Chapter Five

How to Find the Deals Part 2: On-Market Deals

What You'll Learn in This Chapter

1. What's SOOOO different about on-market deals
2. Comparing on and off market deals
3. How to navigate MLS, bank-owned, hedge fund, and auction deals
4. Why wholesale JVs might not be the best idea
5. How to build a lead-generating machine

What's better: finding deals in the MLS/Auction sites/etc., or getting sellers to call you?

That depends on your definition of the word "better."

On the one hand, dealing with the sellers directly puts you in a position of control over a lot of things that you don't control when a deal is being brokered by an agent or a website. You get to TALK TO the decision maker directly, hear his whole situation, tell him what you can do for him, and get direct feedback about whether that works for him. You get to use your contract, negotiate terms that BOTH of you like, decide whether to offer earnest money, and if so, how much you'd like to offer. And generally you'll feel more like you're cooperating in the buying process instead of having it thrust upon you.

On the other hand, it's much EASIER to find properties in MLS, or on Craigslist or Zillow or whatever, than it is to create, implement, and maintain marketing campaigns, and to organize getting your phone answered consistently, and to play phone tag with sellers. And it's also more impersonal; generally, you never talk to anyone in control of the property. You look at it, make an offer, and get an acceptance or rejection for which you rarely know the reason. It's sanitary. Emotion-free. Easy.

But, of course, there's also the "market cycle" question: when markets heat up and lots of buyers (including your competitors and potential assignees) are fighting over a shrinking inventory of listed and for sale by owner properties, prices on those properties get pushed way out of the reach of wholesalers, so the only way to prosper is to reach out to sellers whose properties are NOT being openly advertised—and that means marketing.

But when the market goes cold and there are hundreds of deals just sitting in MLS, and at foreclosure auctions, and on HudHomestore.com, it seems like a waste of money to advertise to additional motivated sellers.

My point, in case you missed it just now, is that for everything there is a season.

If your wholesaling business continues for an entire decade in a row, I guarantee you that you'll see recessions where agents, lenders, and institutional sellers are desperate to accept your lowball offers (but buyers will be harder to come by, so you'd better have a good buyer's list and be really dialed in on your evaluation skills).

You'll also see seller's markets where agents can't be bothered to give you the time of day, but off-market deals still pop and you have hoards of motivated buyers storming your proverbial castle walls.

That's why BOTH methods of generating leads—on market and off-market—are worth understanding.

Which Deals are On-Market Deals

For our purposes here, we're just going to define any property that's advertised for sale to the public as "On Market." This would include:

- Properties listed with an agent, commonly called "MLS properties"
- Properties listed with various public online auction sites such as Auctions.com, Hubzu, Hudson and Marshall and so on
- Properties for sale by hedge funds like Econohomes and Vision properties and listed for direct sale to the public
- Properties offered for sale by HUD and VA
- Properties offered for sale by non-bank institutions like FNMA, FHLMC, and USDA
- Properties being sold at seller-directed on-site auctions including estate auctions
- Properties being sold at lender-directed auctions including sheriff's sales, commissioner's sales, trustee's sales, and receiver sales (all of which are foreclosure auctions)
- Properties being sold at government auctions including IRS sales, Department of Treasury Sales, and Marshall's sales
- Properties listed "for sale by owner" on various sites
- Properties for sale by wholesalers

The Bad News About On-Market Deals

Just as off-market deals have a set of challenges, on-market deals carry certain baggage, too. Here are a few things you need to know about on-market deals:

1. **You'll almost always be required to put up money to have your offers considered**. This "earnest money" ranges from a few hundred dollars to, in some cases, 10% of the offer price of the property. If you can't write an earnest money check, don't pursue on-market properties. Or better yet, find a way around your lack of earnest money—like for instance finding a money partner who will provide it in return for part of your deal.

2. **You'll often have to provide "proof of funds", as well**. Many types of sellers you'll run across when making offers to the market require you to prove that you have, or can

borrow, the money to close the deal before they'll even look at your offer. If this is a problem for you, solve it (perhaps by partnering with someone who can provide proof of funds) before setting out to make offers. Proof of funds can generally take the form of an actual statement from your bank (or IRA custodian) that you have cash available to close, OR the form of a pre-approval letter from a legit lender.

3. **You'll basically never be allowed to use your own purchase agreement.** On-market sellers and their agents control the contracts used to transact deals, and all of your favorite clauses (the liquidated damages clause, open-ended inspection, lack of non-assignment agreement) will probably be missing from the contracts you have to sign in on-market arrangements.

4. **Your inspection period will likely be severely limited**. Nearly across the board, your inspection period—which is the time you have to secure a buyer before the inspection contingency expires and you are no longer allowed to 'get out' of the contract because it failed inspection—will be limited to 10 days or less (some banks don't even allow inspection contingencies for investors buying their properties). Furthermore, the language in the inspections contingencies will be much more strict in most contracts than it is in yours; you may be required to get a WRITTEN inspection by a LICENSED inspector, and in some cases, the inspection contingencies only allow you to get out of the deal if the inspector finds something that couldn't be seen in a normal visual inspection.

5. **There may be a non-assignment agreement in the purchase contract, or in the addendum to the contract.** This can be 'gotten around', and we'll discuss how, but it basically means that you'll either have to be ready to close the property and resell it, or take special steps to make sure that there's an entity that can be sold instead of the purchase agreement.

6. **The penalties for putting a property under contract, then not closing it, can range from not too bad to really severe**. Given that there will be no liquidated damages clause in your contract and a short-to-non-existent inspection period, and that in most cases you'll have money on the line, not closing an on-market deal can be a big deal. If the deal is with a bank, agent-represented seller, or non-bank institutional owner like FNMA or HUD, and if you try to back out of the contract for reasons other than those covered by your contingencies, you can expect to forfeit your earnest money. If the seller is the sheriff in sheriff's sale, or a Federal Marshall in a Marshall's sale, there's potential jail time for not closing.

As you can see, your ability to play in SOME segments of the on-market property games might be limited by your resources and your guts. Most of these deals are best approached by:

- Wholesalers with the money (or partner money) to put up for earnest money
- Wholesalers who can get proof of funds (or partner proof of funds) showing they can buy the property (even though they may not intend to do so)
- Wholesalers with strong evaluation skills
- Wholesalers with strong buyer's lists

Agent-Listed Properties (MLS Properties)

One of the first places buyers think to turn when looking for ANY kind of residential real estate is the Multiple Listing Service (MLS).

The MLS is a system that's typically owned by your local Board of Realtors® and directly accessible, in its full form, only to its members. It's an online catalog into which member agents are required to enter their listings, so that other agents with buyer clients can view the data on those listings, and, if they like what they see, look at the properties and make offers.

While the MLS in any decent-sized city has hundreds to thousands of residential properties listed in it at any given time—it's far and away the largest single source of properties for sale in any area—it has, like any deal finding method, its pros and cons for wholesalers.

Pros	Cons
MORE distressed properties for sale than in any other source	Lots of competition for good deals
Properties are definitely "for sale"	In "Hot" markets, competition (especially distressed properties in bread and butter and move-up areas) is very high, and properties tend to move very quickly and for premium prices
Properties can be easily searched by various keywords and tags that might indicate motivation, like bank-owned, estate, handyman's special, no FHA etc.	Must have an agent or be an agent to get full access to all details of the listings, and to access the properties themselves
Most listings contain a lot of information about the property—taxes, amenities, square footage, asking price etc.	Must use your agents' contract or the board's contract to make offers—might not be assignable
Sellers pay the commissions to the agents	Agents often encourage sellers to demand proof of funds and larger earnest money deposits
Most bank-owned properties are only available through MLS	No ability to directly contact the seller and find out what the real "problem" is, or what his bottom dollar might be

SOME agents are as motivated as their sellers to get ugly listings, especially in border zone neighborhoods, sold	Re-accessing the property to show it to buyers before closing can be difficult, as a new appointment needs to be set with the listing agent each time
	Limited inspection period
	Because agents often change the list price to the price the seller accepted, your buyer may find the property 'pending' in MLS at a much lower price than the one at which you're offering it

Given the practical and regulatory restrictions inherent in dealing with listed properties, it's a strategy that's best used when:

1. You have access to cash, or funding to CLOSE deals and resell them, rather than assign them

2. You have access to cash for earnest money

3. The market is slow, and there's less competition for the easy-to-find properties in MLS

How MLS-Listed Properties are Wholesaled

In order to understand the various ways to find the properties you want through the Multiple Listing Service, you first have to understand a little about how real estate agency works.

Properties are listed in MLS when the owners of these properties hire salespeople— real estate agents—to market and sell them to potential buyers in return for a commission, usually based on the ultimate sale price, when and if the property sells.

The agent who gets this marketing contract for his brokerage is called the listing agent. The listing contract specifies a total commission that the seller will pay to the brokerage; the brokerage then offers part of that commission to the brokerage of any other agent who brings a buyer to the table that closes. The agent who brings the buyer is, unsurprisingly, called the buyer's agent. The commission paid by the seller to the listing agent's brokerage is then divided, in some way, between the listing brokerage, listing agent, buyer's agent, and buyer's agent's brokerage.

Most properties are sold in just such a "co-op sale", where one agent in one brokerage lists the property, and a different agent—often from a completely different brokerage—sells it.

The agents involved are tasked to "represent" their respective clients, meaning that the listing agent looks out for the best interests of the seller, and the buyer's agent tries to get the deal his buyer wants[1].

Knowing these things, you have several options if you'd like to use the MLS to find deals.

Option 1: work with a buyer's agent. This is the most appealing, but in many ways, most difficult, way to get access to MLS properties.

It's appealing, because if you find an agent who's both good and willing to work with you, that agent can do an enormous amount of the screening of MLS listings simply by entering appropriate searches in the system, which, in most areas, will then automatically email them to you for perusal. Having a single point of contact to set appointments, write offers, and follow up is also very convenient.

It's difficult, because **even when you're ready, willing, and able to close all the deals you put under contract, you are NOT the typical agent's ideal client**.

Think about it: you want to look at ugly properties, often in sketchy neighborhoods. You'll consistently be making offers much lower than asking price, which means your agent will get yelled at—or ignored—by other agents, even when it ultimately turns out that your offer was closer to what the property ultimately sells for than the original asking price was. You'll make 20 offers for every one that gets accepted. And when one does get accepted, it's at a low price, which means a low commission—and remember, that commission gets split 4 ways.

In short, you're a lot of work, and it's not cool, "I get to see a lot of neat houses in a lot of great areas" work for the agent.

Nonetheless, a lot of high-volume wholesalers get at least some of their deals from a well-trained, appreciative buyer's agent who understands that a customer who can (and will) buy 10-20 houses a year at ½ the median price for the area with minimal hand holding and no closing drama is more valuable than a homeowner buyer who looks at 30 properties worth twice the median price, but never gets around to pulling the trigger on any of them.

If you're going to attempt this method, use these t**ips for working with a buyer's agent:**

1. Find a newly-licensed agent who has few listings or buyer-clients and lots of time, or an agent with whom you already have ties (a close friend or relative) who has an interest in helping you out beyond just the commission

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[1] *Some states allow "Dual Agency" where a single agent 'represents' both the buyer and the seller in a transaction, and, of course, collects both sides of the commission. Other states have adopted a more ethically-sound "Transactional Agency" system, wherein if the buyer and seller agree that they're both adults who can look out for themselves, the agent basically agrees to be fair to both parties and to use his training to get the deal to closing, but doesn't claim to "represent" either side.*

2. Spend some time with the agent training him on how to recognize the properties you'll be interested in, including sharing the "key words" he can look for to identify ugly properties and motivated sellers.

3. Make the showing/offering process as easy for your agent as you can—triage the properties he sends you so that you aren't wasting a lot of time looking at properties that are drastically overpriced, or in a condition that's too good to make your offer appealing to the seller. Also, you'll find that most of the offers you make will have the exact same information filled in on most of the lines—the only things that will change from contract to contract are the date of the contract, closing date, address and purchase price, which means that he can simply create a template for your offers, making them much quicker to draft.

4. **Expect that you might end up having to audition a series of buyer's agents—**often 5-10—in sequence before you find the one that's the right fit. If your agent isn't working out either because you just don't get along, or because he's slow to respond to requests to see properties or submit offers, cut him loose and find someone else.

5. Above all, treat a good buyer's agent well. In other words, pay 'em. When you flip a property for a $10,000 profit and your agent walks away from the closing with $300 that he has to split with his broker, think about buying him dinner or a gift certificate or something (have the agent work this out with the broker beforehand, "officially', he can't receive any compensation without splitting it with the brokerage).

Option 2: become an agent yourself. If it seems like most of the high-volume wholesalers you know are licensed agents, now you know why.

Once you've made wholesaling a large part of your income[2], it IS a benefit to have a real estate license, because:

- Having access to the MLS right in your home or phone is awfully convenient, as it allows you to look for new listings on a daily basis.
- As an agent, you don't have to depend on someone else's schedule in order to see and present offers on properties.
- Your status as an agent gives you relatively easy access to properties to show them to your buyers.

[2] *But PLEASE, not before. Way too many new wholesalers use the time it takes to get a license, study for the test, take the test, wait for the results, as an excuse to avoid the actual work of wholesaling. They spend all that time and money—and then STILL don't do what it takes to wholesale even one house. I'm sure you'll be different, that you have a really GOOD reason for wanting to get this completely unnecessary license before you launch an unrelated career, though.*

- You have the right to collect the selling agent's commission (usually 1 ½ - 2½% after the broker takes his share) on any properties you buy.

- Being an agent removes any lingering fear you might have about "needing a license" to wholesale houses.

So why doesn't everyone just get a real estate license? Because of the downsides:

- **It's expensive and time consuming**. Your pre-licensing education, depending on where you live, will probably require 80-120+ hours of classroom or online time—and, of course, cost money. Then you pay to sit for a test that you must pass. Then you'll have to pay dues your local Board of Realtors to get MLS access, the subscription to which costs more money. Buying board-approved forms costs money, paying the State to renew your license every year costs money, and then there's the continuing education requirement...in summary, if you're looking for a no-cash strategy, this isn't it.

- **Having a license subjects you to disclosure requirements** that normal principals in a transaction don't have. You'll need to disclose to every buyer, seller, or tenant that you come into contact with that you are a licensed agent, and who you represent—which, ironically, will almost always be you. Even your advertising should include this disclosure, but you absolutely MUST make sure that your buyers and sellers know that you're a licensee before you begin dealing with them, and that at the first available opportunity, they've signed your state's agency disclosure form. In addition, courts hold licensed agents to a "higher standard" than civilians, meaning that if someone sues you over a deal gone bad, you're more likely to be held liable as an agent than as an individual.

- **Getting a license doesn't really help you to become a better wholesaler**. What's taught in pre-licensing classes largely isn't information that you'll use as a real estate investor: only the appraisal and fair housing materials are useful to you. And if you manage to get through an entire cycle of classes without hearing something about how wholesaling is illegal, or real estate investors are sharks preying on the weak, it'll be a small miracle.

Tips on becoming an agent:

1. Get the right broker. In most states, it's necessary to have a broker "sponsor" before you are even allowed to sit for the licensing exam. The broker you choose should be one that fully understands that you will primarily be making offers on deals you plan to wholesale—not listing houses, working with homebuyers, etc. The vast majority of the larger brokerages are looking only for agents who will generate lots of commissions, spend time in the office on "phone duty", and so on. You're probably looking for a very small broker, and preferably one who is investment-focused himself. And make absolutely sure your broker understands exactly what wholesaling is, and is OK with it, and doesn't expect you to pay him ½ of your assignment fees, because assignment fees aren't commissions.

2. Walk the line. Don't ever, ever forget to disclose that you're an agent—my marketing goes out with that disclaimer on it, so sellers know this before they even call me. Have every person in the transaction sign every disclosure. You worked so hard to get the license...don't lose it over some stupid paperwork snafu.

3. Find out what it takes to become a broker in your state, then do those things. Once you're a broker, you have the right to waive your entire commission to make the offer attractive to the other agent. Plus, you won't be "broker shopping" every time your existing broker wants to retire, move, change focus, etc.

Option 3: Work with listing agents directly. Most MLS listings today are, in some way, propagated out to the public via broker's sites, Zillow, Craigslist, and so on. And since there's no rule that says you MUST be represented by an agent in an MLS transaction, there's nothing wrong with directly contacting the listing agent to see and make an offer on the property (unless you're under contract with a buyer's agent, in which case THEY should be the ones to make contact and make the offer, so they can get paid).

This strategy has some advantages over using a single agent that are true some of the time and with some agents. Here are the common ones you'll hear about, along with some reality-checked advice on using them.

- **When you work directly with the listing agent, he gets "both sides" of the commission, which makes him more likely to encourage the seller to take your offer.** Partly true: no serious agent is going to encourage a seller to take an offer significantly lower than what the agent believes the seller can get, just because the agent gets a higher commission as a result. Not only does that break the National Association of Realtors® code of ethics; it's also not good for the agent's future dealings with that seller or any of that seller's friends.

  On the other hand, if what you're offering is close to the likely sale price anyway, the agent might well work harder on getting it accepted, or even give up part of his double commission to make it happen.

  Also, it's not true in every case that the listing agent gets twice as much when there's no buyer's agent involved; many agents who list bank- and institutionally-owned properties agree to a fixed commission or percentage of the commission, no matter who brings the buyer.

- **Working directly with listing agents gets you access to "pocket listings" that aren't in MLS at all**. Partly true. While pocket listings—properties for which the agent has a listing agreement, but which are not marketed in the MLS—are strongly discouraged by the NAR code of ethics, they are not forbidden, particularly when the seller has, for some reason, asked that his property NOT be listed in MLS.

  But most pocket listings don't fall into that category; as any agent will tell you, the rule that new listings (and price changes) must be uploaded to MLS within 48 hours is what

creates most pocket listings. It is true that some agents keep a list of preferred buyers, and manage to contact them about really good deals before the listing (or price change) goes into MLS. But to be one of these preferred buyers, you'll need to be proven, either in the sense of having purchased from that agent before, or via a proof of funds letter—and to stay on it, you'll need to close the deal.

- **Listing agents tend to know a LOT more about the situation and the seller's motivation than your buyer's agent does, or than you can find out via the MLS if you are an agent.** Mostly true. It is the LISTING agent that knows that an offer just "went down" on inspection and that the seller is desperate to sell fast; or that the seller is behind in payments; or that the seller is about to pull the property off the market because it's so ugly that he's not getting any offers. This is, obviously, valuable information to you...and information you won't get anywhere else. At the same time, you can't expect most listing agents to divulge a lot of information about their sellers if that information would tend to hurt the seller's negotiating position and the agent hasn't gotten specific permission from the seller to reveal it—that's a breach of the agent's fiduciary duty to the seller.

- **Dealing with lots of listing agents means that you'll occasionally get referred deals that the agent doesn't want to list**. True. Your best agent prospects are actually those who do NOT expect to, or want to list junkers. It usually happens like this: Agnes Agent works in Richville, a suburb where houses sell for $400,000+. After Agnes successfully lists and sells Joe's house, Joe recommends her to his brother, Mike, who has an ugly, smelly, $10,000 house to sell in Poorburg. Agnes doesn't want to offend Joe, but she also doesn't want her sign in front of Mike's house. So Agnes, knowing that you're in the market for exactly that house, calls you and begs you to make an offer on it, so that she doesn't have to tell her good client that she won't deal with his brother's house.

There's something else you should know about listing agents in today's increasingly specialized world: <u>more and more of them don't want to work with buyers at all, even on their own listings</u>. Don't be surprised when you call a listing agent and he tells you that if you want to see the property, you need to get your own agent, or that he wants to refer you to a buyer-specialist in his office. Many listing agents want to focus on what they do best—getting more listings—and not be distracted by dealing with buyers, as well.

Tips for Working with Listing Agents:

1. In its best and highest form, this is a long-term strategy, the results of which can take years to come to full fruition. Getting a single deal from a single listing agent is awesome. But the REAL goal is to have agents bringing deals to your attention that you wouldn't have otherwise known about. You'll hear other wholesalers and investor brag that agents bring them a significant percentage of their deals, and you'll get frustrated because that's not happening to you. The thing is, real estate entrepreneurs have a reputation among most agents for being flaky, and short-lived, and agents then to not believe that investors are serious buyers until they've seen results—specifically offers made and, more importantly, commission checks earned. But once

you've got a reputation for getting the ugliest, smelliest deals closed, it WILL spread.

2. In the meantime, nurture your relationships with agents. Network with them, particularly at your real estate association. Let them know what you're looking for. If an agent brings you a deal out of the blue, respond immediately. Research the property, and if it's pretty clear that the property isn't ugly enough for the seller to be motivated to take your offer—or if your offer is likely to be many tens of thousands of dollars lower than the asking price, call the agent back to thank them for their referral, than educate them as to why this isn't quite the right property for you. Then follow up with a hand-written thank you note, expressing your gratitude to the agent for thinking of you and your hope that they will continue to do so. When you succeed in buying a property recommended by an agent, spend $50 on a nice gift basket and have it sent to the agent within a week. When you have a conversation with an agent introducing yourself and your needs, follow up with a note reminding him who you are and what you're looking for. These folks can be an amazing long-term resource—don't let them forget who you are.

Bank-Owned Properties (REOs)

Bank-owned[3] properties, or REOs (an acronym for "Real Estate Owned") are not so much their own deal-finding strategy as they are a subcategory of MLS listings. They are, by and large, sold via agents, but the process for making offers—and the challenges for wholesalers—are different enough that they need their own discussion.

Bank-owned properties, like many of our deal sources, are very cyclical. At the height of the pre-crash real estate bubble, there weren't a ton of them available, because most people were able to sell (or, sadly, refinance) their houses and rental properties prior to any foreclosure sale occurring. During this time, very few wholesalers, or serious real estate investors in general, pursued bank-owned properties, because they tended to attract newbie investors who assumed that, because they were REOs, they MUST be good deals. Thus, they had a reputation as being overpriced and, unfortunately, for selling at too-high prices.

Then, when the banks' own loose lending practices crashed the market in 2008, there was a huge glut of foreclosed properties and, for a while, very few people around to buy them. This resulted in a rush by lenders to unload their real estate owned, particularly those properties in type 2 and 3 areas. It was common in 2009-2011 to see bank owned properties eventually selling at 20-50%% of the listed price, and they were a goldmine for wholesalers who understood how to deal with the hoops that had to be jumped through to put them under contract and assign or close them.

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[3] *Not all properties commonly referred to as "bank-owned" are, strictly speaking, bank-owned. HUD (which ends up owning properties that had FHA-insured loans on them) and VA are governmental departments that insure loans, not banks; FNMA and FHLMC (Fannie Mae and Freddie Mac) are secondary market buyers of loans, not lenders themselves. Like everyone else, I'm including these institutions in this discussion. I guess I just wanted you to know that I know the difference.*

Eventually, like a snake swallowing an antelope, the millions of foreclosures that flooded the market were digested and, as the economy improved (and the worst of the underwater, subprime mortgages moved through the foreclosure process and were acquired by new owners), the number of REOs receded and the demand for houses increased.

By 2015, REOs were again a small percentage of the listed properties, and the market had improved to the point that banks didn't need to unload them cheaply.

However, as with all things in the real estate market, the cycle of bank product and bank motivation will come around again, so it's important to understand how bank-owned properties are different than other listed properties.

REO properties continue to present certain challenges to wholesalers, and particularly to new wholesalers. The primary issues revolve around the requirements that the lenders/sellers place on the offer process.

In addition to some of the hurdles listed at the beginning of this section (***minimum earnest money*** of $1,000 or 3% of the offer price, whichever is more, ***non-assigment clauses***, ***limited the inspection periods*** of as little as zero days, the requirements for a ***"proof of funds letter***" or ***"pre-approval letter"***), some banks and related sellers add even more fun restrictions to their addenda, like:

- **Restrictions on resale**. FNMA, for instance, requires that all sales to investors include a deed restriction (that's a term written not into the purchase agreement, but into the deed itself) that says a buyer can't resell the property for more than 120% of the purchase price for 90 days following acquisition

- **Restrictions on who can buy**. FNMA, FHLMC, HUD, and many large banks participating in the 'first look' program limit bidding for the first 10-30 days to buyers who intend to live in the property. The result is that most really good deals go to homeowners

- **Penalties for closing late—but only if it's your fault**. Most bank and bank-related entity addenda include verbiage that say that the bank can withdraw their acceptance without penalty and can extend the closing date for as long as they need to, but that if YOU can't close by the stated closing date, you'll have to pay a penalty of around $150 a day.

Despite these issues, REOs can be a great source of deals in a cold market if you can close deals on your own, write earnest money checks, have a strong and very reactive buyer's list, and are good at evaluation. You'll also need to understand the land trust method of assigning deals, which we'll discuss later.

How to Work REO Properties

1. **Pay careful attention to the seller addendum.** You might not even get to see the

addendum before you make your offer. But if your offer is countered (it's rarely accepted, see below), you'll get a look at one of the most confusing, one-sided real estate contracts ever created: the bank addendum.

Each bank/insurer/secondary market buyer has its own, and they change from time to time even within a single institution. Make sure you read it, understand it, and that there's nothing in it that's so heinous that you (or your buyers) can't deal with it.

If you receive the addendum for the first time after your offer is "accepted", you do NOT have to sign it; if you refuse to do so, you've rejected what's actually a counter offer by the bank changing the terms of the deal, and it simply doesn't go forward.

And no, you can't change the addendum by crossing out the parts you don't like, and expect the bank to accept your changes. Unlike regular contracts with regular people, bank addendums can't be changed one whit. At least according to every bank I've ever tried to do this with.

2. **Focus on listings that are out of the "First Look" period, and already priced under market.** Yes, the banks are serious about this owner-occupant-only bidding period, and yes they will catch you cheating, and yes there are real punishments for it. Basically, you're wasting your time making offers early on. In addition during the early listing period, you're likely to find the sellers inflexible as to price.

3. **Be ready to make a lot of offers.** Even in a cold market, you'll only get 1 out of 20 or so of these offers accepted—but thanks to the fact that the entire negotiation process is done via contract, you'll need to go look at every property before you make you offer. Unfortunately, most agents who list REOs don't bother with detailed photos or description of the property, so you never quite know what you're walking into when you walk into an REO

4. **Expect a slow response—and a rejection or a counter, never an initial acceptance.** It's common for banks to take a week or more to respond to offers. When they do, the result is almost uniformly a rejection or a counter, and almost never an out-and-out acceptance. If the result is a rejection, file the offer for re-submission in 30 days. If it's a counter, no matter how little the bank came down in price, you re-counter at $500 more than your original offer. You'll find that, often, the lender was looking for movement and will accept a price within $1,000 or so of your original offer.

5. **The key to success in getting REO properties to wholesale is FOLLOW UP.** Resubmit offers on REO properties every 3-4 weeks as long as they are on the market. Like all sellers, banks eventually make the decision to discount their properties when they don't sell; you want your offer to be on the table when they finally decide to get reasonable. Most of the bank-owned properties I've purchased have been on the 3rd or 4th offer, not the 1st.

6. **Another hint: November and December are the best times to make offers on REOs.**

Many lenders want these properties off their books before a new year (and a new balance sheet) dawns. If you can make an offer to close by year's end, you'll be surprised at how many formerly-intransigent banks become flexible on price.

7. **Watch the clock—and do everything in writing**. Be aware of exactly when your inspection period is over (sometimes the clock starts ticking when the bank verbally accepts your offer, sometimes when you get the counter-signed contract), and make sure you've satisfied yourself that you understand the condition and repair costs, and have made the right offer (or even found a buyer) during that time.

   If you discover something you didn't see before, withdraw the offer IN WRITING under the inspection contingency. Know the closing date and be prepared to close if you haven't found a buyer. Remember, you'll have a large earnest money deposit at risk with these accepted offer; don't give the bank any reason to keep it.

Bulk Buyers

You've heard of "The Hedge Funds[4]"—companies that buy dozens, or hundreds of rental properties in a particular area.

You may be less familiar with bulk buyers, many of which are also organized as hedge funds, and which also buy hundreds or even thousands of properties in a year, but which acquire their properties in a different way and use them for a different purpose.

Unlike rental hedge funds, which typically buy properties singly at sheriff's sales, from MLS, or in packages from individual landlords, bulk buyers usually buy large packages of properties or defaulted loans directly from big banks, FNMA, and even HUD.

The "tapes" of properties (the fancy bulk-buyer term for the spreadsheets that the institutional sellers put out with the property addresses and other information) may consist of hundreds of thousands to tens of millions of dollars' worth of properties, and are typically nationwide. In other words, bulk buyers don't get to choose just the Midwest or just California; they are bidding "all or nothing" on an entire package that may consist of various types of residential property (including vacant lots), in various conditions (mostly bad to really bad) and a variety of areas (mostly warzones and rental neighborhoods with a handful of bread-and-butter areas thrown in).

The reason these packages include so many poor condition, low-end properties has to do with why they end up in bulk packages in the first place: they're largely the REOs that that banks couldn't sell, or packages of defaulted notes on properties that are so badly underwater that the lender literally doesn't want to spend the money foreclosing on them.

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[4] *I love the way people refer to them as a group involved is some vast conspiracy, as in "The hedge funds are stealing all the good deals."*

As you might imagine, buying dozens to hundreds of properties all at once entitles the bulk buyers to a significant discount. Depending on the package and the locations of the properties in it, bulk buyers can get discounts of 40%-75% off the latest broker's price opinion (BPO) on the subject properties.[5]

The really important thing to you as a wholesaler, though, is that many of the bulk buyers purchase these tapes with the intention of reselling them singly to the public at a markup that is, supposedly, appropriate for the condition of the property.

Those that do—and there are dozens of them, with the largest being Econohomes, Halo, and Vision Properties in the REO space and Kondaur, Dreambuilder, and Main Street in the defaulted note space —can occasionally provide you with some good deals to wholesale to your buyers.

You'll know you've run across one of these companies when you see their ads in Craigslist, when you see signs in yards of abandoned homes that advertise those homes at $x down and $y per month, or when you see a massive transfer of properties from the same bank seller to the same out of town buyer on the same day.

Dealing with these bulk buyers is a LOT different than dealing with banks, agents, or individual sellers. In some ways they're good to deal with:

- They'll give you lockbox numbers—or, more often, padlock combinations—to their properties and let you show them to yourself
- They positively don't get insulted by lowball offers, and often sell their properties at LESS than the price they've assigned to it in the public record[6]
- They don't have non-assignment agreements in their purchase contracts and couldn't care less if you wholesale their deals
- They'll give you even bigger discounts if you can buy several of their assets at once. In fact, their "list prices" can often be negotiated down by up to 60% if you can buy more than 3 at a time.

Some things about them, though, are challenging. For instance:

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[5] *Whether that local agent always does an accurate job if estimating the value of each property is another question altogether, as you will discover when you see BPOs from hedge funds that seem completely out of touch with reality*

[6] *Why? Because they use "portfolio math" when they buy, figuring that 20% of the (remember, sight unseen) properties they bought will make a ton of money, 60% will make a little, and 20% will be total losers.*

- **Like all foreclosure-related real estate businesses, theirs is cyclical, and the quality of the deals they offer depends on what they can get, and how easy it is for them to sell it.** Since these companies buy REOs from banks, the fewer REOS there are, the smaller (and more expensive) their inventory. They have better deals in cold markets than in hot.

- **There is no inspection period and there are no contingencies, full stop.** Once you've agreed to buy a particular property, you'll be sent a contract requiring you to fund the entire purchase price immediately, and with no "out" clauses at all.

- **The closing process is not what you're used to**. Generally, these sellers expect you to wire them the entire purchase price of the property within a few days of acceptance, and then send you the deed when they get around to it. If you insist—and prove that you have the funds—some of them will allow you to escrow the entire purchase price with a title company while you get a title search (see next bullet for why that's crucial), and have the title company release it when the seller provides a deed.

- **These companies nearly always transfer ownership through a quit-claim[7] deed**, warranting nothing about the title. This isn't a problem if you know the condition of the title because you've done a title search; however, in some states you (or your buyer) can't buy title insurance on properties that have been transferred via a quit-claim deed. Don't assume that because the property went through a foreclosure, that the title is clear; I've bought several properties from bulk buyers that did have title problems that weren't cleared by the prior foreclosure, because the parties weren't notified of the foreclosure.

- **The reason they use quit-claim deeds is that they transfer their properties subject to** all taxes, fines, liens, judgments, building orders, etc. Your offer is expected to be "net to the company". In other words, if you offer $20,000 on a property, the company gets $20,000, and if there are $14,000 in back taxes and $750 in city fines for long grass, you also assume those, for a total purchase price of $34,750. And under no circumstances should you accept any title work done by the companies themselves as accurate; on more than one occasion, I've been sent "title reports" that missed obvious, public-record liens, including in once case a $5,000 tax lien.

- **With some companies, you may be asked to accept a "trailing deed."** When these companies buy tapes of properties, they are required to pay for the properties immediately, but may not actually receive the deeds from the sellers until weeks or months later. Some of them—Econohomes is famous for this—then try to get you to do the same thing. While they'll assure you that this is a safe practice (you'll get your money back if, for whatever reason, they never get a deed to pass on to you), good

[7] *Not "quick-claim" as much sense as that does seem to make. It's Quit. Claim. I swear.*

luck trying to get a buyer to pay YOU for a property that they can't safely start to rehab, because any money they put INTO the property will not be refunded to them along with the purchase price. Don't try to wholesale properties with trailing deeds, period.

- **You'll have to accept a certain "Cowboy Mentality" amongst these companies**. You'd think that bulk buyers who buy and sell, in some cases, literally thousands of properties a year, would have their poop in a group, so to speak. Instead, they're famous for moving so quickly that they can't seem to focus on getting things right. I personally have experienced each and every one of the following examples, and when I complained about them to colleagues who've worked with lots of these buyers, they just laughed and told me similar stories

    - **Messy paperwork**. I've had to, on more than one occasion, correct the purchase contracts sent to me by bulk buyers. From contracts with the wrong address on the "property purchased" line to the terms buyer and seller being reversed in the boilerplate document, you can expect to find lots of errors that need to be corrected before you can proceed

    - **Lost closing documents**. I never simply wire money to the company and wait for the deed, after I waited 2 months for a deed that it turned out existed, but the company couldn't convey because they'd lost an original power of attorney they needed to have a representative sign it. Instead, I send my money to MY title company with instructions to release it when they get a valid, recordable deed

    - **Selling the same property to 2 different buyers**. Yep. These companies have phone rooms full of salespeople who, I assume based on their high-pressure tactics, are either commissioned for selling properties or fired if they don't produce a certain level of sales. Unfortunately, this plus the requirement for super-quick closings means that they have, more than once, sold the same property to 2 difference buyers, conveyed deeds to both, and discovered their error only when the buyers did.

So why does anyone ever buy properties from these companies? Because they have a lot of them, and some of them are good deals. But YOU have to be the one who's taking care of the transaction, because they won't.

Tips for Working Bulk Buyer Properties:

1. **Don't make offers unless you have the cash to close, or a medium-term funding source.** True transactional funding won't usually work here, because the timeframe for having money on the table is so short that it's unlikely to allow you to find a buyer who can close on the same day.

2. Understand that the quality of the stock these companies have varies with their latest purchase. Don't get frustrated because you spend a day looking at 10 properties from ABC bulkbuyer, only to find that all 10 are burnouts in warzones. The next package they buy could be chock-full of great deals. No single company gets the same package every time.

3. **When a new package becomes available, jump on it**. Almost all of the packages they get have a small number of decent deals amongst a larger number of long-abandoned houses with major structural issues. The former get picked off pretty quickly, so try to view new properties as soon as you can.

4. If you're asked to sign a non-circumvent or non-disclosure agreement before you can even see what properties are for sale, you're not dealing directly with the seller. Bulk sellers of properties don't ask you to sign an agreement not to "go around them" or not to disclose details of their property—why would they? When you are asked to sign one of these, it's because another wholesaler or broker has been made aware of the "tape" and is trying to tie you up to keep you from dealing directly with the seller, thus cutting them out of the profit loop. Don't do it. These "daisy chains" quickly become a mess of people trying to get paid to sell properties they have no control over. Just trust me on this.

"For Sale by Owner" Listings

There are now dozens of major and hundreds of minor websites that cater to sellers who want to offer properties directly to the public. Craigslist, Zillow/Trulia, HouseValues.com, ForSaleByOwner.com, FBSO.com, and tons of others give any seller with a cell phone camera and a computer the ability to easily and cheaply let people know they're selling.

As you can imagine, most of the properties you'll find on these sites are lovely properties listed at full price by sellers who owe too much to pay an agent a commission, or who dislike agents, or who think they can do a better job of selling their own house than an agent can.

And many of the cheap, junker property listings are by other wholesalers—you can tell most of these by looking for language that no normal seller would use (like "12% ROI!" or "Investor Special!" or "Assigning my contract"), you'll see a fair number that are clearly from actual owners, and where the owner is clearly motivated, like this one I saw last week on Craigslist:

"House, must sell, $6,500 OBO or will trade for truck"[8]

While bookmarking these sites and checking them every day isn't going to yield you a deal, CALLING the sellers who look semi-motivated will. In fact, at least one of my coaching students gets 100% of her deals from this free, easy source—and that's 2-3 deals a month.

Tips for working for sale by owner listings:

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[8] *It turned out to be less a "house" than a "burned-out mobile home in a mostly-empty trailer park."*

- **Don't be a chicken.** Most of these online sites offer you a way to email the listor rather than call, and you'll be tempted to do that rather than have a conversation. In my experience, the sellers only respond to emails about ½ the time, and without enough details for you to know whether they're REALLY motivated (the typical response is, "If you want to make me an offer, make me an offer"). You need to have conversations to understand the story, and whether the seller has any reason to be motivated to sell at a wholesale price.

- **Follow up**. Most sellers aren't marketing-savvy enough to know that they need to repost their ads in order to continue to get responses. Thus, they get a spate of calls in the few days after they list, then nothing—and they start to believe that their house might be overpriced, or that no one is interested in it. A seller that only seems a little motivated when you call in June can be much more so in July.

Auctions

While this is a strategy that's only for wholesalers who 1. Have access to money to close deals and 2. Are confident enough in their own ability to inspect properties quickly and estimate repair costs correctly, it's worth a discussion nonetheless.

In looking back over the past 3 years, I was surprised to see how many deals I've bought at various private auctions. I'm not talking about "online auctions" held by such portals as Auctions.com: most of these are simply bank-owned deals that are listed in MLS, but with the "twist" that there's supposedly a time-limited bidding process. In reality, properties that don't sell for the seller's reserve price in these "auctions" don't sell at all—they simply go back up on the market again a week later.

I'm talking about live auctions where the house sells to someone standing in the room in 20 minutes' time. And these come in 2 flavors:

- Absolute auctions (also called "Without Reserve"), where there is no minimum bid and the winning bidder takes it, period. If an auction is absolute, the marketing for the auction will trumpet this fact repeatedly. These are the ones you want to attend.

- Auctions with reserve. In these cases, there is a price below which the seller doesn't have to sell, even to the highest bidder. These may be advertised as "Selling at or above $x", although in most cases the reserve price is NOT advertised and you won't be able to find out what it is. "Subject to seller confirmation" is another way of saying that the auction has a reserve. And if it says nothing one way or another, it's almost certainly subject to a reserve price. Only attend these if you're curious, or there are multiple properties in the auction you're interested in, or you want to meet the other bidders to build your buyer's list, because if it's just one property it's extremely unlikely that what you want to pay for it is as much as the reserve price.

Auctions tend to happen in 2 situations: when the seller has multiple properties he, or it, needs to get rid of quickly, and when a creditor or court forces an auction to collect on a debt or to liquidate the property in order to satisfy as many creditors as possible. Thus, you'll commonly see auctions that are:

- **Receiver auctions**, which occur when the property owner is insolvent and the creditors have chosen to bypass the foreclosure process by appointing a receiver to manage and sell the real estate

- **Estate auctions**, which can be private (the family hires the auctioneer and orders the auction) or performed by the bankruptcy COURT, when the estate itself doesn't have enough assets to cover all the debts

- **Bank-owned property auctions,** in which a single lender (sometimes FNMA, sometime another large bank) places multiple properties in the same auction

- **IRS, Federal Marshall's, or other law enforcement auctions**. These are typically single-property auctions of real estate seized by the government in drug or terrorism cases or for payment of taxes[9].

All auctions have their own rules, but they all tend to have 2 in common: some percentage of the purchase price—often 10-20%--must be paid on the day of auction, and there are no contingencies to the contract you sign as the winning bidder.

On the other hand, the contracts tend NOT to have non-assignment clauses, which means if you CAN find a buyer before closing, you can usually do an assignment.

This tends to limit your competition at an auction, making them a good source of deals if you're ready for them.

How to Work Auctions:

1. Avoid "auction fever." I know, I know, YOU won't get suckered into bidding more than you intended...that's what we all say. But a good auctioneer can create an atmosphere in which it seems perfectly logical to go up just...another...hundred...dollars.

2. Make sure you understand the terms of the auction before you bid. Once you're in the room, things happen fast, and if you're the winning bidder, you really need all of your ducks in a row. There's usually a deposit due, in the form of a cashier's check or other cash equivalent, before you leave the auction—and since most are in the evening or on the weekend, you won't

[9] *Freedom-loving folks like myself don't succumb to the temptation to buy properties from these auctions, because the seizure process is unconstitutional. It's "We THINK you're a drug dealer, and thus that this property was bought with ill-gotten gains, and if you think you can prove otherwise, be our guest, but in the meantime, it's ours."*

be able to run out to the bank and get that. There's never a post-auction inspection period or contingency (though, normally, the seller does guarantee clear title), so make sure you've done your due diligence BEFORE you bid. In many cases, the winning bidder pays a "buyer's premium" of 10% or more over of their purchase price. So if you are the winning bidder at $200,000, you actually agreed to pay $220,000 if there's a 10% buyer's premium.

3. Don't bother to attend auctions of "retail" condition properties. You'll be outbid by a home owner every time. Stick to properties that need significant work.

Referrals from Other Investors

This one isn't really a marketing strategy, and isn't really a place to go to find deals, so it was tough to decide where to "put" it. Nonetheless, a surprising number of my deals come via referral from other investors. I guess the reason it surprises me is that wholesaling is so simple, I always wonder why they don't just do the deals themselves—but a lot of successful investors are successful primarily because they've focused on a specific niche, and expend absolutely no energy on any other strategy.

That's why I've always had an informal arrangement with several trusted colleagues that I'll refer any deals that meet their criteria but not mine (for instance, properties out of the area, large multi-families, very expensive properties) and they'll refer wholesale deals to me. I also let any investor I meet know that I'll take ugly property leads off their hands.

Note that I'm NOT referencing "co-wholesaling" or "Wholesale JV" deals here. These are properties that my colleagues do NOT have under contract; there's a lengthy discussion of co-wholesaling deals at the end of this chapter.

How to "Work" Referrals from Other Investors

The best place to find other investors is in seminars, classes, and most importantly, at your local real estate investment association (not coincidentally, these are also the best places to find buyers, but more on that later...). Most of these organizations have a "vendor table" or a board on which members can post information. By networking, posting notices at meetings, and perhaps advertising in a real estate group's newsletter, you can let people who might be passing up deals know that you'd be interested in hearing about them.

Co-Wholesaling and "Wholesale JVs"

There's another "strategy" out there that's launched at least half a dozen courses and bootcamps in the past 5 years that need discussion--"Co-Wholesaling." Also known as "wholesale JVs" or "co-op wholesale deals", these are arrangements wherein one person already has the property under contract, and a second person—to "co-wholesaler" brings a buyer into the transaction to close it, getting paid some agree-upon fee or split for "selling" the deal.

As attractive as this idea may seem (it's usually sold with the pitch of "Why go through all the work and expense of finding your own deals? Just make money off other peoples'!), these arrangements are fraught with potential ethical, legal, and practical problems. Some of these are due to sloppy paperwork, misunderstandings, and other communications issues; others are a result of bad behavior, whether intentional or accidental, by the parties involved; yet others are due to the fact that most of these arrangements are in, at best, a legal gray area.

Let's deal with the practical issues first.

Practical Problems

Bottom line is, there are a lot of different ways in which wholesalers do business, and any particular wholesaler has probably trained his buyer's list that his way is the "right" way. If wholesaler A's right way is different than wholesaler B's right way, it causes often-irresolvable conflict and leaves the two wholesalers with wasted time, bad feelings, and no deal.

This happens, for instance, when wholesaler A's policy is "I get paid when I assign the contract" and wholesaler B's policy is, "I get paid at closing". Wholesaler B's buyers are NOT going to want to meet wholesaler A's requirements, because it's never been asked of them before, and wholesaler A isn't going to want to break his usual "It ain't sold till you show me the money" policy with a buyer he's never worked with before and, potentially, never even laid eyes on.

I've tried being wholesaler A in this situation, and it's nearly impossible to overcome. Not only can the BUYER not understand why I want my money up front—often, wholesaler B can't understand it, either. Wholesaler B has actually gotten angry at me for "blowing his deal" because I wouldn't assign my contract and then wait to be paid for that action. I've also been informed by wholesaler B that his buyer thought I was "trying to rip him off." Gee, I wonder if ONLY the buyer said that, or if my buddy B agreed?

Another, similar issue occurs when wholesaler A has specific policies regarding to whom he will sell properties. For instance, I have a policy that I won't sell buyers their first rehab—primarily because buyers doing their first rehab usually go over budget, do the wrong work, take 5x as long as they should, don't make money, and then, sometimes, want to blame ME for all of that.

But very few other wholesalers have such a policy, and when I try to enforce MY policy on THEIR buyers (i.e., if you're a newbie, keep moving), wholesaler B gets upset because 1) In his mind, I'm not selling the property, he is, so he doesn't think I should care what happens to HIS buyer and 2) unfortunately, many wholesalers have a buyer's list absolutely chock full of inexperienced buyers, so they can't find someone on their list who's qualified to buy my properties.

In both of the two cases above, I've tried applying creative solutions, including:

1. Offering to have the buyer escrow his money with HIS attorney, agent, or title company

2. Telling wholesaler B that he was free to do whatever he wanted with my deal—as long as he paid my fee up front and closed it first

3. Explaining to wholesaler B, up front and in writing, what my policies are and that I wouldn't be willing to break them for him or his buyers

Oddly, I've never been able to come to a meeting of the minds on this with any other wholesaler.

There are other problems, too: by allowing other people to re-market your deals, you, in effect, lose control over how the deal is marketed. Just prior to completing this manual, I got a call from one of my high-level coaching students in New Jersey, who shared that he had just LOST a deal because a "co-wholesaler" had, without his permission, published an ad for the property in Craigslist, complete with photo and address. The seller happened across it, freaked out, and refused to sell. My student knew that the seller was a nervous Nelly, which is why he hadn't done the same thing himself.

And as to being the "co wholesaler" in the deal, you have little control, either. I've heard endless tales of co-wholesalers who've worked hard to find buyers for other people's deals, only to find that they'd already been sold (or were out of contract) by the time the co-wholesaler did all the work to "sell" the deal—and often, at a lower price than the actual wholesaler had offered originally, because it's obviously cheaper for the actual wholesaler to knock $1,000 off his price than to split a $10,000 wholesale fee 50/50.

There's one more practical problem with the re-marketing of other people's deals: it confuses good buyers, and great buyers HATE it. The tactic has become so widespread—not because it works, but because it seems like easy money—that in some markets, entire "wholesaler daisy chains" form over a single deal being marketed. Buyers get the same property—sometimes at different prices—from 5 or 6 or 10 different "wholesalers" in 24 hours. They don't understand what's happening, they don't understand who they should really be dealing with, and most serious, experienced, big-time buyers won't get involved with the deal, with any of the "sellers", because they've been burned more than once by "resellers" of other people's wholesale deals who lied about their interest in the property, or couldn't actually deliver a product after the buyer did all of his due diligence and research.

Ethical Problems—Theirs and Yours

When you give up the control of dealing with buyers yourself, you run the risk that your co-wholesaler will say or do things that run counter to your principles. For instance, he could understate the repair costs or overstate the value of the property in order to make it look like a better deal than it is.

But the most common issue you'll deal with is when wholesaler B wants to raise the price of your deal to his buyer, usually keeping the difference for himself. I understand that different buyers have different uses for the properties, repair and finance costs, and opinions of value, and

that a particular property might actually be WORTH more to one buyer than to another, but I take that into account when pricing my properties.

Therefore, if wholesaler B is significantly increasing the price on one of my deals to one of his buyers, I can only believe, based on my extensive experience, that the higher price is NOT a good deal. If it were, I'd, in theory, be asking the higher price myself.

Again, you may ask, "What do I care if wholesaler B rips off HIS buyer, when I had nothing to do with setting the asking price?" It's simple: I don't want to be involved, at all, in a deal where the ultimate buyer won't make money on the property.

Generally, when this is suggested to me by another wholesaler, I repeat that he can do anything he likes, as long as he closes the deal and sells it to his sucker, I mean buyer. But oddly enough, no one has ever taken me up on that offer.

And then, of course, there's the whole question of whether you can trust the other wholesaler in the deal, whether you're A or B. I've heard of cases where B, having gotten all the details of the deal, tried to go around A and negotiate directly with the seller; I've also heard of cases where A sold to B's buyer, then didn't pay B, sometimes just 'cause he didn't want to, and sometimes over a technicality like, "yes, you brought this buyer to this deal, but he was already on my buyer's list, so he'd already gotten an email from me, and even if he ignored it, that means he's my buyer."

Legal Issues.

Agree with it or not, the law says that you are not allowed to procure, sell, or lease real estate for others for a profit for another person unless you have a real estate license with your state (with some exceptions for w-2 employees). This means that you can't get paid for finding a buyer for someone else's contract, and a buyer can't pay you for finding a contract for him, unless you're a licensed agent.

The legal argument that's been made for why you can wholesale without a license is that you're not doing it "for others." By contracting to BUY the property, you have, yourself, become a principal (the buyer) in the transaction. What you're doing is NOT getting paid for selling a property "for another", but rather selling your rights in the contract on a property FOR YOURSELF, as a principal in the transaction.

But what about wholesaler B? He's definitely not a principal—he does NOT have a contract to purchase the property, nor is he himself the buyer. He is, in a very real sense, being paid to bring a buyer to a principal, which is illegal.

So is there a legal way to do this? What about a written JV agreement between wholesalers A and B? What about a "temporary nonexclusive option" where wholesaler B gets the right from wholesaler A to buy, which he's then assigning?

I can tell you from various direct dealing with regulators in this arena that they're not too good at seeing the subtleties of such arguments. If you assign your contract to wholesaler B (collecting your fee, of course) and he re-assigns it, or if he buys it and sells it to his buyer, you're probably in the clear. Otherwise, if anyone from an agent who sees the deal re-posted multiple times by different "sellers" to a buyer who gets angry because he missed out on a deal that wasn't under the wholesaler's control to a seller who gets upset by seeing his house all over Craigslist, reports this to your State's licensing division, expect trouble and expect that you won't have a good argument to get out of it.

I can also tell you that, given the other, more practical challenges of this strategy, it might not be worth the potential hassles of finding a way to MAKE it work. Find your own deals, and find your own buyers. If you insist on co-wholesaling despite these warnings, make sure you know who you're working with, and that they do business in a correct and ethical way.

Building a Lead-Generating Machine

When you add together all the lead-generating activities that you perform day after day, the result is what I like to call your "lead generating machine."

It's a machine because the parts work together to produce the product—leads. Your machine is more than its parts, but when you take a part out, the machine doesn't function. And to carry the analogy way past its logical limits, let me add that you have to do routine maintenance on your lead generating machine in order to keep it working at peak capacity. This maintenance includes occasionally replacing old parts with ones that work better and, of course, keeping it well-oiled and well-fueled. The steps to building your lead-generating machine are as follows:

1. **Choose 3-5 ways of finding the cheap, ugly properties** that you're looking for based on what seems easiest, least expensive, most hassle-free, or least scary— whatever your personal criteria says is important.

2. **List the activities that are going to help you locate possible deals** with these methods (phone calls, letters, distributing advertising materials) and prepare any materials you need to make this happen (form letters, business cards, signs, etc.)

3. **Schedule a MINIMUM of 5-10 hours EACH WEEK to engage in these activities**. Assuming that you are aiming toward creating a full-time income wholesaling, you'll need at LEAST this much time to generate enough leads to close a deal every 10 days or so. This time is crucial, and you should view it as an unbreakable, no-excuses appointment with yourself. It should be done in an atmosphere where you can concentrate—time spent looking at for sale ads while watching television doesn't count. It should also be wholly devoted to GENERATING leads—NOT to looking at properties, researching details, making offers, dreaming about what you'll do with your next profit check, etc. And make sure that this time is packed with real, valuable lead-generating activities. Don't succumb to the temptation to think that you're out of things to do. In 5 hours/week, you won't be.

4. **Each week, keep a list of the things you've done, letters you've sent, contacts you've made, and so on.** At the beginning of each month, go back and check your "log" to see which activities were MOST effective, which had no result, and which need follow-up. If you're finding month after month that some things produce no leads at all, STOP DOING THEM, or at least stop doing them the way you're doing them.

5. **When your lead-generation machine is perfected, pay someone else to run it for you.** Imagine how many more deals you could make if someone else was taking care of this part of the business for you!

Seller type	Individual, Unrepresented (off-market deals)	Individual, Represented by agent (MLS properties)	Bank-owned or FNMA/FHLMC owned	HUD	Bulk sellers
How they're found	marketing	Through an agent	Through an agent or the bank's website	HudHomeStore.com	Individual bulk seller's sites; marketing
How they're negotiated	By discussion	By offer 7 discussion between the agents	By offer only	By offer only	By offer & discussion
Required earnest money	None	$200-$???	$1,000-3% of	$500-$1,000 depending on offer	None—typically full purchase price muse be put up within 3 days
Who's contract	Yours	Agent's broker's	Agent's + bank addendum	HUD's	Theirs
Proof of funds required?	No	Not usually	Yes	Sometimes after offer is accepted	No, see 'earnest money'
Non-assignability clause?	No	Not usually	Yes	Yes	Not usually
Inspection clause?	At your discretion	Yes, with time and "who inspects" limitations. Access may be limited by	Yes, with extreme time limits	No	No
Who chooses title company	You	You	You, bank will often pay if you use theirs	HUD	You—they will encourage you to not have a real closing
Notes		You should have earnest money and be prepared to close if necessary	You should have earnest money/funds to close. FNMA has deed restrict disallowing resale for 90 days at more than 120% of purchase	No investor bids for at least the 1st 10 days. You should have earnest money/funds to close	You MUST have funds to close. Watch for "trailing deeds"

Seller type "cheat sheet" for wholesalers (read chapters 4 and 5 of manual for full explanation)