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The Underbelly of POFs, Escrow Letters and Mortgage Brokers

Recently, I was talking to one member of a local wholesale group about how he was doing deals. He is a nice guy but doesn't do very many deals and is virtually penniless. Consequently, my next question was how he was making offers without Proof of Funds (POFs). He corrected me and said he did have a POF for over \$100,000. I congratulated him on his finally saving some money and he said I was wrong again!

He went on to explain that he can't pay his rent and spends every penny he makes wholesaling on..... If I told you what it was, you would probably know who I was talking about. Anyway, his POF idea came to him from another investor who said, "If you don't have the money, make it!" What he meant was simple; you simply make a copy of your last checking account (or savings account) statement and scan it into a PDF file format.

Next, you get a PDF editor online – they range from no cost to \$399. Obviously he took the former one and downloaded the scanned checking statement into the program. Then he simply added a "1" and a "0" in front of his actual balance – at that time it was \$1,034.12. His new statement showed \$101,034.12 and after saving the changes, he emailed it with his next offer. This satisfies realtors who "Have to see a real POF, not a LOC (Letter of Credit)" These are the guys/gals who believe a POF is real money and anyone using a LOC is bogus. Hope this makes your eyes open!

It didn't end there, knowing he didn't have any money for a deposit and he was offering "huge" deposits to get the deals, I asked whose money he was using for the deposit. His answer bordered on hilarious – "What deposit?" Pressing further, he explained that he only put up a deposit once he had his end-buyer's deposit that had to be even bigger than the required one he offered. In his experience, most realtors never really know the deposit is in the hands of the closing agent so he just waits until he gets a call that the money isn't in before he does anything. Once the call comes, he waits until he gets an end-buyer's deposit to use or he lets the property go back.

Not all closing agents are created equally. Some will "help" investors more than others because of the "gray area" of some laws – according to the guys who live in the gray area. This is a borderline method of making multiple offers using the same escrow deposit multiple times. Ask your closing agent before you try this, some will agree and some will not. You made a deposit into the closing agent's escrow account for say \$3,000. Then you put the escrow agent as "My Closing Agent" with his telephone number. Some agents will allow you to send in the Escrow Letter with your offer by changing the address on the letter itself. When and if the realtor contacts your closing agent, he will say you have \$3,000 on deposit – which you do but he may have said that to five callers that day!

We encountered this exact issue when we had a prominent local wholesaler not close on a deal and we called the escrow closing agent to send the money. We had the proper language to automatically release the deposit without the buyer's authorization

which the closing agent admitted. What he also finally admitted was he didn't actually have the deposit. He extended the courtesy to the wholesaler to use his Escrow Letter. I guess it took 1 ½ months to get the deposit from the closing agent, we didn't even worry about the wholesaler as he wasn't the deep pockets.

On the flipside, the attorneys we work with the most, require we open a file for each property that we put a deposit on with them. They charge for this even if we don't get the deal or close, so that is a problem working with this group.

If you submit a POF (real or not), make sure you white out your account number and any barcode on the page. I said white out because simply blacking out the numbers and bar code, doesn't help when you scan it. You can see through the blackout in most cases. If you have over \$250,000 in your account, first move whatever is over to another bank because of the FDIC insurance. Secondly, only show what is necessary for the amount of average bids you are making. When you send your account balance to someone you don't know, realtor or not, it may get in the wrong hands and you may set yourself up for a home invasion or worse. A financial planning client of mine found this out the hard way and had over \$5,000,000 in art stolen from his home.

So, in summary – I don't know if "doctoring" POFs is illegal or not so ask someone who does know before you try it. Protect your personal information on your statements especially if a realtor asks for a Driver's License or Social Security number. There is NO reason they should have it. You will have to give it to the closing agent if you get to the closing table and close. I have heard excuses about why realtors need your ID, but they make no sense and deter most investors from making offers – and maybe that's the real game..... Otherwise, the only reason that really makes sense is to use your identity for something else.

On a last minute note, a student called and asked me if I knew a guy by the name of _____ . I said the name wasn't familiar and he went on to tell me the rest of the story. The student had finished a rehab on a property and saw his property advertised For Sale with a telephone number that was not his or ours.

The student called the "strange" number and this person answered and explained he was the mortgage broker for the seller and he had to pre-screen anyone who wanted to see the property. The person explained he currently worked for over 50,000 homeowners in the tri-county area, pre-screening each and every buyer for these properties. All I can say is "Wow!"

Can you imagine the audacity of this person? He is using virtually every property he can list in his advertising program to get people qualified for who knows what properties. He may be a realtor, I didn't look, but he is literally killing deals for sellers because he is guiding them away from the actual sellers of these properties.

I am proud to say that he picked on the wrong seller in this case and I am hopeful; this mortgage broker with the "fantastic" advertising gimmick will be hearing from the

Attorney General's Office very shortly. If not they will quietly build a case against him – possibly for fraud, or Deceptive Business Practices I wouldn't want to be the one answering his phone from here on out!

To your limitless success,

Dave Dinkel