

1-20-2010

A student sent me an email asking about a property and whether it could be a deal. She had started prospecting for the homeowner months and months before and he suddenly called her back.

She tried to explain that because he was in foreclosure he needed to take action to help save his credit and that there could possibly be equity in the deal. He said he didn't know how much was owed and he had long ago walked away from the property.

The student wasn't sure of how to find the liens (mortgages) and code violations against the property so she couldn't tell if it was a deal or not. Every county offers access through the public records to this information. Every county is different and some only allow the documents to be viewed in person. For this property, the information was located at <http://205.166.161.12/oncoreV2/Search.aspx> If you go there you will see it is the website for the Broward County Official Public Records.

The search showed the lis pendens was delivered on a specific date and the request for the final judgment amount of approximately \$130,000. Also there were a couple of code liens on the property which were accumulating at \$250 a day – each! A rough estimate for the total of these combined code liens was \$50,000 - \$60,000.

The lender had not taken the property to the foreclosure auction so it was not yet an REO. I don't know why the lender hadn't foreclosed except they were “avoiding” the code liens or burying their heads in the sand? This doesn't work and these daily fines just keep going on. For example, a \$500 a day (combo of the two) fine = \$182,500 a year!

What the counties haven't done yet, but they probably should, is what they do for non-bank owned properties where there are code liens. If you are on title and get a code violation, it “sticks” to every property in the public record that you own. So what I am proposing is that if Chase is on title for 2,000 REO's in our county (they were at one time) then Chase should have all the code violations become attached to every property so none of these properties can close until they clear them all or donate the properties to the cities, counties, investors, or non-profit organizations.

The value of the student's “possible” deal was about \$125,000 without seeing it. Since it had been vacant for almost a year and had unfinished construction, the offer we would have made would have been in the \$40,000 or \$50,000 area.

What is most interesting is the homeowner abandoned the property with equity in it rather than resolve some construction issues. Next, he ran to another state to “hide” and told the student he didn't care about what happened. He said “I want the bank to hurt as much and as long as possible!” He hung up on the student despite her attempts at trying to say there may be a solution.

He has his head in the sand if he thinks he is hurting the lender. The lender's liability in the property is being covered by the FDIC for 75% of the losses. The other 25% is covered by the

lender who can get government bail-out money if it comes to it. These bail-out funds are actually our tax dollars at work. So the homeowner who thinks he is hurting the lender is actually shooting himself in the foot. I'm not even thinking about any deficiency judgment he might be facing because he hasn't tried to work with the lender, I'm talking about the future grief of his credit damage and financing prospects.

What about the other side of the coin – the pie in the sky guy? Another student called about a nice property that was free-and-clear and in pristine condition. The homeowner lived close to the property and showed it to the student. He would not say what he wanted even after being asked repeated times. He said he wanted to sell but really didn't seem to have any serious motivation to sell.

Being the diligent student, she asked a number of times what he would take and he just said "make me an offer". When you get these sellers, they are generally not motivated – the ones who are really ready to sell will give you some price idea if asked enough. The way to go at these stubborn sellers is to really low-ball the offer which will get their attention. If they start negotiating you will likely get a deal somewhere in between what the seller wants and what you can afford to pay. Do not assume they want full market value (FMV) even if they say they won't take less or you could be surprised when another investor buys it for less.

For this example the seller never said what he wanted. He did offer owner financing which can be a real positive. He likely offered this because he knew he wanted over FMV. The property had been listed for many months at \$175,000 and probably had no offers. We always ask what offers the seller had, and 80% of the time the seller tells us the truth. Otherwise sellers lie 80% of the time about everything else.

The student went ahead and made a dual offer with one offer for cash and the other with terms (owner financing). The seller immediately asked her to leave the property! While this may seem discouraging, it shouldn't. This is only the first "shot across the bow" of the seller. Ironically, we often get these deals months later and at only slightly higher prices than our original offer.

This seller was trying to sell a small 2/1 at an offering price that was 2 -3 years old. He probably got a much better offer way back when, but turned that offer down because he wanted even more money! Despite the student showing him how many foreclosures and upside down properties were around his home, he didn't care – he just wanted his price! It's OK, "on to the next one".

Here we have two examples of homeowners who are not motivated to sell. The first homeowner believes he is "hurting the lender" by not cooperating in the foreclosure process. The lender is likely not responsible for his buying the property or getting into financial trouble. The lender likely got him angry because they didn't negotiate a solution as the seller expected they should.

The other seller is living in the past and may have the property out-live him before it is finally sold. Both are right in their own minds, but the first property will eventually be bought as an REO, and the second homeowner will be holding it until he comes to his senses about the change in market conditions.

Neither of these are deals right now but they will eventually be in the future so move on to the next one! I am the only person I have ever heard talk about real estate as a “renewable resource”. Think about the constant cycle of life that keeps bringing sellers to market - frustrated owners not in the property, frustrated owners living in the property, probates, divorces, bankruptcies, job transfers, moving out of town, retirement, frustrated landlords, etc. – it goes on forever! Just keep moving on to the next prospect and don't let a few hundred “No's” get you down.

To your limitless success,

Dave Dinkel