

SPECIAL REPORT

“Two Ways You Can Turn One Foreclosed Home into A Lifetime of Income”



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A Timely, Special Wealth-Building Report...

Two Ways You Can Turn One Foreclosed Home into A Lifetime of Income

Turn the Foreclosure Crises into Long-Term Wealth

From: **John Mazzara**

RE: An Important Foreclosure Strategy

Dear Fellow Real Estate Investor,

Before the real estate market bubble burst, it was very challenging to invest in foreclosures. This was for several reasons:

1. Difficulty finding foreclosed homes. (limited supply)
2. Pricing wasn't very attractive. (they weren't deals)
3. Banks wouldn't negotiate very much.
4. Risky because you needed a quick sale when renovated to protect your profits.

The basic approach was to find a foreclosure and buy it under value. Remodel the home quickly and get it on the market for sale. Price the home well and hopefully sell this home before carrying costs ate into your profit. This is the "buy and sell" approach sometimes referred to as "flipping".

This plan carried several risks. One of the risks was "time risk." You could spend weeks or months looking for the right property, only to come up without any real deals. This lost time could have been invested into other profitable opportunities.

Another risk was that your rehab costs would come in higher than

budgeted. More than likely, you've seen the flipping TV shows. In almost every flip, the investor ends up having to spend more money than budgeted to make repairs. In many cases, these unexpected repairs were very expensive. Instant profit loss!

The last and probably biggest risk was the home not selling quickly enough. Each day a remodeled home sits on the market for sale without a buyer sucks more and more profit out of the deal. When you factor in debt service, utilities, landscaping and advertising, you'll see that you have a ticking time bomb on your shoulders from day to day. It's a lot harder to sell a home than it is to rent one.

These risks kept many investors away from foreclosed homes. However, the current foreclosure crisis has changed the game on this investment opportunity.

Some risks are now reduced

The first risk in foreclosure investing has, for the most part, been eliminated. There is a large supply of foreclosed homes. You can probably find a great deal within a matter of hours, instead of months.

Also, banks are now willing to negotiate, which means you can get a fantastic deal on a foreclosure today.

The repair risk has been significantly lowered. This one cannot be avoided entirely with a foreclosure. However, the larger selection of foreclosed homes allows you to find homes in much better condition today compared to the foreclosure opportunities that existed only a few years ago.

In addition, the lower purchase prices available today give you some breathing room in your budget. You can absorb higher repair costs because of the lower acquisition cost.

Unfortunately the biggest risk, selling the home, still exists. There are huge inventories of homes for sale in markets throughout the U.S., and the risk of a home taking a long time to sell is very real. However, **this risk can be mitigated substantially through two different strategies demonstrated in this report.**

Strategy No. 1: Turn a Foreclosure into Long-term Income

Although "flipping" – the buy-and-sell approach – has been the traditional opportunity with foreclosures, the goal of many real estate investors is to create long-term monthly income. This is the "buy and

hold” approach. The real estate is bought, then held over a long period of time and rented out.

One of the best strategies for maximum monthly income with a buy and hold approach is to buy a property and pay it off quickly. With zero mortgage obligation, you get to keep the majority of the monthly rent. Depending on your living expenses, you could essentially become financially independent with just three or four homes.

You can use this debt-free rental income to:

- ✓ **Offset your living expenses.**
- ✓ **Pay toward other debt.**
- ✓ **Re-invest into additional self-financing assets.**

Self-financing Asset: This is an asset that pays for itself; not requiring additional out-of-pocket funding by the investor or investors for either loan reduction or operating expenses.

I have a two-part buy-and-hold strategy for rental income with foreclosed properties that I want to share with you.

The first part of the strategy entails buying a foreclosed home below value and **using a short repayment period for the financing**. The foreclosure crisis has magnified the opportunity available to apply this strategy. Investors acquiring foreclosure properties are buying homes, in some markets, for pennies on the dollar.

In Euclid, Ohio, an investor recently purchased this single-family home for \$40,000:



The market value of this home at the time of purchase was \$114,000. This home was purchased for 35 cents on the dollar which was an unbelievable deal.

Obviously, these prices differ from area to area. For a list of foreclosure properties in *Twin Cities*, visit: <http://www.MinneapolisStPaulHomes.com>

The lower purchase prices available in foreclosures will allow investors to set up shorter loan repayment periods.

For example, instead of getting a 30-year mortgage, consider getting a five-year or 10-year mortgage. Rent the home, pay this property off very quickly with the rent received and then enjoy monthly income for life.

You could also obviously sell these homes when the market rebounds for massive profits. The home profiled above in this report sold for \$114,000, giving this investor around \$44,000 of profits. With some quick math, you should be able to see how you can quickly offset any market losses your real estate investments incurred within the last year.

Remember, you don't have to make back money lost the same way you lost it. This means you don't have to make back the 50% drop in your retirement plan by buying mutual funds. You can use a different approach to recapture your lost wealth. You must also decide to become active with your investments. It will take you a very long time to recapture money lost as a passive investor.

**As an example, let's look at a
\$50,000 foreclosure investment ...**

A \$50,000 mortgage amortized over 30 years at 7 percent would generate a monthly payment of \$332. This same mortgage amortized over 10 years at 6 percent (*the interest rate would be lower because of the shorter repayment period*) would generate a monthly payment of \$421.

Or we could go one step further and amortize this mortgage over eight years, providing a monthly payment of \$657. Add in \$200 for taxes and insurance, and your total house payment is around \$850 a month.

You can run this amortization schedule online for free at:

<http://www.MortgageWidgets.org>

Basically you want to buy a foreclosed home and pay it off like you would a car. Try to get the shortest repayment period possible. The faster you pay off this property, the faster you'll enjoy income for life.

Another benefit of the foreclosure approach is that you'll need to bring

less money to the table at closing to buy these properties. Most lenders today require investors to put 20% down to buy an investment property. Twenty percent of \$50,000 is a down payment of \$10,000. Twenty percent of \$100,000 is a down payment of \$20,000.

Now for part two of the this buy-and-hold strategy ...

Because this mortgage payment is low, consider renting this home using the Section 8 government rent assistance program. The goal would be to collect rent directly from the government and use this rental income to pay your mortgage off within five to 10 years.

The Section 8 Program was very difficult for investors to use in the past because the rents offered were significantly lower than monthly mortgage payment, insurance and taxes. Section 8 typically put investments into a negative cash-flow position.

The lower prices available through foreclosures have changed this game dramatically. Investors can happily accept Section 8 tenants and pay their mortgages off within a few years at the same time.

WARNING: If you implement this strategy, don't simply accept any old Section 8 tenant for your property. You need to screen your tenants to find the best one for your property. If not, you could be stuck with lost rent, damages and daily management headaches. Use the 80/20 Approach to Hassle-Free Rental Income.

Here's an example of an investor in St. Louis combining a foreclosure investment with Section 8:

The home pictured on the right was purchased for \$33,000, and the investor put another \$2,000 in for cleanup and minor repairs.

The mortgage payment on it is \$703 per month for a six-year mortgage, and the investor will receive \$725 per month in Section 8 rent.



Imagine having a free and clear rental property in just 6 years that was paid for by the government!

The reason you should consider Section 8 for this strategy is because, generally, evictions and non-payment of rent have spiked due to the economy. Tenants are struggling from job loss, hour reductions and lower pay. However, if you use a Section 8 program and your new tenant loses their job because their company decides to lay off 20,000 people, you'll be protected.

The bottom line is that investors don't want to have to chase their

rents because they have elected a higher monthly mortgage payment and can't afford the big cash-flow hit that late payments and non-payment cause.

Buying a foreclosure allows for a lower monthly payment and a shorter repayment period, and Section 8 gives us the ability to automatically collect this rent from month to month from the government.

For a contact list of U.S. Housing and Urban Development Section 8 rent assistance providers in your state, visit:

<http://www.hud.gov/offices/pih/pha/contacts/index.cfm>

Strategy No. 2: Combine the Buy and Sell Approach with the Buy and Hold Approach

A real estate investor typically wants the best of both worlds. They want large checks AND long-term wealth.

When you "flip" homes, the buy-and-sell approach, you aren't building long-term wealth. You are in essence creating a job for yourself. What that means is that when you flip a home, you get paid. To get paid again, you have to go out and flip another home.

Many investors, however, don't want another job. They would rather work one time and get paid over and over again! They want wealth without working. It's a good guess that you don't want another job, either.

Well, there is a way to combine the best of both worlds ...

Blend of the buy-and-sell and buy-and-hold models

With this strategy for foreclosed single-family homes, you can:

1. Put your real estate investing on auto-pilot (not have to play landlord every day)
2. Receive a high monthly cash flow
3. Maintain the annual tax loss and qualify for the ability to sell homes without paying taxes at the time of the sale

4. Cash Out - receive a substantial profit check within a few short years
5. Lock in your current equity.
6. Lock in future appreciation increase
7. Get a large check (3% of the value) from your properties within a few short weeks of your purchase and ownership

The way to do this is to blend renting single-family homes using the buy-and-hold approach with using the buy-and-sell approach and flipping single-family homes. This might sound a little confusing, but here's an explanation of how this works.

Invest in a foreclosed single-family home in a nice area. Offer this home under a short-term Rent to Own program to a tenant/buyer.

What in the Heck is Rent-to-Own?

It's actually not that complicated at all. You simply buy a nice single-family home and rent it to a tenant who wants to own his or her own home but cannot qualify for a mortgage right now.

You have your tenant sign a lease agreement for one, two or three years. During the time you have this lease agreement with the tenant, you also have a separate agreement that provides your tenant the option to buy your home at any point during the lease term for a pre-agreed selling price. The tenant has the option to buy the home, not the obligation. If they buy the home, they have to purchase at the agreed-upon price. If they don't purchase at the end of their lease, you can continue renting to them or terminate the lease agreement.

If you decide to terminate the lease agreement, you can offer your single-family home to a new tenant on a new Rent-to-Own program.

Understand that there are many ways to structure the lease and option agreement that will substantially increase the odds that your tenant will buy the home outright during their tenancy. One of the best ways to increase your odds is to offer to credit a portion of their monthly rent payment toward their down payment if they should buy the home. So, in essence, during the lease term, your tenants are *automatically* saving money for the down payment.

The big picture with this approach is that you are not trying to outright flip homes. You don't have expensive carrying costs waiting for the home to sell, because you have a tenant paying you each month until they buy it. You don't have to make manual repairs yourself or have to oversee subcontractors repairing your properties. You still get the big payoff when the tenant buys the home, just as you would if you had flipped the home.

The goal is to buy a home at least 20% below value and then sell it to the tenant when the home appreciates by 10%.

It shouldn't be difficult to find a foreclosed home and buy it for 20-percent or more under market value. And the lower under market value you buy it, the less it matters when you sell it.

Let's go back to the \$50,000 foreclosure investment but instead put the Rent to Own strategy to work.

Remember that \$50,000 mortgage amortized over 10 years at 6 percent would generate a monthly payment of \$421. Because you are selling this home to a tenant-buyer, it is less important to pay it off over a shorter period of time.

So with taxes and insurance you are looking at a payment of about \$650. Now let's assume that area market rents for houses comparable to yours are \$850 per month. That would give you cash flow of about \$200 per month. But ...

You will actually get ABOVE-market rent

Because you are offering the home on a rent-to-own program, you can typically get higher-than-average rents. By crediting a portion of the rent back to the buyer toward the purchase, you could easily get \$100 a month more per month for this home. That would give you a monthly cash flow of \$300 per month.

The other very attractive aspect of rent-to-own programs is that you can ask for a down payment from the tenant-buyer up front. Typically, this will be anywhere from 3 percent to 10 percent of the market value of the home.

For simple math, let's assume the market value of our foreclosure investment is \$70,000. A 3-percent down payment from tenant-buyer

would be \$2,100. That means you get \$2,100 up front AND \$300 per month from your original investment of \$10,000.

For the buyout of your home by your tenant-buyer, you will want to set an agreed-upon purchase price of about 5 percent above market value for one year, and another 5 percent increase in Year 2 of the option.

In our example, that would mean a buyout price of \$73,500 after one year, and \$77,175 after two years.

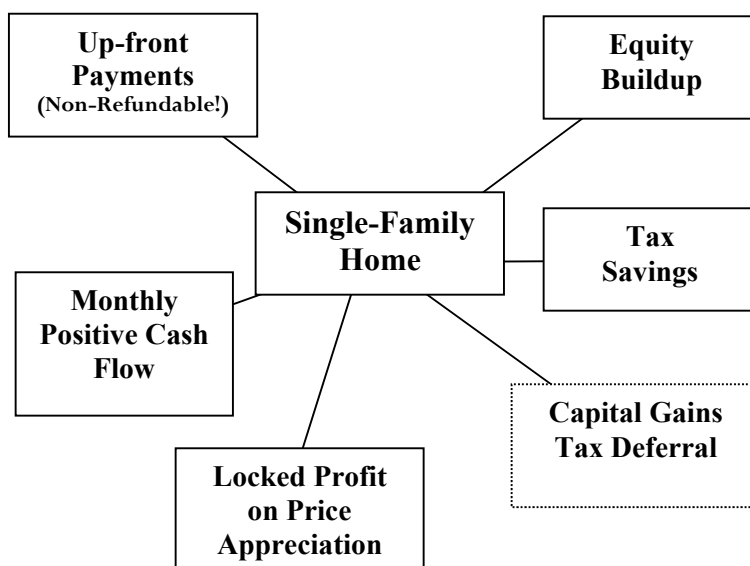
Let's go over these numbers again:

1. Your down payment: \$10,000
2. Tenant-buyer's down payment to you: \$2,100
3. Monthly cash flow: \$300
4. One-year buyout profit: \$23,500
5. Two-year buyout profit: \$27,175

If your tenant-buyer bought your home at the end of the two-year period, you would have a net profit of \$31,975 (after crediting their down payment and \$100 per month credit back to them at purchase). With an initial investment of your \$10,000 down payment, **this is a return of 219 percent in just two years!**

That sort of return certainly beats the stock market!

With the Rent to Own approach to foreclosure investing, you can earn up to six income streams from one single-family home. See the diagram below:



The best part of a Rent-to-Own program is that you are not a landlord. Legally, you own the home during the lease period, but for all intents and purposes, you can consider it the tenant-buyer's home.

Your lease should state that they can't make major alterations to the home without your approval, but you want them to make the home as nice as possible. You want them to paint the deck and add new landscaping. The more they invest into the home, the better the chances of them buying out at the end. Here are some quick tidbits about the agreement your rent-to-own tenants should sign.

1. The tenant is responsible for the first \$200 of repairs in each month. The investor is responsible for the balance. Yes, there are always minor repairs like clogged drains and leaky plumbing, but the tenant pays the first \$200, which in most cases covers the whole thing.
2. The tenant is only eligible for the monthly credit toward the down payment if they pay their rent on or before the first of the month. So now they have a huge incentive to pay on time.
3. The lease agreement states that the tenant is responsible for mowing the lawn, trimming the shrubs and shoveling the driveway.

These three and a few other clauses in your rent-to-own contracts place the management of the property in the tenant's hands. They understand right from the beginning that they are responsible for the home. In many cases, our tenants make repairs to the properties without even telling us about them. Your tenants will operate the same way if you teach them right from the beginning how you operate. It also helps to have the right contracts to make sure that everyone understands their responsibilities.

Conclusion

You can probably see that both these strategies will work well with a foreclosure real estate purchase. Both of these strategies have always been used by real estate investors, but the recent flood of foreclosures on the market makes these two very effective, which is why they are highlighted in this report.

With both strategies, you would:

1. Buy a foreclosed home (to learn more about foreclosure home buying, register for a FREE Foreclosure Home Buying. **Call to see when we are offering our next class**)
2. Select a quality tenant and rent the home using a Section 8 program or start a rent-to-own program

Hopefully, you can see how you can profit in real estate by starting with just a single foreclosed home. The rise in foreclosures has given you the opportunity to add extra income each and every month, pay off your real estate investments quickly and lock in equity instantly and down the road

Here's wishing you happy foreclosure investing,

John Mazzara

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<http://www.MinneapolisStPaulHomes.com>

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