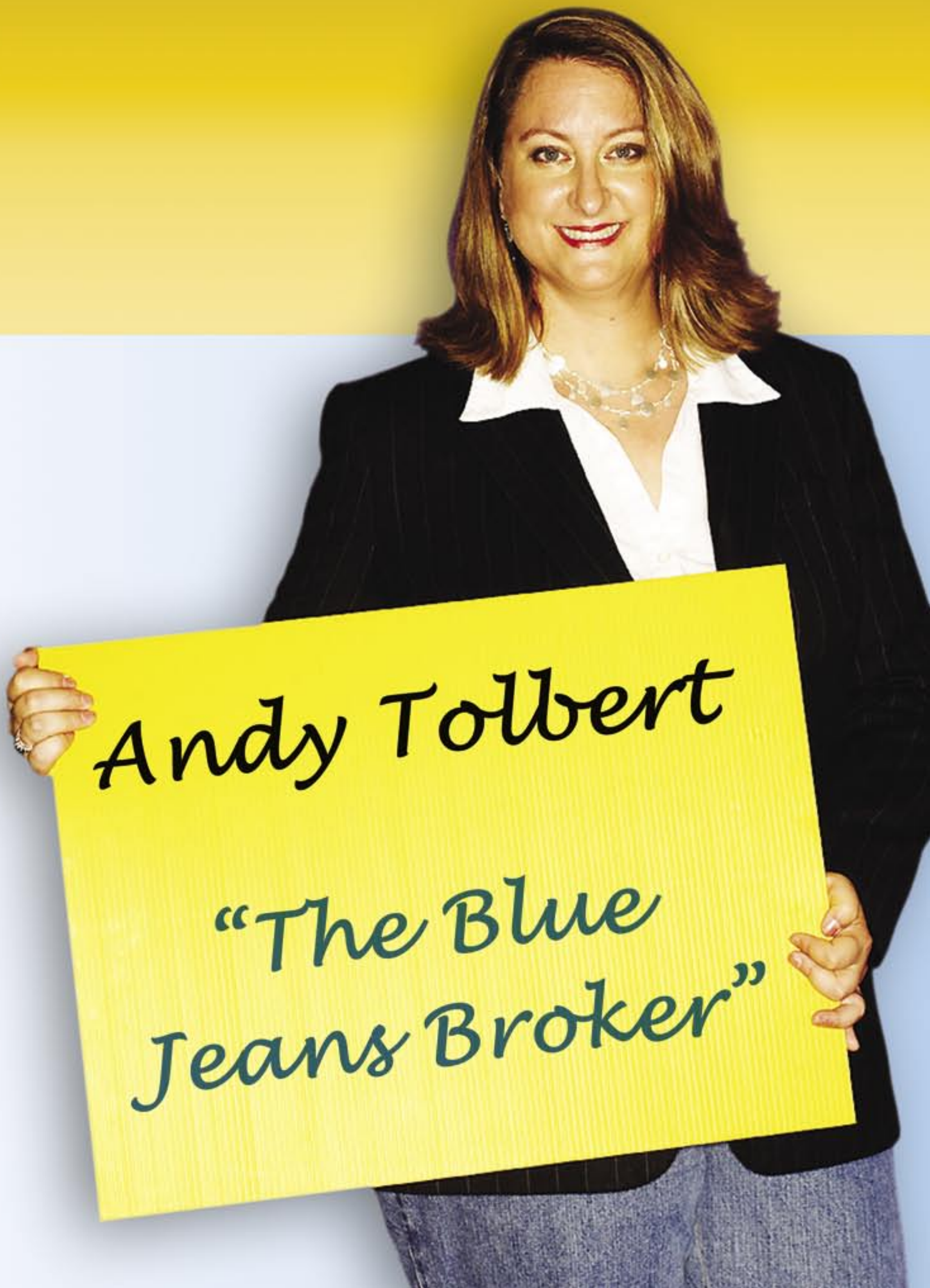
6 Critical Questions

THAT EVERY REAL ESTATE PROFESSIONAL NEEDS TO ASK ABOUT FORECLOSURES

SPECIAL REPORT



6 Critical Questions That Every Real Estate Professional Needs to Ask About Foreclosures

Question #1 What makes a person in foreclosure such a motivated seller?

There are many reasons why someone would just "give away" their house, but most of all they have a big problem and they are looking for a solution.

Other than the obvious fact that it will ruin their credit and reflect negatively for the next 7-10 years or more (most lenders won't give them a loan for at least 3-4 years after a foreclosure). Many real estate professionals don't realize the other ways this is impacting the homeowners' lives, and we will discuss that part more in Question #4

Remember that the quicker they can solve their problem, the quicker they can get on with their life. The leading cause of divorce in America is money issues, and these folks are in the middle of a BIG money issue.

Question #2 Why would someone want to invest in foreclosures?

For the last several years, there's been a lot of talk about how it is a bad time to invest in real estate, but real estate can be a great investment at any time if you're buying "right." There is an acronym that's been around for many years about why real estate is the IDEAL investment, however in today's market, I've adjusted it a little, I like to say that real estate is absolutely still the MIDEAL investment, and here's why:

The "M" stands for Motivated Sellers. Motivated sellers NEED to sell, not just WANT to sell. Somebody that really NEEDS to sell is less likely to hold out for top dollar on their property. There are several situations that create motivated sellers, but right now we have a HUGE one: Foreclosures! Both pre-foreclosures AND bank-owned properties

The "I" stands for Income. In real estate, there are 2 types of income you can earn

> **1st type of Income: Quick Cash**. You get checks when you buy them, fix them up, and sell them and collect $10,000, $15,000, $20,000, or more. In fact, there's one method called "wholesaling" where you make $5-10,000 and you never even own the property or make any repairs!
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> **2nd type of Income: Long Term Income**. This is where you buy a property, stick a tenant in it and collect $100, $200 or more a month positive cash flow for the rest of your life. Obviously the trick is to have several of those!

The "D" stands for Depreciation. This is what is called a "paper loss" which means for tax purposes your property went down in value and you "lost" money, even though you really didn't, but you will save on your income taxes because of it! For an average house worth $200,000, and investor in the 35% tax bracket would save over $2,000 per year on their income taxes.

The "E" stands for Equity. Equity is the difference between what you owe and what it's worth, so if you owe $150,000 on a house that is worth $200,000, you have $50,000 in equity. Every year as you make payments, you pay your mortgage balance down and as the market appreciates and your house goes up in value, your equity grows. Also, since motivated sellers will sell their houses "under value," they are giving you instant equity from the day you buy the house.

The "A" stands for Appreciation. Appreciation means the amount of value your house goes up every year, so if it is worth $200,000 today in a market with 5% appreciation, it is worth $210,000 next year. Your net worth just increased by $10,000 because you own real estate.

So we've gone over M for motivated sellers, I for income, D for depreciation, E for equity, and A for appreciation…with those 5 factors can you see why real estate is such a powerful investment strategy? But when we throw in the L, it makes the whole thing a no-brainer…

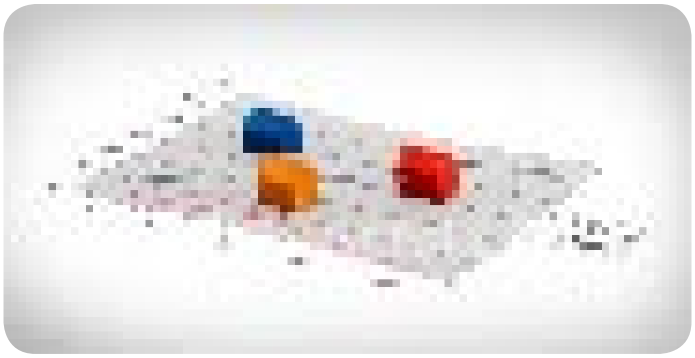
The "L" stands for…Leverage. Leverage means that we can use Other People's Money (OPM) to buy real estate that WE fully own and control! With other traditional investments like stocks and bonds, you typically need $100,000 cash to buy $100,000 worth of shares, but with real estate we can borrow the money to purchase the asset and yet we retain ALL the benefits of ownership!

***Action Item*:** Now that you know a little more about the benefits of owning and investing in real estate, take just a moment to think about why your clients want to invest, or alternatively, why YOU want to invest in real estate?

What attracted you to the foreclosure market in particular?

This exercise is important because you need to have a strong desire to succeed in real estate. When your "Why" is big enough, you will have a better chance of sticking with it when you hit a challenge in your business.

Question #3 Why are foreclosures such a large force in America right now?



I believe that there are 4 main things driving our market right now…these are just my opinion, but a lot of people seem to agree with me.

1st is the Media Hype & Frenzy. Unfortunately, what the news says is true, people believe is true! They saw it, so it must be true. Right now if you turn on TV, the radio, read the paper, or speak to another person, you are hearing how "bad" the market is, how the bubble is about to burst, that you should get out of your real estate holdings, and other doomsday messages. When enough people believe it is bad, they will panic and sell their properties for less than market value to get rid of them, and this causes the overall market value in that area to decline. This causes foreclosures because it leaves many sellers owing more than their houses are worth, and they are left with no other option but to walk away from the debt.

2nd is the So-called "Investors" (although I am not crazy about that term, it can be insulting to those of us that really understand the concept of investing when we get lumped in with the yahoos!). Here's the difference. When someone walks into a builder's model and says "I'll take five please" and their entire exit strategy is to cross their fingers and hope it's worth significantly more by the time the house is done so they can flip it, that is not investing, it's gambling, and if you understand gambling, the house wins most of the time, that's how they can afford those big fancy hotels! Many of these speculators got in over their head and now can't afford the payments on all of those empty homes. I often talk to people with 3, 5, 7, or more of these vacant houses…how long could YOU afford $20,000 per month in mortgage payments on vacant houses? That's causing an increase in foreclosures. (By the way, my type of investing involves buying houses for 10%-50% under market value, so my profit is already built in).

3rd is a type of loan called a Negative Amortization (Neg-am) loan. These are a very risky type of loan in the wrong hands. Basically the monthly payment does not even cover the monthly interest, so the amount you didn't pay gets added onto the back of the loan. This means your loan balance is actually going up each month. These loans also feature an adjustable interest rate, so many homeowners are experiencing sharp increases in their payments that they can't afford, sometimes as high as a 50% or even 100% increase! People took this type of loan so they could buy a bigger house than they could really afford.

4th is Adjustable Rate Mortgages (ARMS) Regular ARMS have caps on how much your payment can go up at one time. Many of these loans are fixed for the first two or three years and then they start to adjust. In many parts of America, there was a huge rush of buying real estate about 2-3 years ago, so these homeowners' loans are just starting to adjust right now. Many of these people are getting notices that their payments are going up sometimes 10, 20, or even 30%, and they can change every 6 months! Again, people took this type of loan so they could buy a larger house than they really could afford and now can't afford to pay the increased payments.

***Action Item*:** Write down your monthly mortgage payment or rent amount on a piece of paper, now double that number. How would that affect your household budget? Would you be able to afford it? This is what's causing many foreclosures.

Question #4 What do I say when I'm talking to the seller?

Before you can think about "what to say" to the seller, let's first try to get into their head and understand what they're going through. One of the most important things to remember when dealing with a seller in foreclosure is that they are at a very emotionally trying time, and may not be thinking clearly about the situation. Make sure you do not make promises that you can't keep, and get all agreements and disclosures in writing, because when people are in emotionally charged situations, they sometimes make bad decisions. You want to protect yourself if they have a change of heart later or just "forget" the conversations you had in the past.

Action Item: Take two minutes and write down everything you can imagine they are thinking and feeling right now.

Some of the things I hear are:

- I feel like a failure, I'm not providing for my family, how did I let it get this far?
- The Realtor put me in a house I can't afford, the mortgage broker put me in a bad loan that I can't afford
- I'm so embarrassed, what will my friends/family/neighbors think?
- Where will I go? Will I ever own a house again?
- My stupid husband/wife got us into this mess
- They are depressed, stressed, anxious, not sleeping, they are feeling worthless
- They are suffering strained relationships with their spouse, kids, and co-workers

Knowing the thoughts that are driving their decisions right now (whether right or wrong) will help you come up with a solution that will work best to solve their problem. You will need to show them that You are the professional that can help them, and yet always be empathetic to their situation.

Question #5 How big of a problem is this really? Is it too late for me to get involved?

According to recent statistics (Jan.-June '07) Foreclosures are up almost 58% over last year. If we stay on that track, 1 out of every 67 homes in America will be in foreclosure this year! Many analysts predict this market will continue for at least 3 to 5 years.

If you are wondering if there are enough foreclosures to get involved, during the first half of 2007, there were 925,986 foreclosure filings in the US, and it's growing every day. Is that enough for you? The savvy real estate professional sees the opportunity in our market and is ready to step forward and become "the expert."

Real estate professionals like you have the opportunity to create wealth in many ways in a market like we're in right now. You can list properties that are in pre-foreclosure to help the seller before he loses his house, you can list Bank Owned properties (also called REO properties, or Real Estate Owned) to help the banks liquidate their holdings, you can help your buyers, both investors and owner occupants, find properties that are discounted from market value due to a foreclosure, or, (my favorite!) you can buy some of these yourself and begin to build YOUR personal wealth machine!

Question #6 Where can I go to learn more about foreclosures and investing?

To learn more about foreclosures and investing, please visit **www.AndyTolbert.com** where you will find a wealth of articles, blogs, products and live events that can help you increase your income and become an expert in the exciting, rewarding and profitable foreclosure market.

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