in record numbers.

Basically, foreclosure is a legal process initiated by a lien holder or mortgage holder, as set forth by state and local laws and a contractual obligation when a property owner can no longer make payments. This obligation is spelled out in a trust deed or mortgage contract.

In essence the original loan which was used to buy real estate is not being paid back as agreed upon is considered to be in default. The goal of the foreclosing lender is to end the rights of possession of the property owner.

Foreclosure then, is a legal process whereby the lender takes a property back from the borrower whose loan is in default and then sells the property to pay off the loan.

Briefly, The Most Common Cause for Foreclosure.

It should be noted that foreclosures take place all over the country in good economic times as well as in bad. Knowing why people fall behind in payments and how they get into financial trouble should be important for you to fully understand the overall foreclosure process.

1) Divorce

Without a doubt divorce is the most common reason for foreclosure. Pointing to a recent statistic, more than 50% of all married women work full time. With half of all marriages ending in divorce, it is easy to see that these foreclosure problems will be continuing in the future. With a divorce drastically reducing the household income to that of one person, there is usually insufficient income to afford to make payments on the house.

2) Unemployment.

This is perhaps the easiest reason to understand. When a person loses his or her job, the regular income not available.

3) Medical Problems.

Rising health care costs have drastically increased the insurance premiums, as well as the treatment costs out of the range of many. Today, most Americans cannot afford proper medical care. Over 28 million working Americans either do not have, or cannot afford health insurance.

4) The Economy.

When the economy is strong and confidence is high, people buy homes even at high interest rates. This is quite natural because real estate is appreciating and makes good sense in terms of investment.

However, when there is a down-turn of the economy, the real estate market usually takes a “nose dive” and foreclosures increase.

5) Death.

Oftentimes foreclosures will be a result of death.

6) Other common factors leading to foreclosure: balloon profits, relocation, business failure, military service, living beyond one's means, misuse of the equity, etc.

Other Grounds & Causes for Foreclosure Actions

Tax Liens

Sporadically, you read in your local paper about public sale of tax liens. Taxes take precedence over all other claims including those of the mortgage.

Prior to World War II, the banks took payments of principal and interest only; mortgagors were permitted to make tax payments directly. One of the foremost considerations in allowing this was the fact that the ratio of debt to value in those days was usually quite low.

If the bank had to foreclose and pay up back taxes, the value of the property was sometimes insufficient to cover all obligations.

Today, most mortgagees require that escrow funds be established with the bank for the purpose of making sure that taxes are paid on time and that fire insurance is continually in force. The funds can provide another source of bank money; although they are escrow or trust funds, in some jurisdictions they may be used by the bank in normal banking practices. Most banks, of course, are regulated by state laws.

Some states require that a percentage of the total amount be maintained and do not restrict the movement of the unregulated portion.

The majority of banks calculate the amount of the escrow based upon a need factor, although some build in large cushions in these accounts. Because of this practice, many states require that interest be paid on the escrow accounts since they are savings reserves and belong to the borrower. The amount of interest is usually a token figure.

Tax Sales

Most tax sales don't originate with properties that are mortgaged with regulated mortgage companies or banks. They take place on properties that are usually free and clear of mortgages.

Payment of taxes is a critical part of the bank's mortgage procedures. It is quite rare for a regulated lender to neglect to pay taxes. In fact, in today's computerized society, it's almost impossible to forget to pay taxes due on mortgage accounts.

Who, then, defaults because of problems with tax payments? In many cases, senior citizens who simply don't understand their obligations; no one tells them about what payments must be made or the consequences of nonpayment.

Let's look at the mechanics of the tax sale. When the municipality puts the tax liens up for sale, that taxing authority (usually the county) is selling the bid to the public.

Depending on local statute, the party who buys the claim has the right to claim title to the property after expiration of the statutory time for redemption. That period could be perhaps one or two years, depending on local law.

During the redemption period, interest is accruing at a rate permitted under the statute. You can see, then, that the person who purchases tax liens has a good deal.

He is offered a good rate of return on his investment, and if the defaulting party does not redeem the lien, then he has acquired a good property at very little cost.

Sheriff's Sales

Recovery by a creditor for obligations other than mortgage default is usually carried out by means of a sheriff's sale. In these actions there are other considerations and regulations that enter into the process. There is no national law on these subjects; they are governed by local law. You should consult your lawyer with respect to any of these situations.

Many states and municipalities have homestead exemptions, which apply in sheriff's sales for judgments other than mortgage debt. The exemption is usually expressed in dollar amounts. New York, for instance, has a \$10,000 or more exemption. What this means is that if you acquire a property under this type of sale, you must give an allowance of \$10,000 to the foreclosed party.

Why is such a measure necessary? There were once some pretty shady characters who abused the system, buying up judgments from creditors and foreclosing mercilessly on unfortunate owners. The homestead exemption is one small window of protection for the homeowner. Without it, many victimized homeowners (particularly widows) would be destitute.

In addition, you should know that foreclosure actions by sheriff's sale differ from customary mortgage foreclosures in that they usually carry with them a right of redemption. The period in which the defaulting party has the opportunity to make restitution is generally identified by local statute. Such a provision constitutes another protection for the person in default.

Non-Monetary reasons for default

Foreclosure actions can be instituted for non-monetary reasons, too, although this may be surprising to many people. The fact to remember is that the mortgage agreement is a contract; when you breach a contract, there are avenues of relief open to the aggrieved party.

You can't rewrite what you agreed to according to what you believe it should be. If you break the agreement, you may well face some unpleasant consequences.

Today one of the most common non-monetary reasons for default is the sale to a third party of property subject to an existing mortgage that is non-assumable and "due on sale." That means that in the event of a transfer, the mortgage must be paid up. The remedy for breach is foreclosure.

There are other reasons for non-monetary actions, including breach of covenants and restrictions contained in the mortgage and divestment of any part of the mortgaged security, whether it be land or appurtenances-buildings attached to the property.

When these conditions exist, the mortgagee has the right to accelerate the payments, in other words, call for payment of the entire principal balance, even though all the monthly payments have been made. In these instances, the payment history is not at issue; the non-monetary violations are of such a nature that the mortgagee wants out. The option of making payments on a monthly basis is simply revoked.

Also, Actions By Third-Parties

Occasionally a foreclosure action will be halted before the sale by the action of a third party who pays the plaintiff (the mortgagee) and takes an assignment of the proceeding. One of the most common reasons for this is that the new successor mortgagee has considerable obligations due him and is seeking to protect his interest by controlling the foreclosure.

By getting an assignment of the foreclosure action, the third party can protect his interest and acquire the title without the penalty of the other liens. (His interest may be by mortgage or judgment, of course.) Such a lien is a junior lien to others; if the foreclosure sale is not carried out, the initial liens still apply to the property.

Terminology & Methods of Foreclosure

A basic understanding of the terminology and methods of foreclosure.

In about half of the states, there are mortgages, in others, there are deeds of trust.
(See Page 17)

As to a mortgage state:

The Pledges Contained in a Mortgage

1. Mortgagor promises to pay the principal mortgage debt.
2. Mortgagor will keep building insured against fire for the benefit of the mortgagee.
3. No building will be demolished or removed without the consent of the mortgagee.
4. The entire principal will become due in the event of default of payment of principal, interest, taxes, or assessments.
5. The mortgagor will consent to the appointment of a receiver in the event of a foreclosure.

These five covenants have received virtually universal acceptance among savings banks and savings and loan institutions.

The first three are agreements that the mortgagor must adhere to; in the event that these agreements are breached, the other two covenants are options that the mortgagee must pursue. Why "must"? Mortgagees are really trust officers. The money they've loaned you is not theirs. It belongs to their depositors; mortgagees have no right to take risks with other people's money. They must, therefore, stick to the letter of the agreement.

These last two covenants give the bank the means to foreclose. One provides for the appointment of a receiver; the other provides that, in the event of default, the bank can accelerate payments and ask for the entire balance. The accelerating payment covenant is of great importance to the bank.

If it didn't have such a provision, it would be in court continuously, suing for three or four back payments at a time, then repeating the procedure. In essence, when the bank's lawyers take someone to court, they want all of the money; if it can't be paid, they want a judgment against the mortgagor.

A Deed State

Basically, a deed of trust differs from a mortgage in that the trustor (borrower) hypothecates his legal title on the property to a trustee who is the actual legal title holder-while the debt obligation exists. The process is a pledge of the property to a third party, in order to ensure that you, the borrower, will make the payments as agreed.

A 'Deed of Trust' is also a legal instrument and is used as a mortgage is used. The "deed" to the property is placed "in trust" with a third party, to make sure payment of the loan and/or other stipulation of the loan contract.

There is also a difference in the titles of the parties involved. The lender is known as the "beneficiary". The borrower is the "trustor" and the third party is known as the "trustee". The trustee holds title to the property for the benefit of the lender as collateral or security against the loan, in the event that the borrower defaults on the loan.

Both the mortgage and the deed of trust serve the same purpose that is; to secure the loan through title, repossession or foreclosure of the property - to gain control of the property and its assets – and to remove the borrower from controlling or possessing the property. Both of these methods, are also known as security devices.

Banks favor the deed of trust since it makes applying the foreclosure process considerably easier should the need arise to do so. No judicial approval is required to begin foreclosure; in effect, the receiver (a term we'll learn more about later) is already appointed. In many areas, the deed of trust carries with it something called the "right of redemption."

The right of redemption is a process whereby the defaulting mortgagor (borrower) can regain title to the property by fulfilling specific legal requirements. Although the property has been foreclosed, this foreclosure is revocable and can be overturned.

Judicial vs. Non Judicial Methods of Foreclosure

The deed of trust is the security instrument most widely favored by banks and other lending institutions. All deeds of trust contain a power-of-sale clause which allows the trustee (the third party) to advertise and sell the property if the trustor defaults on the loan. The trustee can sell the property without the authorization of the courts.

This is why lenders favor this method of foreclosure because it is less expensive and less time consuming. There is no need to involve an attorney or the courts in any way.

The other method of foreclosure is the judicial method, practiced in “lien theory” states. The lien theory stipulates that the borrower pledges or hypothecates the property’s title to the lender – and that in case of default – the lender shall through court proceedings – foreclose on the property and gain clear title. Hypothecation creates a lien on the property, as agreed to in the contract, by both the borrower and lender.

Significant Differences Between Deeds & Mortgages in Procedure and Time.

- Initial Actions you must take
- Time to Complete Foreclosure
- Redemption Period
- Deficiency Judgment

Important Foreclosure Aspects

STATE	INITIAL ACTIONS	Time of Completion	Redemption Period	Deficiency Provision
Alabama	Publication	1 month	12 months	Allowed
Alaska	Notice of Default	3 months	None	Allowed
Arizona	Notice of Sale	3 months	None	Allowed
Arkansas	Complaint	4 months	None	Allowed
California	Notice of Default	4 months	None	Prohibited
Colorado	Notice of Election	2 months	75 days	Allowed
Connecticut	Complaint	5 months	None	Allowed
Delaware	Complaint	3 months	None	Allowed
DC	Notice of Default	2 months	None	Allowed
Florida	Complaint	5 months	None	Allowed

Georgia	Publication	2 months	None	Allowed
Hawaii	Publication	3 months	None	Allowed
Idaho	Notice of Default	5 months	None	Allowed
Illinois	Complaint	12 months	None	Allowed
Indiana	Complaint	5 months	3 months	Allowed
Iowa	Petition F/C	5 months	6 months	Allowed
Kansas	Complaint	4 months	6-12 months	Allowed
Kentucky	Complaint	6 months	None	Allowed
Louisiana	Petition for Process	2 months	None	Allowed
Maine	Complaint	6 months	None	Allowed
Maryland	Notice	2 months	None	Allowed
Massachusetts	Complaint	3 months	None	Allowed
Michigan	Publication	2 months	6 months	Allowed
Minnesota	Publication	2 months	6 months	Prohibited
Mississippi	Publication	2 months	None	Allowed
Missouri	Publication	2 months	None	Allowed
Montana	Notice	5 months	None	Prohibited
Nebraska	Petition	5 months	None	Allowed
Nevada	Notice of Default	4 months	None	Allowed
New Hampshire	Notice of Sale	2 months	None	Allowed
New Jersey	Complaint	3 months	None	Allowed
New Mexico	Complaint	4 months	None	Allowed
New York	Complaint	4 months	None	Allowed
North Carolina	Notice of Hearing	2 months	None	Allowed
North Dakota	Complaint	3 months	60 days	Prohibited
Ohio	Complaint	5 months	None	Allowed
Oklahoma	Complaint	4 months	None	Allowed
Oregon	Notice of Default	5 months	None	Allowed
Pennsylvania	Complaint	5 months	None	Allowed
Rhode Island	Publication	2 months	None	Allowed
South Carolina	Complaint	6 months	None	Allowed
South Dakota	Complaint	3 months	180 days	Allowed
Tennessee	Publication	2 months	None	Allowed
Texas	Publication	2 months	None	Allowed
Utah	Notice of Default	4 months	None	Allowed
Vermont	Complaint	7 months	None	Allowed
Virginia	Publication	2 months	None	Allowed
Washington	Notice of Default	4 months	None	Prohibited
West Virginia	Publication	2 months	None	Allowed
Wisconsin	Complaint	Varies	None	Allowed
Wyoming	Publication	2 months	3 months	Allowed

Compare Types of Action Needed For Foreclosure (Mortgages/Trust Deeds)

Mortgages

When you receive a home loan from a bank or other lender, you will sign the following two most important papers.

- 1) A promissory note that outlines the terms and conditions of the loan and your obligation to make the specified monthly payments to the bank. It is the promise to repay the loan.
- 2) A mortgage contract that is a pledge of security and collateral for the debt. This legal document is created to give the mortgagee (lender) certain rights to the property in the event the mortgagor (borrower) fails to perform as agreed in the loan agreement by pledging the property being financed as collateral. A mortgage simply pledges the property as security for the payment of the loan.

The course of action is different from state to state. In some states, the contract actually conveys the property to the lender until the terms of the mortgage contract are fully met. In other states, the mortgage acts as a lien against the property.

The borrower retains possession and use of the property, as long as the terms of the mortgage contract are met.

The contract states that the borrower will protect the property and pay the loan back. It also states that if the borrower doesn't make the payments as promised, the lender will accelerate the loan and the borrower agrees to the foreclosure process if it becomes necessary.

Illustrated Judicial Process – Court Action

<u>Home Owner</u> Mortgagor Party who Borrows	<u>Bank/Lender</u> Mortgagee Party who Lends
Mortgagor Pledges (Hypothecates) The Property as Security for the Loan	If Mortgagor Defaults Mortgagee Must File a Complain or Law Suit to Collect the Money

Mortgagee Must File Suit and Go To A Judge to Collect the Money

Formal Judicial Foreclosure Process

- Mortgagor Defaults on Monthly Payments
- Mortgagee Advises the Mortgagor of Default and Sends Warning Letter
- When Response from the Mortgagor
- Attorney Representing the Mortgagee Files a Lawsuit Complaint
- After A Court Hearing Entry of Decree of Judgment
- Gives A Notice of Foreclosure Sale
- After a Prescribed Notice Period – The Foreclosure Sale
- There Is A Redemption Period in Some States

Trust Deeds

As stated before a 'Deed of Trust' is also a legal instrument and is used the same way as a mortgage, with marked differences.

The “deed” to the property is placed “in trust” with a third party, to make sure payment of the loan and/or other demands of the loan agreement.

There is also a difference in the designation of the parties involved. The lender is known as the “beneficiary”. The borrower is the “trustor” and the third party is known as the “trustee”.

The trustee holds title to the property for the benefit of the lender as collateral or security against the loan, in the event that the borrower defaults on the loan.

Both the mortgage and the deed of trust serve the same function, that is to secure the loan through title, repossession or foreclosure of the property, also to gain control of the property and its assets, as well as, remove the borrower from controlling or possessing the property.

Both of these procedures, are known as security devices.

The Legal *Trustee* and *Trustor* Relationship

- TRUSTEE:
Independent Third Party that Holds Title
- TRUSTOR:
Homeowner or Borrower
Trustor Pledges (Hypothecates) to Pay Beneficiary
- BENEFICIARY:
Bank, S & L or
Individual
Beneficiary Loans the Money



Thanks for reading these brief few pages, of one of the most successful and original career course manuals available on building your own home-based *Real Estate Foreclosure business.* Learning from an established professional is the best way to starting your own profitable home business.

If you'd like to consider the complete course, [click here...](#)

For information on our other career courses go to either anezbizz.com or ahow2.com

Note: To read another *sample edition* of our famous home study courses follow this link... [Learn](#)

Whatever, your decision may I talk this opportunity to wish you the best of good fortune, and remember, don't leave your future to *the whim of others.*

Your friend;

Joe Myna