

Actually the closing agent walked the check over to me as they are across the hall. The buyer's funds had been wired in two days before so the closing was somewhat cast in stone. My net check from the proceeds of the sale was \$80,898.35. I mention this because I always see real estate gurus having students hold up closing checks that are irrelevant to what the student actually made on the sale.

For example, a student proudly displays a \$10,000 check which is presumably his profit on the transaction. What isn't disclosed are his costs and any split with his partners in the deal. I have also seen wholesalers charge for two or three other parties to their transaction for people who had nothing to do with the deal except, "They found the buyer". I am always amazed how two people can bring one buyer.

For the example of mine above, I want you to get the full insight of how this transaction played out. I "bought the property for \$70,000 and sold it for \$94,500. Sounds like \$24,500 profit, but we'll look at the "details" of the transaction in a minute.

The property was found by a student and put under contract for \$70,000 and closed on it. It was an REO and listed for \$90,000 at the time. Yes, we bought the property below listing just as we ALWAYS do. Once under signed contract from the asset manager we put it out for sale and got a buyer for \$88,000 in about one day. Sounds like a tidy profit of \$18,000 less closing costs, so about \$15,000+/-.

The student had no money and since we had it sold, I agreed to fund the deal. On the day of closing, the buyer we had decided not to purchase the property and lost his \$2,000 deposit. We had put up a \$750 deposit so we could have made money by not closing. However, the student came by the office and despite us having another buyer lined up, she wanted to sell it herself on the Multiple Listing Service® ("MLS®") for \$129,900. Despite the property being a five bedroom and four bathroom property, it was located on a main street in a bad neighborhood.

I got a call from her a month later saying she had a buyer at \$119,000. Sounds great but it was a conventional buyer who had to get a bank loan. She assured me he would qualify because she personally knew the mortgage broker and he had pre-qualified the buyer. Month two came and went and her buyer moved into the property. She claimed he wasn't paying rent and he was rehabbing the property. I was only the lender on the property and frankly powerless unless I foreclosed. Month three, four and five passed with the same rhetoric about the loan would be closing any day.

In month six I told her I was foreclosing and she swore that the loan was closing. I started the foreclosure process and since the owner was her LLC, I was able to get through the court system in only six months and get a sale date for one month later. At the sale, no one bid on the property so I got it back for \$100 (plus my final judgment amount of \$86,000 which included my attorney's fees, property insurance, maintenance expenses but no money for interest. The student had tried to have me do a deed in lieu of foreclosure for \$1,000 to take her out and get the property back faster than foreclosing. However, I had paid for the foreclosure and was better off going to the auction with the property – which I did.

After the sale I owned the property so I went out to see it. It was abandoned but also everything in the property that had metal in it was stolen. I called the Police and made a report and made an insurance claim but couldn't be certain when the house was stripped. The back door's lock was broken and a window on the side of the house was smashed in.

What was more important was that almost 13 months before, the comparable closed sales were in the \$109,000 to \$129,000 area. Likely they were in better shape, but now the comps were in the \$80,000 to \$85,000 range. The offers I was getting from other wholesalers were in the range of \$60,000 to \$70,000. I decided to list it on the MLS® at \$95,000 and "work the crowd" from there. The agent I listed it with, as with all the agents I work with, did not ask for a listing agreement and I was planning on giving her 3% as a commission if the buyer came from the listing.

She called in a few days to say that she had a buyer and could she have 6%. My partner said "yes" because he was assuming we would break even on the sale. However, what she actually meant was she wanted 6% in addition to another 3% she was giving to the agent who brought the buyer. We have paid 10% or more to agents in the past and on a regular basis, but only because the agent marks up the property above our offering price. We have paid as much as 25% in one case because the mark-up didn't cost us any of our profit.

When I got the closing statement, I was upset by being gorged by the 9% commission but I agreed. However, I did not completely know the final costs for the foreclosure and carrying costs.

Here is the final accounting on the property:

Net Proceeds from the sale	(+)	\$80,898.25 (sold for \$94,500 – w/9% Commission and closing costs)
Amount loaned	(-)	\$70,000.02
Forfeited Deposit	(+)	\$ 2,000.00
Legal and Insurance Expenses	(-)	\$ 7,689.84
Carrying Costs (utilities, interest)	(-)	\$ 5,022.42
Net Loss	(-)	(\$ 2,360.59)

In summary, the lessons here should be obvious. If you are funding a deal, don't allow what should have been a transactional funding to turn into a hard money loan. Stay clear of rouge real estate agents (in this case a student) who know it all. You'll get indications by their exerting control from the beginning. Start a foreclosure proceeding sooner than 6 months out – this time period can be part of the mortgage note signed at the closing. Don't believe that simply holding up a check after a closing for a photo opportunity means the investor made any money at all. Not all real estate deals are profitable, even if you have what appears to be a decent profit on paper – don't count on it until the proceeds check is cashed.

With 20/20 hindsight, it is easy to see what should have been done from the start. But as I often hear from my students, "You had to be there to understand", the first loss is always the smallest and I tried to get out early but had to use the foreclosure process to do it.

The declining market added insult to injury but, again, no excuses. If you are ever faced with a dilemma like this, take aggressive action immediately. I couldn't start the foreclosure process before the first six months per the terms of the mortgage note – which I wrote myself. It seemed like I was on top of the situation as it unfolded, but what I could actually do was too late and too little. Don't let this happen to you and be suspicious of new investors holding up checks on websites that are advertised as their profits on a deal!

To your limitless success,

Dave Dinkel – always learning and passing it on!

PS – "No Excuses" Seminar is coming in February – watch for it!