

About Foreclosure and How the Foreclosure Process Works

When a homeowner purchases a property and borrows money from a lender (usually a bank), the borrower signs a promissory note, which is an agreement to pay the debt that is listed in the note. The promissory note includes key terms like the interest rate, the term of the loan, the monthly payment amount, and the loan balance amount.

The way that the lender secures the home to the promissory note, is different depending on which state you live in. Judicial states use mortgages to secure the home to the note. Non-judicial states use deeds of trust to secure the home to the note. It is important for you to know if your state is a judicial, or non-judicial state to understand the foreclosure process in your state.

If the borrower does not pay according to the terms of the promissory note, the lender can initiate a process to take the property back since the mortgage (or deed of trust) secures the promissory note to the property.

The mortgage (or deed of trust) ensures that the property itself is collateral for the debt obligation that is listed in the promissory note.

If the borrower does not pay, the way that the lender takes the property back is through a specific foreclosure process. This foreclosure process is different from state to state.

Judicial Foreclosure States

States that use mortgages use judicial foreclosures. In a judicial foreclosure state, the lender must file a lawsuit in court, to foreclose on the property.

In a judicial state the process of foreclosure must go through the state court system, and the lender cannot take back the home without going through the court, and having a judge sign off on the auction to sell the home.

In a judicial foreclosure, there are three documents that a lender must prepare and submit to begin a foreclosure lawsuit against the borrower.

Those three documents are:

1. a complaint (or petition for foreclosure)
2. a summons
3. a notice of Lis Pendens

Complaint for Foreclosure

The complaint (which is often called a petition for foreclosure) lists the key claims of the foreclosure lawsuit. The complaint or petition will include the mortgage, the promissory note, the property address, the amount that is due including fees, penalties, and interest, and who the defendants are, along with their interest in the property.

The complaint (petition for foreclosure) will also let the court know what remedy the lender is looking for (this is called the “relief”). For example, the complaint or petition for foreclosure can ask the court to sell the property, and to apply the proceeds from the sale of the property to pay the mortgage debt that is owed. The complaint can also ask for a “deficiency judgment” which means that if the property sells for less than the amount that is owed to the lender, the lender can get a judgement against the borrower for that shortfall amount.

Summons

In a foreclosure lawsuit, a summons is issued for each defendant who is named in the foreclosure lawsuit. The plaintiff in the lawsuit is the lender who is initiating the lawsuit. The defendants in the lawsuit are the borrower, anyone that has a lien on the property (lienholders), judgment holders, and any occupants of the property (tenants or anyone else that is occupying the home legally or illegally).

The purpose of the summons is to inform the defendant(s) that they must file an answer with the court to contest the allegations of the lawsuit. If the borrower were to have any documents that could help them prove that they did make their payments on time, or that the amount that is owed is different

to what they believe that they owe, this would be their opportunity to present those facts to the court.

The defendants are given a certain number of days to do this (usually 20 to 30 days). It is usually during this period that some defendants will choose to hire a foreclosure defense attorney to represent them in the lawsuit. Foreclosure defense attorneys can and do stall foreclosure sales and can be quite effective sometimes at stalling the foreclosure for months (and sometimes even years). One of the strategies utilized by foreclosure attorney's is to recommend to the homeowner that they file for bankruptcy. If the homeowner does this, then the bank that is suing the homeowner must cancel the foreclosure auction and initiate a new lawsuit which must go through the bankruptcy trustee. This cancels the foreclosure auction sale and is often implemented just days before the auction sale date to give the borrower as much time as possible (and stall the bank). This is another reason why buying at the courthouse can be a huge waste of time.

Lis Pendens

“Lis pendens” is Latin for “lawsuit pending.” In a judicial state, a notice of lis pendens is recorded with the county recorder office. The lis pendens is a document which is public record, and it informs the public that a lawsuit involving the property is now pending. The lis pendens “clouds the title” to the property and notifies title companies and attorney's that do a “title search” that there is a lawsuit pending. Title companies will not insure the title if there is a lis pendens. This means that the property cannot be sold since buyers will not buy properties without “clear title”. Lenders will also not lend on a property without clear, marketable, and insurable title.

In a judicial state, once a judge signs off on a foreclosure auction, a foreclosure notice is published. This is known as the Notice of Foreclosure Sale or (NFS). The auction date is scheduled and made public and is printed in a local newspaper and can also be obtained at the county courthouse or on their website.

Marketing to Homeowners in Foreclosure

If the property owner still owns the property, the property is in “pre-foreclosure”. The property is considered in “Pre-foreclosure” after the lender has initiated the lawsuit but before the borrower has lost the property. Since Lis Pendens is public knowledge, many real estate investors will market to lists of homeowners in foreclosure. These investors can obtain a list of properties in foreclosure directly from the courthouse or from the county web site.

Investors can also choose to subscribe to foreclosure services that provide these lists for a flat monthly fee. There are also many companies that provide this data with a software or subscription-based service where the investor pays based on the number of records they retrieve.

Many list brokers also provide mailing lists of homeowners in foreclosure. These lists can be compiled by the mail house for the investor. Most of these companies now have online access where an investor can access the data on the list brokers web site and perform a search.

Investors purchase these foreclosure lists and market aggressively to the property owner via direct mail. many of these investors will pull new lists every month or every week, and mail postcards or yellow letters to homeowners in foreclosure.

Some investors “skip trace” the list to get phone numbers and email addresses of the owners of the property. They then use this information to cold call, send emails, texts and ringless voicemails to the property owner.

Marketing to homeowners in foreclosure is a competitive business. Property owners that are in foreclosure, are often overwhelmed by the amount of phone calls, texts, emails, and direct mail that they receive from investors.

This is further exacerbated by the fact that the property owner is also overwhelmed and frustrated with the fact that they are in foreclosure and may lose their home. In many cases this may be because of something

external that has happened like the loss of a job, or even death or disability of a family member who was paying the mortgage.

Smart real estate investors understand that empathy and understanding are especially important characteristics to have when talking to homeowners in foreclosure. This is hard for many real estate investors to do since they are so focused on buying the property. But it is especially important because one of the best ways to “build rapport” with the homeowners is to understand their situation, and how they got into foreclosure.

Many homeowners are responsible citizens that always pay their bills on time and they may be in shock or disbelief and be ashamed of the situation that they are currently in. They may want to “explain” or let you know how they got into this mess. If you are a smart investor you will listen to their story and then you will see if you can help them by solving their problem. In my opinion, the key thing (in any business) to the business being successful is for the business to be creating a solution to a problem or solving a problem. As a real estate investor, you should be a problem solver and a solution creator.

In some cases, the borrower’s best option may be to stay in the home for as long as possible and to save as much cash as possible until they are forced to leave. If the borrower credit is terrible, and they have maxed out their credit cards and are planning on filing bankruptcy, then having a foreclosure on their credit report may not be a big deal for them.

For some, the solution may be a loan modification. If they love their home, if their kids are in a good school system, and if their situation is temporary and not permanent then a loan modification may be a good option for them.

If they are negative equity and cannot sell their home, and have exhausted all options including loan modification, and would prefer to not have a foreclosure on their record then a short sale may be a good option for them.

The key thing is to focus on the strategy that will work best for the borrower. What I find is that many times the burden of the foreclosure becomes so heavy that the homeowner just wants to be rid of the problem. If you are seen

as a solution creator and problem solver, and you provide them with a solution to their problem – if they like you, they are more likely to sell their house to you instead of to another investor. That is why building rapport is so crucial.

There are many state laws that dictate what you can and cannot say when interacting with homeowners in foreclosure. These vary by state, and rules change. You need to be aware of these laws and you need to know what you can and cannot do when interacting with homeowners. You should consult with a foreclosure attorney in your state and have a working relationship with foreclosure attorney's in general.

You cannot never give legal advice to a homeowner if you are not an attorney. You should refer them to one of the foreclosure attorney's that you have established a relationship with (for exactly this purpose).

You cannot suggest or mention “foreclosure defense” tactics or give the homeowner any kind of “advice” if you are not an attorney. You can also not charge them a fee or offer any type of “stalling” tactics for a fee. In the prior financial crisis of 2008, there were many scammers that were doing this and who were marketing aggressively with terms like “stop foreclosure”. Do not do this under any circumstances. Many of these people went to jail.

Having a good understanding of the foreclosure process is also an excellent way to have a discussion with the homeowner. I like to present the homeowner with the facts and let them choose for themselves. I find that this is an effective strategy since by providing free information and helping them I am the one investor that they feel that they can trust. This results many times in the homeowner calling me and selling me their home (sometimes months later). It is easy to be perceived as a vulture and someone who is taking advantage of homeowners in foreclosure. But if you listen to their story, employ empathy, and become a problem solver you will not be seen in this way at all. Many homeowners that have sold me their home were very thankful. I have had more than one seller hug me before I left their house.

Here are some tips for marketing to homeowners in foreclosure:

1. Have an excellent understanding of the foreclosure process.
2. Listen, build rapport, and have empathy for their situation.
3. Help them by offering them all the solutions that are available.
4. Buy their home if it is the best solution for them.
5. If there is a better solution than you buying their home let them know that and let them choose to still sell their home to you if they want to.

Prior to the homeowner losing their home they have options:

- They could reinstate their mortgage by paying the balance that is owed to the bank (or paying part of it).
- The bank may agree to a payment plan for them to get caught up.
- They could work out a loan modification where the balance or interest rate is reduced, or the lender agrees to put the balance owed at the back end of the loan if they begin making payments again.
- They could initiate a short sale and sell the house for less than what is owed to the bank (assuming they could get the bank to agree).
- They could do nothing and stay in the property for as long as possible without paying anything and they could try and save as much as possible since they will need money to make their next move.
- They could move out and “ignore” the situation and lose the home.
- They could hire a foreclosure defense attorney and “fight” the foreclosure or delay and stall the foreclosure.

If the borrower does not work out a plan with the lender, the foreclosure auction date will get closer and closer. At a certain point, the lender will no longer be willing to negotiate with the borrower. At this point the property will go to the foreclosure auction.

Foreclosure Auction

The foreclosure auction is conducted at the courthouse. The foreclosure auction can be held online or in person (or both). Anyone can register with the courthouse to bid. Bidders need to pay all cash (no mortgages). Bidders

have no protection and need to understand and know how to perform a lien search since the court does not provide a lien search. In many cases, access to the property is not available.

The typical bid deposit is 5% of the purchase price. The bidder is required to submit the other 95% within 24 hours. I do not recommend that you get involved in purchasing properties at the courthouse. Especially if you do not understand how to perform lien searches and if you do not understand priorities of liens and positions of mortgages.

If you are going to purchase properties at the foreclosure auction, I suggest that you hire an attorney to help you check the title and to perform a municipal lien search for you. You should be checking for code enforcement violations, building department violations, utility liens, any other liens, and any open or expired permits. This is not an area of investing that I recommend for beginners. If you are an attorney, or you own a title company, then this could be an excellent area for you to specialize in.

Many newbies make tragic mistakes by not knowing what they are doing. I have personally witnessed people bidding at the courthouse who thought they were bidding on a property, but later found out that they purchased an HOA lien or a second mortgage on the property (and not the property itself).

This is a buyer beware “caveat emptor” marketplace. If you do not know what you are doing stay far away from buying at the courthouse. Many beginners mistake bank owned property auctions with foreclosure auctions on online sites like Hubzu and Auction.com. They are not the same thing. REO’s are already owned by the bank. Foreclosures are owned by the homeowner.

The foreclosure auction may be held online, or it may be held at the courthouse. At the auction, the lender has a representative (usually an attorney) that bids on behalf of the lender up to the amount of the mortgage balance that is owed. The lender's interest is in getting their money back, not in buying the property. If other bidders bid higher than this amount, then the property will sell to the highest bidder. At this point the winning bidder will pay for the property and the lender will receive their money. Any proceeds

that are left over (if any) will go to the owner of the property. All court fees, legal fees, penalties, and interest will first be deducted.

What happens on the day of the auction is usually one of three things:

1. The borrower initiates a stalling tactic like filing bankruptcy a few days prior to the auction date to get the foreclosure auction cancelled.
2. The property sells for less than the balance that is owed to the lender and the property goes back to the lender (bank) and becomes an REO.
3. The property sells for more than what is owed to an investor, and the lender is paid in full and the property is now owned by an investor.

Non-Judicial Foreclosure States

States that use deeds of trust use non-judicial foreclosures. In a non-judicial state, the lender does not need to go through the court system to start the foreclosure process.

The foreclosure process is much quicker in non-judicial states because it does not have to go through the court system. There are also less opportunities to stall the foreclosure. A Supreme Court Ruling in 2019 makes it even harder for borrowers to fight foreclosure in non-judicial states.

Non-judicial foreclosure states use a deed of trust instead of a mortgage to secure the promissory note to the property. However, it works differently than a mortgage. The deed of trust creates a security interest in the property. The deed of trust turns the promissory note into a debt which is secured by a lien on the property. The deed of trust allows the lender to foreclose on the property if the borrower defaults on the loan (by not making the payments on time).

The deed of trust allows the foreclosure to proceed outside of the court system. It is much easier and quicker for a lender to foreclose on a property in a non-judicial deed of trust state than in a judicial mortgage state.

States with Non-Judicial Foreclosures

Foreclosures are usually nonjudicial in the following states:

Alabama, Alaska, Arizona, Arkansas, California, Colorado, District of Columbia, Georgia, Idaho, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, Oklahoma, Oregon, Rhode Island, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wyoming.

The Non-Judicial Foreclosure Process is Different in Every State

State law is different in every state that has non-judicial foreclosure. As an investor, you will need to know the laws of your state.

The state law governs how much notice the borrower gets, how the property will be sold, what rights (if any) the borrower will have to reinstate the loan before the foreclosure date, and how the borrower can recover title to the property after it is sold.

Federal law requires that the lender must wait for the borrower to be delinquent by at least 120 days before starting a foreclosure action.

In a non-judicial state, the foreclosure process is initiated when the borrower receives a letter in the mail notifying them of the lender's intent to begin foreclosure. In many cases, the lender sends what is known as a "breach" letter, which lets the borrower know that a foreclosure will begin unless the borrower begins to make up the missed payments.

Sometimes the lender sends a Fair Debt Collection Practices Act (FDCPA) validation notice. And in some cases, the borrower might get a combination letter with both types of notice. The breach letter will include past due payment amounts, legal costs, fees, penalties, and interest. This breach letter can be sent during the 120-day pre-foreclosure period and the lender does not need to wait 120 days to send this letter.

Notice of Default (NOD)

Depending on the state and what state law requires, the borrower will get a notice of default that gives them time to reinstate their loan by paying all the

past due payments, fees, and interest. A notice of default is a public notice that is filed with the court that states that a mortgagor is in default. The notice of default is the final action lenders take before activating the lien from the deed of trust and taking back the property.

The notice of default must include the borrower and lender's name and address, the property address, and the nature of the default and the amount owed. If the borrower does not make any payments by the deadline in the notice of default, the borrower will receive a notice of sale.

Notice of default (NOD) lists can be purchased in a judicial state by list providers and list brokers or the list can be obtained from the courthouse.

If you are marketing to homeowners in foreclosure in a non-judicial state, you will be purchasing an NOD list or Notice of Default List. The same companies and service providers that provide Lis Pendens lists can also provide Notice of Default lists. In the industry these are usually referred to as "foreclosure lists". When you purchase a foreclosure list it is either a Lis Pendens list or a Notice of Default list depending on whether your state is judicial or non-judicial.

Notice of Trustee's Sale (NTS)

In some states a combined notice of default and notice of sale is the norm. This combined notice states that the property will be sold on a certain date unless the borrower makes up the missed payments. Other states only give a notice of sale announcing that the property will be sold on a certain date unless the borrower pays the amount owed.

In a few states notice needs to be given only by publication and by posting a notice on the property. It is important for you to know what the process is in your state.

Right to reinstate

State law in some states allows the borrower to reinstate the loan by paying what they owe, plus fees and costs by a certain deadline prior to the

foreclosure sale. The deed of trust might also give the borrower a certain amount of time to reinstate their mortgage before a foreclosure sale. However, once the sale occurs, the borrower has lost the home for good.

If the borrower does not reinstate the loan, the home will be sold at the foreclosure auction. As with judicial foreclosures, the property often goes back to the lender if they are the highest bidder or when no one else bids on the property.

Right to redeem

A few states give you some time after the foreclosure auction to redeem the property (redemption period). During this time, the borrower can recover ownership of the property by paying off the successful bidder at the auction or by paying off the full loan amount.

What happens to the person living in the property?

The occupant of the home either leaves voluntarily or they will get evicted. If the occupant of the home does not leave the property when their legal right to remain in the property ends (which depends on state law), they will receive an official, written notice to leave the property.

Deficiency judgment

The lender might, if allowed by state law, later file a lawsuit against the borrower to get a deficiency judgment if selling the property does not fully pay off the mortgage debt.

If granted, the borrower is responsible for the outstanding balance left on the loan after the foreclosure sale. Most states allow for a deficiency judgment.

Bank Owned Property (REO)

After the foreclosure auction, the property goes back to the lender if no one bids more than the mortgage amount. At this point the lender (usually a bank) now owns the property and the property is then known as "Real Estate Owned" by the bank or REO.

Broker Price Opinion

As soon as the bank takes back the property, they start the process of getting ready to sell the property. This is done through a process that is handled by the “loss mitigation” department of the bank. The bank has an “asset manager” who is responsible for liquidating the property for cash to the highest bidder. Typically, the bank starts out with a “BPO’ or brokers price opinion which is what a real estate agent thinks the property is worth.

Banks give out BPO assignments to agents that want to list REO Properties. The agents usually are paid around \$50 to perform a BPO. Sometimes the bank also requires the agent to secure a company and to trash out the property and secure the property as well. Agents do this in the hopes of being given an REO listing which would allow them to earn 3% (or more) as a listing agent fee when the property sells.

The BPO lets the asset manager at the bank know what the real estate agent thinks the property is worth. The asset manager uses this information to establish a listing price. Many asset managers get more than one BPO and they will also look at comparable sales to determine what the property will likely sell for.

REOs Sell at A Huge Discount

Many REO’s are vacant and in bad shape. They sell for a substantial discount to market value because they need to be repaired. They also sell for a discount because the bank will only accept cash offers and wants to sell the property quickly. Since no mortgages are allowed and only cash offers are accepted you must be a cash buyer to bid on bank owned properties. Because many investors borrow hard money at high interest rates, and most of these properties require substantial repairs, the price that investors are willing to pay is substantially less than fair market value. Buyers of these properties are looking to purchase the properties, repair them and make a profit. They can only do this if they buy these properties at a huge discount to market value.

Banks are not landlords. Banks do not want to fix up houses and they do not want to own houses as rental properties. They want the property out of their inventory as soon as possible. In fact, banks get penalized for every bad loan and every REO that they have on their books.

Banks have an incentive to sell the property as fast as possible. They usually do this by listing the property at an aggressive low price where it will have a lot of interest from cash investors. The listing agents sell the property to the highest and best cash offer.

Proof of Funds Letter

To not waste time, the listing agent requires all buyers to show a “proof of funds” showing that they have the cash to pay for the property. The property is sold to the highest cash offer and at that point, the property is no longer owned by the bank.

Many buyers of these REO’s are investors and hedge funds that repair the property, and then keep the property as a long-term rental. Some buyers flip these properties for a quick profit to regular retail buyers who are buying with a mortgage. There are substantial profits to be made in purchasing bank owned properties.

The inventory of REO’s fluctuates depending on market conditions. After the financial crisis of 2008, there were millions of REO’s. At the beginning of 2021 there are almost no bank owned properties on the market. I believe this will change as the mortgage delinquencies increase and as the foreclosure moratoriums expire in 2021. I think there will be a substantial increase in foreclosures, short sales, and bank owned properties towards the end of 2021. And I think this will be a great opportunity for new investors to buy properties.

Getting Started with Foreclosures

If you are a new investor, the best thing you can do now while you wait for foreclosures to hit the market and for the moratoriums to expire is to arm yourself with the information that you will need to be a good foreclosure investor. I like to call this stage “sharpening your sword”. Just like a good warrior prepares for battle before the battle, a good foreclosure investor prepares for the increase in foreclosures and inventory before there are any foreclosures (or any inventory). Presently we are in a seller’s market, not a buyer’s market. There is zero inventory, and it is hard to find a deal. I anticipate that this will shift towards the end of 2021. The reason I believe this is because seller’s will start listing their homes back on the MLS once the risks from Covid dissipate. Around the same time that this happens, the moratoriums will expire allowing banks to sue and foreclose on delinquent mortgages. There are currently more than 20 million mortgages in default. When the banks start foreclosing, there will be a sudden and dramatic increase in foreclosures. 3 to 6 months after that you will see an increase in REO’s.

If you suddenly see a spike in foreclosures in your state, and you have not prepared, then your competition will beat you to the deal. Remember, this is a competitive business. There are tens of thousands of dollars that can be made on each foreclosure deal. I have made as much as \$80,000 on a \$100,000 house that I fixed and flipped. The profits can be very substantial.

Because of this, there are many companies and investors (like me) that will be competing with you for the best deals. If you are not prepared, you will not win the deal. If you wait until the foreclosures have spiked and only then start learning how the foreclosure process works you will be late to the party.

Learn about foreclosures now. Train yourself and educate yourself before the foreclosure spike. Your first step is to learn how the foreclosure process works in your state. Understand the different stages of foreclosure. Know the process and what happens from the Lis Pendens (or Notice of Default) being

served, the options that the borrower has during the pre-foreclosure stage, how the foreclosure auction process works, and finally how to buy and bid on bank owned properties.

Stages of Foreclosure

1. Borrower is behind on payments and is getting calls and letters.
2. The borrower is 90 to 120 days late and still has not paid.
3. The lender sues the borrower or puts the borrower into default.
4. The borrower receives a Lis Pendens or Notice of Default.
5. The borrower is in pre-foreclosure and is anxious and worried.
6. A notice of sale is published in the newspaper and online.
7. The property is listed for sale at the foreclosure auction.
8. The bank bids the highest, and the property goes back to the bank.
9. The property is listed on the MLS as a bank owned property

If you are a pre-foreclosure investor, you will be marketing to homeowners that are in stages 2 through 6 above. You can get notice of people that are late on their mortgage before they are sued by the bank. These are called (30,60,90) days late and are good to market to because you will be reaching them before other investors. This is a great stage to build rapport.

Unfortunately, many times the homeowner is still in denial and the reality of the severity of their situation has not yet hit them. Once they are formally sued by the bank, the gravity of their situation starts to sink in. At this point, many investors will be pursuing them.

If you cannot buy the property in pre-foreclosure, then the next stage is the foreclosure auction. You will have to register to bid at the courthouse for the property. I do not recommend that you do this at all unless you are an attorney or own a title company. You must pay all cash at the courthouse (no hard money or private investor loans) and you must do so within 24 hours. You need to understand what you are bidding on, how many other mortgages and liens there are on the property, and which liens will be wiped out with the foreclosure. It is complicated stuff and in my opinion, you should stay far away.

At the foreclosure auction, either an investor will win the bid, or the bank will win. Usually, the bank will bid up to the amount owed on the mortgage (or close to it). If other bidders are willing to pay more, the bank will let those bidders win. The primary goal of the bank is to get their money that is owed to them from the mortgage back. If someone bids higher than what is owed to them then they will be paid.

If no one bids, or no one bids high enough then the bank will be the highest bidder. At this point the bank will get the property back and the mortgage will essentially be ripped up. Now the bank has a property instead of their money. Their goal is to sell that property and get their money back as soon as possible. They do this by selling the property as a “bank owned property” more commonly known as REO which stands for “real estate owned” (by the bank).

At this stage, the asset manager at the bank will start the BPO process and list the property for sale on the MLS. The property may also be listed on other online auction sites as well. Familiarize yourself with all of the online auction web sites like www.hubzu.com , www.auction.com www.xome.com

You can register on these sites and you can bid on these bank owned properties. Make sure that you take the time now to register on these sites and to familiarize yourself with how the bidding process works. You should also read each websites terms of use and supporting documents to understand the process and the risks involved in bidding on these properties. Your biggest risk is that some of these sites will require a credit card to bid and if you win a bid and do not perform you will lose your deposit.

And this is exactly the point where new investors get “scared”. They want to buy bank owned properties, but they are not certain as to how much they should offer or bid on a property. Make sure this is not you.

Prepare and educate yourself by attending my [Wholesaling Real Estate Boot Camp](#) where I teach you the basics of wholesale and distressed real estate. You need to know what a property is worth after it has been completely renovated. We call this the “after repair value” or ARV for short.

You need to know how much it will cost to repair the property. We call this the “repair estimate”. And you need to know how much you would be willing to pay for the property. You calculate this by knowing the ARV and the repair estimate. I teach how all of this comes together at my [Fixing and Flipping Houses Boot Camp](#). I highly recommend that you attend both boot camps to understand the process.

I have a great profit estimator tool for my students which you can use that will help you calculate the profit potential on a fix and flip. You can [find that tool here](#).

Also understand that not all properties will end up at the foreclosure auction. Some sellers will be negative equity and will want to pursue a “short sale”. Make sure you understand what a short sale is and how to put a short sale package together. Understand how to bid on and buy bank owned properties.

Get Your Real Estate License

You will find that it is useful as an investor to get your real estate license. Some of the government entity websites like Fannie Mae, Freddie Mac and HUD will not allow you to bid on their websites if you do not have a real estate license. Since these entities make up almost 40% of bank owned properties, you cannot really afford to not have a real estate license. Having a real estate license will also give you the added benefit of being able to search the MLS, have access to lockbox codes, and be able to legally enter bank owned properties. These are the 3 websites you need to be able to bid on once you have your real estate license. www.homepath.com, www.homesteps.com and www.hudhomestore.com

Start Marketing to Homeowners in Foreclosure



Learn how to market to homeowners in foreclosure with direct mail, pay per click ads, Facebook ads, text marketing, email, and cold calling. You should be relentless in your marketing because your competition will be. Understand that it is simply a numbers game and that a certain percentage of people in foreclosure will sell you their home if you build rapport with them.

If you learn how to buy these properties directly from the seller before the auction you will be at a competitive advantage. But do not stop there. Become an expert at buying bank owned properties when they are listed on online auction sites and on the MLS. Learn how to buy properties from wholesalers and make your competition your partner by networking with as many wholesalers as possible.

There are always opportunities in real estate. And the opportunities do not end with investing in foreclosures. There are bank owned properties, inherited properties, probates, absentee landlords, hurricane and water damaged properties and many other opportunities to find wholesale deals at wholesale prices.

The past year has been a difficult year to find deals. But here are still many deals out there. My student Andy has added \$100,000 in equity on his latest rehab which he finished last week. My student Chris just flipped his highest profit fix and flip ever. Students and friends of mine all over the country are making millions of dollars right now fixing and flipping properties.

I am finishing up on a rehab of a property that will be listed for \$229,000. I paid \$115,000 for this property 6 months ago. I purchased the house directly from a homeowner who had inherited the property (probate). I found that deal from mailing a 33-cent postcard!

There will always be deals. But you must be looking for them to find them. You must be bidding on online auction sites. You must be searching the MLS every single day. And you must be marketing and advertising continuously.

Read my book "Wholesaling Bank Owned Properties" which you can download by [clicking here](#).

Register to attend my [Wholesaling Real Estate Boot Camp](#) to learn the basics of wholesale real estate including comparable sales, repair estimates and after repair values. You can see the [dates for my next boot camp here](#)

Since we discussed Judicial and Non-Judicial states quite a bit, I thought it would be helpful for you to show you a list of which state uses mortgages and which state uses deeds of trust.

As you can see from the list below, many states allow for both. But usually there is one predominant method for each state. Make sure you know what it is for your state. As an example, I live in Florida which is a Judicial state.

Judicial (Mortgage) and Non-Judicial (Deeds of Trust) States

State	Judicial (Mortgages)	Nonjudicial (Deeds of Trust)
Alabama	✓	✓
Alaska	✓	✓
Arizona	✓	✓
Arkansas	✓	✓
California	✓	✓
Colorado	✓	✓
Connecticut	✓	
Delaware	✓	
Florida	✓	
Georgia	✓	✓
Hawaii	✓	✓
Idaho	✓	✓
Illinois	✓	
Indiana	✓	
Iowa	✓	✓
Kansas	✓	

Kentucky	✓	
Louisiana	✓	
Maine	✓	
Maryland	✓	
Massachusetts	✓	
Michigan		✓
Minnesota	✓	✓
Mississippi	✓	✓
Missouri	✓	✓
Montana	✓	✓
Nebraska	✓	
Nevada	✓	✓
New Hampshire		✓
New Jersey	✓	
New Mexico (sometimes)	✓	
New York	✓	
North Carolina	✓	✓
North Dakota	✓	
Ohio	✓	
Oklahoma	✓	✓
Oregon	✓	✓
Pennsylvania	✓	
Rhode Island	✓	✓
South Carolina	✓	
South Dakota	✓	✓
Tennessee		✓
Texas	✓	✓
Utah		✓
Vermont	✓	
Virginia	✓	✓
Washington	✓	✓
Washington D.C.		✓
West Virginia		✓

Wisconsin	✓	✓
Wyoming	✓	✓

Source: [RealtyTrac](#)

Source Information used in this article was compiled based on information from many resources including the website [Nolo](#)

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