

# SPECIAL REPORT

## *7 Critical Elements In A Killer Short Sale Package*

**By: Andre Johnson**

Andre Johnson:

For introductory purposes, my name is Andre Johnson with "Million Dollar Techniques", and this Special Report outline the "**Seven Critical Elements In A Killer Short Sale Package**".

A **Short Sale** is a technique utilized to allow you to negotiate with the lender of a property and get the lender to discount the pay off owed on the property to more effectively manage a profitable real estate transaction.

Before we discuss some of the "**Seven Critical Elements In A Killer Short Sale Package**", we need to understand when a short sale is applicable.

There are many investors out there that attempt to short sale properties and then apply the strategy of a short sale inappropriately; which not only frustrates the investor and the property owner (whether it is an investor or a owner-occupant) but also frustrates the lender. The misapplication of the short sale strategy and technique often creates an adversarial relationship between the lender's short sale and/or loss mitigation departments and investors. You have to know how to apply a short sale technique, to make it very effective.

**Q. In what situations should you consider a short sale?**

A. A short sale is not going to work just because you can't negotiate the seller down to a price point which is advantageous for you to make a wholesale profit on a transaction. The situation that the seller has to be in, is one in which the current as-is value of the property is less than what is owed on the property.

Stated another way, the lender has a greater exposure on the loan relative to the value of the property held as collateral on the mortgage. In these situations, lenders will be flexible with considering a discounted pay off because they realize that if they were to foreclose and take ownership of the property, the lender would not have the ability to sell or would be able to sell the property but not recover all of the funds that is owed on the note and mortgage.

In situations where you can prove to the lender through the "**Seven Critical Elements In A Killer Short Sale Package**", the lender should be very open to discounting the payoff because a foreclosure will just add

- a) Additional expense;
- b) Turn them into a real estate owners.

Real estate lenders and mortgage companies are not in the business of owning real estate. They do not want significant amounts of real estate owned on their balance sheet.

When you provide a "win-win-win" solution for the property owner who's in a situation where the current value of their home is less than the balance owed on the property; and you can offer a "win" for the lender providing them with a path of least resistance to minimize their losses in the shortest amount of time in a way where they don't have to incur additional costs. Additional costs would be incurred thru the foreclosure process (attorney's fees and other

foreclosure related costs) and then taking a property back onto their balance sheet as real estate owned property (REO).

I think we all understand with this introduction that a short sale is a technique that must be applied in specific situations where everyone is motivated to be cooperative, and when the lender, the seller, and the investor all are going to have a beneficial outcome.

This technique is not going to work when only one party will benefit or only two parties benefit; it's only going to work when all parties benefit and again, that's typically when a property owner is financially distressed, meaning that what is owed on the property is more than their current as-is value of the property.

It's also going to be a situation where the seller cannot invest in the property to generate the addition value required to bring the property substantially above what is owed on the property, and it has to be a situation where the investor can make out in some way by a short-selling or discounting the pay-off.

Let's get to some of these key elements – there are ***Seven Key Elements In A Killer Short Sale Package***. Now let's go over each one of the seven elements.

### **1. The First Critical Element In A Killer Short Sale Package is the "Cover Letter".**

A cover letter has to present to the lender at first glance what you're asking them to do; why you're asking them to do it; and then giving them a taste for all the information that's included in the short sale package. The lender will recognize that they are working with a professional and not someone that just picked up a short sale course from an infomercial.

The cover letter needs to provide a clear picture of what you're trying to accomplish and why it's going benefit the lender, which is why the cover letter is the first critical element of a killer short sale package.

### **2. The Second Critical Element In A Killer Short Sale Package is the "Authorization to Release Mortgage Information".**

You must obtain an "Authorization to Release Mortgage Information" signed by all owners of the target property. You could have the other six critical elements that must be included in a killer short sale package, but if you do not have the expressed written authorization from all owners permitting you to discuss their private, personal, and confidential mortgage information with their lender, you will not be able to have a conversation about anything that is of a confidential nature relating to that mortgage and that covers everything. If you don't have the "Authorization to Release Mortgage Information" document signed by all owners giving you the expressed written permission to discuss their account on their behalf, then you will not be able to execute a short sale.

### **3. The Third Critical Element In A Killer Short Sale Package is the "Contract to Purchase Real Estate".**

The "Contract to Purchase Real Estate" is a basic agreement that is executed by the Seller and the Buyer which states, "Seller agrees to sell; and the Buyer agrees to buy" the target property. We'll discuss some critical clauses that you need to have in a "Contract to Purchase Real Estate" that will allow an investor to wholesale the short sale deal, and protect the investor with some contingencies concerning exit strategies should the deal not turn out as anticipated.

### **4. The Fourth Critical Element In A Killer Short Sale Package is the "Seller Hardship Letter".**

Now the seller must cooperate in giving you the contextual information as to why the mortgage company should consider discounting their mortgage. Remember, lenders and mortgage companies don't make money by cooperating and facilitating a short sale. They may save on additional loss of money by not having to go through a foreclosure process, having to take title and ownership of the foreclosed property, or incurring the holding costs, et cetera, et cetera; but they are not going to make money by the short-sale or by discounting the payoff on a property. As the investor; with the owner's cooperation you have to build the context of the big picture why it is of paramount importance that the lender consider this seller's hardship situation and discount the payoff on the mortgage. We'll get into some of the details regarding "seller hardship letter."

### **5. The Fifth Critical Element In A Killer Short Sale Package is the "Seller Net Sheet".**

A "seller net sheet" is a draft "HUD-1" which is a "proposed closing statement" providing a "seller net sheet" and a closing statement that shows the estimated amount of funds that the lender will net, if they approve the short sale package. The "seller net sheet" is a requirement from every lender that we've worked with and received approved short sales.

### **6. The Sixth Critical Element In A Killer Short Sale Package is the "Property Valuation".**

A property valuation can include a number of sub-set items, but it certainly should include a list of appropriate comparables. We will provide the details of what type of comparables to run when you are put together a short sale package, but it must include a list of comparables. In some cases, we include a broker's price opinion, or BPO. We will cover how you can package the *property valuation* with other information such as; zoning and code violations if applicable, on the property, and then provide digital photos.

The digital photo has revolutionized the way real estate investors do business and when it comes to short sale packages, the inclusion of interior and exterior digital photos that visually describe the condition of the subject property and the neighborhood itself, which can go a long way in getting your short sale package approved. The old axiom is: "a picture tells a thousand words" and

when you're dealing with a lender that is not only considering a picture communicating thousands of words, but they're considering thousands, possibly tens of thousands of dollars that are at-risk or at-peril because of the distressed situation of the owner and the financial distress in which the mortgage is more than the property is worth. The pictures go a long way in building credibility for your short sale packages being approved.

### **7. The Seventh Critical Element In A Killer Short Sale Package is the "Repair List and Contractor's Bid".**

The final critical element that must be included in a killer short sale package is to have a "repair list and contractor's bid" on bringing the property up to at least, average condition. You need a bid for labor and materials that will itemize the work that needs to be done on the property to bring it up to par for the neighborhood.

The "***Seven Critical Elements In A Killer Short Sale Package***" are:

1. Cover Letter
2. Authorization To Release Mortgage Information
3. Contract to Purchase Real Estate
4. Seller Hardship Letter
5. Seller Net Sheet, Proposed Closing Statement or HUD-1
6. Property Valuation
7. The Repair List and Contractor's Bid

Let's cover the break down of some of the critical information that is included in each one of these key elements of the killer short sale package.

**Critical Element #1 – Cover Letter:** The cover letter is very important by informing the lender that they are dealing with a professional that is providing them *without solicitation* with almost all or at least ninety percent of the information that is going to be required, if the lender is willing to consider and then approve the short sale on the subject property. The short sale cover letter must state factual information and very explicit which must say (almost verbatim) that the owner ***owes far more than the property is worth in as-is condition.***

It is almost always true that the seller is receiving solicitations from attorneys. You can inquire and verify this by asking the seller if they have received any type of solicitations, phone calls, or letters or any type of solicitation from an attorney that is advising them to file bankruptcy. If that can be verified, you want to include in your short sale cover letter that attorneys are advising the owner to consider filing bankruptcy. You also want to include, in your cover letter that as the buyer, you will be buying the property in ***as-is*** condition with a quick cash close. That's important to note in your cover letter because you want to make sure the lender knows that you're not going to be holding up this property for a substantial amount of time without serious intent on closing on the property.

You want to make sure that your cover letter also states ***your intent to purchase the property 'as-is' with a quick close***. You want to itemize all the "***Seven Critical Elements In A Killer Short Sale Package***" in bulleted form.

**Critical Element #2 – Authorization to Release Mortgage Information:**

There is a free template of this form on Free Tools Page of [www.MillionDollarTechniques.com](http://www.MillionDollarTechniques.com) website. This form which is written to the mortgage company or the lender should be very succinct and clear. It's a letter from the owner and it should state something to the following effect;

***"Dear ABC Mortgage,***

***Please be advised that I have a mortgage with your financial institution and I am currently in default. I hereby request that details of my mortgage information be released to the following entities..."***

You will need the name of your company and everyone's name included that you may need to rely on to make follow-up calls and have access, expressed permission, and authorization from the owner to discuss the details of the owner's mortgage information with the lender. You also want it to state, "You may consider this letter as my '***authorization to release this information***' to the above mentioned parties. ***Thank you for your cooperation.***

All owners must sign, print their name, provide the property address, their signatures, each one of their social security numbers, and last, but not least, the loan number on the mortgage.

All this information will allow you to discuss the personal and confidential information associated with the mortgage when trying to convince the lender to consider and then approve your "short sale package." If a owner has more than one mortgage on the property, first and second mortgage maybe even a third, you must obtain "authorizations to release mortgage information" forms for each of the mortgages, because you will be presenting a "short sale package" to each one of the lenders actually starting with the lender that has the loan in the last position. If there are three mortgages, you want to start with the lender in the last position because the lender in the last position is the most vulnerable and will discount the mortgage the deepest, and you want to go after a discount with them first. Okay, so we've covered some of the core and critical information that must be included in the "cover letter." We talked about getting an "authorization to release mortgage information" signed which will allow you to discuss information. Without this form, you can not move forward with discussions of a short sale and negotiations without that document.

**Critical Element #3 – Contract to Purchase Real Estate:** There is no such thing as a "standard" ***contract to purchase real estate***. Any contract to purchase real estate will do as far as inclusion in a short sale package, but you want to incorporate a couple of protection clauses;

- This offer is contingent upon ABC mortgage also known as the first mortgagee, and XYZ mortgage also known as the second mortgagee, accepting a payoff of this loan that they hold and secured by the subject property. You need to have that clause in the contract because if the lender does not approve the short sale package at the price and terms that you agree upon, then your contract with the owner will not be binding because that contingency will not be met.
- As-is Condition. Somewhere in the document you want to make sure that it states that you're buying this property as-is.
- You want to have a relatively short closing time to be fourteen days, thirty days, forty-five days, whatever is relatively short in your marketplace in your area; but you also want to have, even if you choose fourteen days as the closing period, you want to have a built-in extension saying, "The seller and lender agree to extend the closing date by 'x' number of days necessary to complete the title search and to verify all liens due, and payable, upon closing." That will give you the wiggle room to allow extension of the contract, which will allow you the time to harness and secure your funds to close, if it is necessary.

**Critical Element #4 – Seller Hardship Letter:** Some investors view the *seller hardship letter* as a non-essential entity in a *killer short sale package*; however, it is critical that the seller put their stamp on the proposal. It is the direct communication from the owner to the lender that personalizes their loan from just a loan number, as to how life events happened upon this particular owner. Why? After years of timely if not; early payments all of a sudden payments became slow and then ultimately behind to the point where there's an imminent foreclosure? The *seller hardship letter* in my opinion is a *critical element* in getting the lender to have some type of business sympathy or some understanding of why they need to take a big picture look at the possible losses that may occur from this particular delinquent loan.

The *seller hardship letter* in essence, is a one-page letter account of why the mortgage company should assist the owner and cooperate with reducing the loan payoff. As mentioned earlier, the lender is not going to do this arbitrarily unless they have a legitimate reason. Typically the reason is that the property is worth far less than what's owed on the mortgage. The *seller hardship letter* needs to state:

To Whom It May Concern:

I've tried to sell my home without success. I've tried to sell my home as a 'for sale by owner' and through a real estate agent. No realtor would accept my listing because of the condition of my home."

I have contracted with (your name and/or Company) to buy my property." and you hold the note and mortgage on my home at XYZ Main Street, Anywhere, USA..

This all has to be factual; we're not making things up or bending the truth. We're using this situation as an example because these are the situations that

are going to be most likely to be approved by a loss mitigation or short sale department.

The letter needs to go on to explain why the owner is now behind or delinquent on the loan payments. It needs to give a personal account of that led up to this situation. If a spouse has died, or if there was a loss of a job, and "I've been searching for a job for six months and have not found employment." If it's the fact that "I've made the tough decisions and I've decided to hold on as long as I could with paying my mortgage, but we can no longer afford food so now we have to make a choice between food and the mortgage."

In the situation where other bills are delinquent, such as: utility bills, credit card bills, other mortgage note payments, car note payments. All of that needs to be stated in the **seller hardship letter**. In fact, it is most powerful when you can put in parentheses "see attached" and you can attach to the "hardship letter," copies of the latest delinquent bills with not only what's due, but a trailing history of delinquent payments. The **seller hardship letter** will build the personalized account that's necessary for a short sale department, or a loss mitigation department, to seriously consider this particular hardship situation.

This will allow the lender the insight to see that it's not likely to resolve easily, and that the delinquency of the loan and/or delinquent payments are not likely to be brought current anytime soon. That's the leverage that you need to start negotiating with the lender on considering your **short sale package**.

#### **Critical Element #5 – Seller Net Sheet, Proposed Closing Statement or**

**HUD-1:** What is a **net sheet**? The **net sheet** is the **proposed closing statement** or **HUD-1**. The **proposed closing statement** is very important and must be done professionally. A lender will know if they're dealing with a novice investor because the **proposed closing statement** needs to be prepared in such a way that the owner of the property (Seller) is going to net \$0.00 in the transaction. As I mentioned earlier, there has to be a **win-win-win** situation when it comes to a short sale:

- The lender must be able to reduce and mitigate their losses.
- The investor has to be able to negotiate a discounted payoff to where it's profitable once they add value to the property.
- The owner must be able to get out of their distressed situation.

The lender is not going to allow the owner to profit from the situation, so the lender is going to make sure that the **net sheet** or the **proposed closing statement** has the seller netting zero funds in the transaction.

You need to have a professional title company or attorney draft the **net sheet** or the **proposed closing statement** from the contract sales price, covering any earnest deposits retained, all liens that are due and payable upon sale, any closing costs that you're expecting the lender to **absorb** which should be none. That is a "golden nugget," you want it to make sure that your contract has all closing costs being paid by the borrower on the buyer's side; that's a quick red flag that will put your **short sale package** in the wrong pile. Make sure that your **net sheet** is very clean. The Seller/Owner netting zero funds; the Lender

paying \$0.00 in closing costs; all closing costs paid by the borrower or buyer, and showing that all liens and judgments are paid off.

You can use the existence of liens and judgments to further support your case of the type of issues that the lender would have to deal with if they were to consider taking this property back. In other words, they'd have to pay those liens off or record a deed subject to those encumbrances which they are not likely to do.

**Critical Element #6 – Property Valuation:** The *property valuation* must include appropriate comparables. "Appropriate" refers to comparables that are best suited for the subject property and are of like-kind and like-condition. There are instances when the subject property is in such poor condition that it may not match up with other properties that have sold on the open market. The retail market which is principally dominated by the MLS typically has properties that are bought and sold that are at the very worst only slightly below average, to average, to above average condition.

When you are considering a short sale on a property that is in deplorable condition, it is tough to get appropriate comps on the MLS. You will need to find the closest or best comps available which resemble the condition of the subject property. You may have to research other sales or look at some open market comparables that are not on the MLS, and the best packaging of comps for a short sale will be inclusive of retail or MLS comps, but also open market comps that will support the desired price, or short sale price of the subject property.

It is very credible to have a real estate agent or broker provide a *broker's price opinion* or *BPO* in your *short sale package*. You want to ensure that the broker that doing the BPO is familiar with the property and its' condition. It is also helpful to meet the broker at the property when the inspection is done to emphasize the negative aspects of the property. The BPO should contain the following:

"I have been asked to provide a *broker's price opinion* or *BPO* on the subject property. It is difficult to come up with comparables because of the condition of the property. In my opinion, the current value is XYZ thousand dollars going on an open market and assuming an all cash sale."

If that BPO amount happens to be close to your contract sales price with the **seller**, do you think that the lender may consider or approve your short sale offer? You want to have the broker state:

"In my opinion, this property will not show well, or sell on the market in its current condition. Homeowners will not buy this property because too much work is needed."

This information must be factual. We are not asking professionals to fabricate the story. We're doing short sales on properties that fit a certain profile, and we want to do a short sale on a property that meets this particular profile. The "property valuation" includes the list of appropriate comps to include the retail and open market comps and a broker's price opinion (BPO). If you can

research any information that discloses the poor condition of the subject property such as a health code violation or zoning violation that may be of public information; you would want to include this disclosure with the “property valuation” to further to support the property’s current ‘as-is’ condition.

The other core element of the “property valuation” would be taking digital photos of the subject property. With the extensive use of email and the Internet, it’s very easy to attach to your “short sales package” the digital photos depicting the current condition of the subject property. You need to include interior as well as exterior digital photos of the subject property and the neighborhood. Your digital photos must provide close-up views of damages or repairs that may be necessary to the property and the inclusion of close-up photos of peeling lead paint, mildew, mold, damage, vandalism or any type of easement (right of access through your property). Any issues that can be clearly depicted with digital photos will further support your position in trying to get a discounted payoff approved.

**Critical Element #7 – The Repair List and Contractor’s Bid:** The contractor must thoroughly review the scope of work needed for the subject property and provide a complete list of all the required work to bring this property up to a value and code that will exceed the amount owed on the mortgage. We started out saying that the most likely candidates for an approved short sale are properties is where the amount owed on the mortgage is more than the property is worth. If there are substantial repairs that need to be made on the property to bring it up to average value in that marketplace, have the contract provide a bid for those repairs.

You want to make sure that your contractor goes through and offers an itemized, detailed list of repairs and repair costs including labor and materials, required to bring this house up to average market value. The itemized costs MUST include the required permits, building permits, any variances that need to be completed on a property to complete the work along with demolition and debris removable costs, any type of driveway or sidewalk repaving costs, carpentry, plumbing work, electrical work, cabinetry, flooring, HVAC work, roofing, ventilation, exterior carpentry and painting, wall pointing, exterior painting, etc. with everything code compliant. The contractor repair bid needs to be thoroughly itemized and explicitly detailed to outline any existing code violations, which will be inclusive of the presence of any old and obsolete electrical outlets or fixtures, presence of lead paint, mold or termites. You want to ensure that everything is pointed out and the cost to cure is estimated in your ***contractor’s bid to repair***.

We have covered the “***Seven Critical Elements In A Killer Short Sale Package***” ***required to get your short sale packages approved***. For review, the “***Seven Critical Elements In A Killer Short Sale Package***” are:

1. Cover Letter
2. Authorization To Release Mortgage Information
3. Contract to Purchase Real Estate

4. Seller Hardship Letter
5. Seller Net Sheet, Proposed Closing Statement or HUD-1
6. Property Valuation
7. The Repair List and Contractor's Bid

Each situation is different. It may behoove you to provide more information or supplemental documents or delinquent bills that the seller is not able to keep up with; but the information provided will serve as a good starting point to getting your first short sale prepared, reviewed, and approved.

I mentioned that on the [www.MillionDollarTechniques.com](http://www.MillionDollarTechniques.com) website, on the "Free Tools" page, there's several free document templates for you to assemble your "short sale packages".

We are having a **Million Dollar Techniques** workshop coming up soon. We will be going through case studies in-depth of cases that we have short-saled, and we have short sales with all types of properties; nice or distressed properties; properties where the seller was in bankruptcy and required Bankruptcy Court approval. We will be covering other creative investing strategies as well, "subject to" transactions, and "land installments." We'll be talking about how to do "subject to" transactions and how to control properties with "straight options." We will cover real case studies where you can make six figures on one deal by doing a "subject to" strategy or implementing a "straight option" strategy. The information that you need is right at your fingertips.

I encourage you to go to [www.MillionDollarTechniques.com](http://www.MillionDollarTechniques.com) for a special promotional offer on our mentoring products and services.

Our **Million Dollar Techniques** workshops focus on "subject to," "straight options," "short sales," and other creative strategies that work in Today's Market. Again, we have a workshop is coming up soon; You'll receive a "Million Dollar Techniques" study guide/workbook," you'll also receive access password protected access to the "Million Dollar Techniques" student tools page, which contains template documents for all the deals that you will come upon as an investor, which includes all of the short sale documents required for the ***"Seven Critical Elements In A Killer Short Sale Package"***.

Thank you for investing in this Special Report. We hope it will help do your next Short Sale. Again, we encourage you to go to [www.MillionDollarTechniques.com](http://www.MillionDollarTechniques.com) for a special promotional offer on our mentoring products and services including Live Workshops, Home Study Courses, Resource Manuals, Online Coaching, One-on-One Personal Coaching and More!

*Andre Johnson:* Any Questions?

*Toni:* Andre?

*Andre Johnson:* Yes.

*Toni:* This is Toni.

*Andre Johnson:* Hi Toni, how are you?

*Toni:* I'm fine. I have a question about the short sale. When you were looking at using the short sale technique, is there any amount that you would offer? Is there something that you're looking at? That you can look at, that the bank will be willing to negotiate? Like twenty percent below, ten percent below the market price or it just depends on the deal, or something that you'll work with?

*Andre Johnson:* Okay, good question. You asked if there is a certain percentage off the market price. Keep in mind when you're looking at a short sale that you're not looking at the market price. You want to start out by looking at what the best estimate of the fair market value is for that property in its current as-is condition. The market price, in most cases, they look for the average price of homes in average condition. You don't! You want to look for the best comparable to the property in its as-is condition. It's tough to do that with MLS comps for properties that need substantial repair in the fair market. It's tough to do that, but what you want to do the best that you can through the resources online, whether it is a different comparable site like "Zillow.com" or "Dominion.com". All sites will give you numbers but no insight into the condition of the property.

You also want to get the best CMA report from an agent that you're working with, that will offer you their best opinion on what like-kind properties are close to the subject property's value that you're trying to short sale. Let's say that you can get information from the agent and you can get it through other sources. You can obtain the property's fair market value, Let's say it's \$100,000 We're assuming that the lender has a note mortgage, that is higher than \$100,000 because that's the theme of the short sale today is that you don't want to be embarking on or spending the time and putting the effort in putting **short sale packages** together where the fair market value of the house is more than what the lender owes. What's the motivation of the lender to discount the payoff then? Do you understand me?

*Toni:* Yes, I do.

*Andre Johnson:* You want to make sure that the fair market value of the property is less than what the owner owes. Once you reach that point, then it's a matter of, "Do I want to ask the lender to accept a thirty, forty or fifty percent discount on what's owed? The discount that you start out with in your initial proposal is all going to be predicated on a number of different factors:

1. The extent of repair that is needed on the property - the lower the repair cost and the better the condition of the property - the less of a discount.

2. The higher the extent of repairs needed - the more of a discount you're going to ask for.

The rule of thumb is if everything being equal and it is an average repair number and that will vary from neighborhood to neighborhood. But, if it's an average repair number to cosmetically improve or possibly do some run-of-the-mill house things, start out somewhere between fifty and sixty percent discount, and then you can certainly decrease that discount or offer more. If the repair estimate comes back and you get additional information later on, it might be an extra add on, you can add on to the contract; but typically, your initial offer is going to be the low-ball offer. You're not going to be able to negotiate down from that, you're only going to be able to come up, so you want to start not insultingly low but somewhere around fifty to sixty percent.

*Toni:* Thank you!

*Andre Johnson:* Anyone else have any questions?

*Maxine:* Hello?

*Andre Johnson:* Yes Ma'am, who am I speaking with?

*Maxine:* My name is Maxine.

*Andre Johnson:* And how are you?

*Maxine:* I'm doing excellent. How are you?

*Andre Johnson:* Good.

*Maxine:* I wanted to clarify when you were talking about the clauses. I really couldn't hear you that well when you were talking about the short sale contingency. You were saying that you need to have it made contingent upon.... Now is this only if there's more than one mortgage company involved?

*Andre Johnson:* Oh no, absolutely not, Maxine. You can have a short sale contingency that reads, "This offer is contingent upon," and you can leave it blank, it could be ABC Mortgage Company, Inc., You can have that be parentheses, "The first mortgage company, a first mortgagee," and you can have second lender that says XYZ Mortgage Company, Inc., known as the second mortgagee, accepting a payoff on the loan they hold, secured by the property above. You want that short sale contingency to say, "Mr. Lender, my 'purchase contract' or my obligation to purchase is contingent upon you actually approving this short sale." That's a contingency that you're making known in your contract.

When you first sign the contract with the owner, you can communicate with the owner, "Mrs. Smith, I know you owe \$100,000 on your mortgage, our contract is for \$80,000.00. You understand I'm not going to buy your property unless the lender is willing to reduce the loan to an \$80,000 payoff." The short sale contingency will read: "This offer's contingent upon ABC Mortgage Company accepting a payoff of the loan they hold." That contingency allows you the out

or the escape of not having to close if the lender doesn't approve the short sale. It also gives the owner some ease from knowing that they're signing a contract to sell their home for less than what they owe. The owner would think, "If you're buying for \$80,000.00 and I owe a \$100,000.00 that means I'm going to have to come to the table with \$20,000.00! This clause gives everyone an understanding that this is a cooperative effort, and that this only is going to work if it's a win-win-win for everyone.

*Maxine:* Okay.

*Andre Johnson:* That was the clause that appears that you couldn't hear.

*Maxine:* Then there was the third one, when you were talking about, "Seller title search, all liens due payable," what were you saying about the extension or something?

*Andre Johnson:* This is a clause that is in our "purchase contract" that says, "The seller agrees to extend the closing date". The seller and lender agree to extend the closing date by 'x' number of days if necessary, to complete the title search and to obtain a verification of all liens due and payable upon closing. This **as-is** purchase contract is due to settle by July 1<sup>st</sup>. The clause: "The seller agrees to extend the closing date by thirty days" provides an extension period to get your money together to be able to wholesale the deal, etc.

*Maxine:* Okay.

*Andre Johnson:* These contract templates have taken us years to craft and refine the **short sale packages, purchase contracts, subject to, and straight option** documents. In fact, it has taken us five to seven years to craft all of these documents together; and when you make available these documents in template form to everyone that attends the **Million Dollar Techniques** workshop. All of our students that are mentoring with us have these documents available right now.

The **Million Dollar Techniques** workshop, which is going to focus on "subject to" strategies required for this buyer's market. It will include case studies to review "killer short sale" techniques. It will be in-depth in terms of how to use "straight options" for big wholesale profits. That is going to be on August 4<sup>th</sup> from 9:00 AM to 6:00 PM at the regular \$1,295.00 investment. Right now, as an attendee of the **seven critical elements that need to be included in a killer short sale package** event, we are offering it to you for only \$495.00; so that's an offer we're making available to everyone today, good through tonight 11:59 PM for attending this call today, if you use the promo code "ISK," you can register online and secure your attendance for the workshop.

*Maxine:* Okay.

*Andre Johnson:* And that information is available on [MillionDollarWholesaling.com](http://MillionDollarWholesaling.com) website. What were you about to say Maxine?

*Maxine:* I was about to say, if for any reason, you're not able to make it, is there a way that you can purchase the workbook that you were talking about?

*Andre Johnson:* Absolutely. That's a good question. If you register for that this workshop today, we will provide you with password protected access to our "**student tools**" page which has all the template contracts and documents that we have discussed today including the **purchase contracts; option contracts; assignment contracts; deeds** and other supporting documents like the **LLC transfer** documents, etc. There is a "**Million Dollar Techniques**" e-book with over three hundred pages that you'll have access to, which includes some of these documents in the appendix.

*Maxine:* You can't pay a separate fee just for access and not to attend?

*Andre Johnson:* The **GOOD** question! The fee for the "Million Dollar Techniques" e-book alone is regularly \$795 and we provide password access to the "student tools" page with the purchase of this manual. The workshop investment is \$1,295 regular price but we are slashing that today, to \$495 which is less than the regular price for the manual with the online password protected access.

*Maxine:* Okay, thanks.

*Andre Johnson:* If you want to pay the \$749 we would be happy to go ahead and sell that to you, but we wouldn't do that because we're offering it for about \$300 less.

*Maxine:* Okay.

*Andre Johnson:* Okay.

*Maxine:* Thank you, I appreciate that.

*Andre Johnson:* Alright, thank you Maxine.

*Maxine:* You're welcome.

*Andre Johnson:* I have a few more minutes if anyone else has a question about the short sale techniques today or about the workshop that we have coming up in August.

*Vernon:* Yes, I have a question. My name is Vernon.

*Andre Johnson:* Hello Vernon, how are you?

*Vernon:* Good. I wanted to go back to the \$100,000 example you gave a moment ago, where the mortgages are a \$100,000 and you want to go in and offer \$80,000 on a contract. You were saying that the first mortgage is \$80,000 and the second mortgage is \$20,000. You were saying go to the mortgage in second position. How would that work if you're only offering \$80,000.00 and exactly how does that second bank approve the short sale without the first bank being involved?

*Andre Johnson:* Okay.

*Vernon:* Yes.

*Andre Johnson:* When I did the example, I just loosely went over a contract where the house may have a mortgage for \$100,000 and you have a contract of \$80,000.00; but if you remember earlier, we had a question about typically what you would offer as a discount?

*Vernon:* Yes.

*Andre Johnson:* Typically, you would start a discount of about fifty to sixty percent. Anywhere from forty to sixty percent is a good range, somewhere around fifty percent is a good starting point of the initial discount that you're offering for the short sale. Back to your question, if the property is worth \$95,000 and the mortgages on the property are a total of \$100,000. One mortgage is for \$80,000.00 and the other is for \$20,000. If one or both of those mortgages are delinquent, for example; the 1<sup>st</sup> mortgage balance of \$80,000 is delinquent and the 2<sup>nd</sup> mortgage for \$20,000 isn't delinquent, if the 1<sup>st</sup> mortgage company for the \$80,000 mortgage has to foreclose on that mortgage, the second mortgage holder may possibly wind up with nothing.

*Vernon:* Right.

*Andre Johnson:* There are some scenarios where the 2<sup>nd</sup> mortgage holder could wind up with nothing and it would behoove the 2<sup>nd</sup> mortgage holder to accept something rather than nothing in this particular pending foreclosure. When an investor is deciding which lender they want to try to get a discount on, the lender that you go to first, would be the one in the last position, because any time there are liens to be paid, the entity in 1<sup>st</sup> position or closest to 1<sup>st</sup> position gets paid first; and the reason why I said it's possible that the lender in 2<sup>nd</sup> position may get paid nothing.

*Vernon:* Right.

*Andre Johnson:* Example: The home is worth \$95,000, and there is a total of \$100,000 in mortgages, consisting of an \$80,000 1<sup>st</sup> mortgage and a \$20,000 2<sup>nd</sup> mortgage. We have the \$80,000 1<sup>st</sup> mortgage with the foreclosure fees, unpaid liens, etc., that \$80,000 now becomes an \$85,000 payoff; and then let's say that not only was the owner not paying the first mortgage of \$80,000 but guess what? They didn't pay some other creditor, let's say it's a hospital, so the local hospital now has a \$5,000 judgment on the house; that \$85,000 is now at \$90,000, how much is the second mortgage company going to get of that \$20,000? It's going into foreclosure, and a subsequent sale, the house is bought for \$95,000 because it's not likely going to sell for exactly what it's worth. If it sells for \$90,000 the second mortgage company gets nothing. Right?

*Vernon:* Right.

*Andre Johnson:* Because \$80,000 is owed, and there are \$5,000 in foreclosure fees, on top of a \$5,000 judgment that has to be paid to satisfy title. The 2<sup>nd</sup> mortgage gets nothing, because some judgments will supersede a 2<sup>nd</sup> mortgage; which will certainly open the ears of lender(s) that are in subordinate positions that are lower than first, or earlier positions. You want to ask for more aggressive discounts than fifty to sixty, ask the second lender to accept twenty-five percent of what the outstanding mortgage is for. Back to the earlier example of the \$20,000 2<sup>nd</sup> mortgage, you will ask the second mortgage holder just to accept twenty-five percent of the \$20,000 which is \$5,000

*Vernon:* Okay.

*Andre Johnson:* So, it is quite possible that they will discount their payoff to \$5,000 and that is when you will start independently working on the 1<sup>st</sup> mortgage company.

*Vernon:* Okay, so you basically have to negotiate the discounts with each lender, separately?

*Andre Johnson:* Absolutely, absolutely! You're not going to get them on a three-way conference call.

*Vernon:* Right.

*Andre Johnson:* As I indicated earlier, you need to have a separate **authorization to release mortgage information** completed by the owners for each mortgage; therefore, you want to separately negotiate with each lender the amount they are willing to accept.

*Vernon:* Okay.

*Andre Johnson:* And there are experienced techniques on how to go about it logistically which we interact and guide our students through as just part of the experience of having us there. But that's certainly the blueprint why a subordinate lender will consider discounting more so than an earlier position, which is what you want to embark on as far as your strategy. Deeper discounts, the lower the position of the mortgage, and independently negotiate each one to be paid off.

*Vernon:* Okay, and my last question. I came in a little late and I missed the very first **critical element** which was a letter of some sort?

*Andre Johnson:* Yes. I'll quickly review the **seven critical elements that must be included in a killer short sale package**. Number one is a **cover letter**.

*Vernon:* Okay.

*Andre Johnson:* Number two is the **authorization to release mortgage information** signed by all owners; number three is the **contract to purchase**; number four is the **seller hardship letter**; number five is the **seller net sheet**; number six is the **property valuation**; and number seven is the **contractor's bid to repair** which is inclusive of labor and materials.

I did mention to everyone, if you were a little bit late, that there are a couple of template documents that are free if you go to the [MillionDollarWholesaling.com](http://MillionDollarWholesaling.com) website, on the tools page. I wouldn't have enough time in one evening to go over each template document and why every element is included, or every phrase or clause is included. Certainly, for every attendee that attends the "Million Dollar Techniques" workshop on August 4<sup>th</sup>, they will receive password protected access to the "Million Dollar Techniques" student tools page.

You'll receive the three hundred plus page "Million Dollar Techniques" manual, a day long workshop with in-depth review of case studies of application of "subject to" strategies required for this buyer's market, in-depth application and review of case studies on the short sale techniques that we talked about today on this call, and how to use "straight options" to wholesale properties with the least amount of risk and the biggest return in this Baltimore-Washington market. I discussed that earlier on as well, and I gave a promo code. The full day workshop, regular price is \$1,295 if you use the promo code "ISK," that's not only cut in half but it's actually cut more than a half, greater than fifty percent off. Its \$495 if you use the promo code "ISK," and that's all included on the "Million Dollar Techniques" dot com site.

*Andre Johnson:* I'll take two more questions.

*Nayvon:* Yes.

*Andre Johnson:* A question?

*Nayvon:* Hello?

*Andre Johnson:* Yes sir, who am I speaking with?

*Nayvon:* Nayvon.

*Andre Johnson:* Nayvon, how are you, sir?

*Nayvon:* How you doing today?

*Andre Johnson:* I am good.

*Nayvon:* I have a question. I actually have a home right now that I'm dealing with, and it's a distressed home that I acquired through public records. I talked to the lady and she recently gave me the Power of Attorney to talk to her, but it was verbal. Did the bank, the first mortgage already agree to do a short sale? Now, if I was listening correctly, when Vernon asked; I think he was saying that; I think you said that the second company will almost definitely do it, because that was my only dilemma is will the second company be willing to do a short sale. The first company, I think she owes \$240,000 to them, the second she owes about \$70,000 and my question was would the second company do it?

*Andre Johnson:* Oh yes! The second company has a greater motivation to discount than the first company because what you are presenting to the lender(s) with a "short sale package," is the lack of security that they now have in this collateral, which is the property that is the subject of the short sale. We all know that when lenders lend on a property, they want to have some type of equity in the home whether it's a buyer's down payment or whether it's just remaining equity when they do a refinance.

The buyers need to have equity, and the lenders need to have equity in a home to protect their liability which is the note and mortgage. The note, when you point out to the lender(s) that the protection of the security is not there anymore, now the condition of the home and the reality is the owner owes more than the home is worth. Once you point that out, and you justify that with all of the information that we have reviewed in the ***seven critical elements that must be contained in a killer short sale package*** and you can prove that with that information, then you are proving to the lowest one on the totem pole, and that is, the lender in the lowest position. In this case, you're talking about a first and a second; so the lowest one on the totem pole is the second position. They get what's left over after the first lender gets their payoff; if there any other liens that have to be paid off to actually record a deed that actually supersedes the second lender's position, for example: in Baltimore City if there's a ground rent delinquency that's due, there's some tax liens that may supersede a mortgage. So the second lender actually gets the remainder after the first lender gets their loan paid off, you can bet if the first lender's willing to discount based on their evaluation of the situation, the second lender will too, they would be crazy if they didn't at least entertain a discount. The discounts of the second lender (subordinate lender) to a higher position loan should be more aggressive of a discount than the lenders in the higher position; in other words, the second lender should actually be willing to discount probably a higher percent than the first lender.

*Nayvon:* What happens if she doesn't owe more than what the house is worth? She owes \$340,000 on the home, but the home is worth \$350,000. The only thing is; the home is in distress it goes into foreclosure in about a week and a half.

*Andre Johnson:* Okay, well, couple things. The fact that the home is worth \$350,000 and that is going on your number and she owes \$340,000? Well those numbers are so close that you probably can successfully proceed ahead with a short sale, especially with the market being the way it is. As long as you have the ***seven critical elements of the killer short sale package*** contained in your package.

*Nayvon:* Right.

*Andre Johnson:* The best case scenario when what's owed is more than the home is worth because you can clearly convince the lender that they don't have any equity, or they don't have any security with their collateral anymore.

As that margin begins to grow and it goes from negative equity to net zero equity to then having plus amount of equity, As that amount of equity increases from \$10,000 in your situation to \$50,000 or \$100,000, clearly it's

more difficult to get a lender to discount the payoff. In that case, they'd be more inclined to benefit themselves to just take title through foreclosure and then try to sell it on the open market, through auction, or through an agent, etc., it seems like you have a possible short sale candidate. With the properties in Maryland, you should be wary of any Homeowner Foreclosure Acts that may apply, but with those things taken into account as accordance to the law, you may have a viable **short sale package**.

*Nayvon:* \_\_\_\_\_

*Andre Johnson:* And what was your name?

*Nayvon:* Nayvon.

*Andre Johnson:* Nayvon, nice talking to you.

*Andre Johnson:* One last question.

*Matt:* Andre, this is Matt in Arizona. How are you?

*Andre Johnson:* Hey, Matt! How are you sir?

*Matt:* Doing well, thank you. Couple of questions....

*Andre Johnson:* Arizona?

*Matt:* Yes.

*Andre Johnson:* I like it! Matt, we've had clients through a variety of different capacities whether it's through our mentoring program or through some sales of properties where we assisted with rehabs, or other services. We've had properties with clients coast-to-coast. We've had clients do business with us in California, and it's always nice to hear from people in different parts of the country. Go ahead Matt.

*Matt:* Our Company operates in Arizona and Colorado. We do a lot of short sales in Colorado and quite a few here in Arizona, so we've had some good success. As a wholesaling company, we typically want to be in properties at seventy percent of the ARV to wholesale it. It's a four-fold question. Are your strategies typically geared for a personal portfolio building strategy or for wholesaling? And what margins do you try to fix up your properties? And is it more to the benefit of the person doing the short sale to have the property as a vacant property? Since our company operates and our niche is dealing with prepaid rent credits; of keeping the current homeowner remaining in the property and at least that's top option? I guess, there's multiple questions all rolled into one there.

*Andre Johnson:* I'll try to address each one of those. If I am negligent in catching one; certainly ask me with a follow-up question.

1. Our business has evolved to the point where we target properties to add to our personal portfolio and also wholesale. There have been points in time in my seven years of investing where we were strictly focused on wholesaling; we were strictly focused on buying and selling. We now have enough experience and all the resources in place, with the strategies refined to the degree that when the leads come in through our very powerful robust seller marketing systems, we take the leads for what they are. We don't try to force-feed a particular buyer strategy, buying objective, or buying technique on the seller in their unique situation. We deploy the tool and the tool bought them.

To control the property "subject to" and try to short sale it, and then hold onto it; maybe there's only twenty percent equity but it's a great market, and we think it'll cash flow well based on the financing we've come up with. If it's a situation where we can short sale it and then try to wholesale it, there are techniques. Many people aren't familiar with these techniques, and they don't actually deploy because they are not familiar with it; but there are techniques that you can short sale a property, and through the short sale process, have the property controlled in such a way where you can not only wholesale it, but you can also wholesale it through the MLS. There are a number of different ways that you can control a property with the right clause in your contract whether it is through a contract assignment or through the sale of an entity.

We deploy different techniques in order to short sale a property. I'll give you an example, the property that we recently short sold about six months ago on a property where the owner was in bankruptcy. We had a wholesale buyer. Clearly the bank/lender wasn't being a win-win-win, and I spoke about this in the call, it has to be a **win-win-win** for the lender, the owner and the buyer. The bank/lender didn't want to take a hit and they didn't want to see us making an immediate profit by wholesaling the property. We were able to do a double-closing purchase and LLC transfer to make a nice wholesale profit.

2. Your question of what type of margins we look for really depends on the strategy that we are embarking on and I just covered the different types of strategies whether we're adding to our portfolio and we're basically buying with the objective of cash flowing.

If we're trying to wholesale the property or if we're looking to buy, rehab, and then retail it; there are a number of different strategies that make sense for a given situation. We basically just deploy the strategy that's appropriate for the seller situation, the market place that the house is in, and the flexibility of the lender is showing with the evaluation of their **short sale package**. Hopefully, that answers your questions, did that come close?

*Matt:* You are very close, and the last part of it was, do you find that forcing the homeowner to be in a situation where they move out, is that more to the benefit of the person doing a short sale if the property's vacant, versus whether it's occupied?

*Andre Johnson:* Personally, my investment group has never allowed a non-paying or delinquent payer to reside in the property. Bring them current with possibly a reinstatement, or actually short sale it and then rent back to the former owner.

We've never allowed someone to stay in the home because – and this is my rationale, this is what I believe.

I know of people that will do rent/lease backs and I've heard varying levels of success; but my belief is that we know that life happens which is why we put the **hardship letter** in the **short sale package** because life **does** happen. But if this person has made their choices and they were in a position where they were unable to pay their lender, what makes me think they're going to be paying me when I become their lender or their landlord, if it's a rent/lease back? I've always taken the approach that I want to work out the deal as best I can, whereas the former owner receives moving money expenses that they need to relocate into an apartment or with a family member. If the owners are comfortably relocated, and they're happy with their relocation, (with the short sale, the owner is supposed to receive \$0.00 net) then typically, the owner's going to walk away with nothing but there are still ways in which you can legally provide the owner with some type of moving money, or cash proceeds to relocate into an apartment or to a family member's home providing a win-win-win for everyone. You don't anyone to walk away from a short sale feeling as though they lost out, because that's when it comes back to get you with your reputation on the line or complaints from the owner feeling like they were taken, etc.,

*Matt:* Right! Great, thank you.

*Andre Johnson:* You're welcome; and what was your name again?

*Matt:* Matt.

*Andre Johnson:* Matt. Nice talking to you.

*Matt:* You too.

*Andre Johnson:* For anyone that's on the call I really do encourage you to stay in touch with us. We want to build a long-term relationship with you and we definitely encourage you to attend the [MillionDollarWholesaling.com](http://MillionDollarWholesaling.com) workshop.

The workshop will be available through a Webinar and we should have that online, up and running. The live event will actually be across the Internet; so if you are in Arizona or California, or if you're on a call and you planned on being outside the local Baltimore-Washington area, you'll be able to attend this event vis-à-vis a live Webinar. The Webinar seats are even more limited than the in-house seats at our corporate headquarters; but I encourage everyone to attend the [MillionDollarWholesaling.com](http://MillionDollarWholesaling.com) workshop on August 4<sup>th</sup> from nine to six. It's regularly \$1,295 but you can register for \$495 (Less than \$500!!) if you use the special code "ISK." The reason why I'm emphasizing it is less than \$500 is because we've had many, many investors buy not only the "Million Dollar Techniques" the manual alone for \$749, but we've had many investors actually sign-up for Mentorship and other services for full-price which can range upwards to \$5,000.

You will receive a full day of instruction, a password protected access to the "student tools" page which is full encompassing of all the template documents that covered today, the "subject to" strategies and documents, "deeds," "assignment of contracts," "land installment agreements," "straight options," et cetera.

We practice what we preach. We still invest in real estate and we rarely do these calls for the open market because we're too busy doing deals, so when we get the opportunity to present an event, we do tele-classes.

We continuously and consistently update our library of documents to stay with the times so that you have documents that are actively being used because these are the same ones that we use including those in our password protected "student tools" page for your use and your reference purposes.

We also do ***deal-partnering***; where we help guide students through deals like the one that was mentioned earlier by the caller who said he was "Working on a potential short sale deal".

That is all I have for today. I want to thank you all for logging on and I think a couple people actually couldn't get on. We will try to do another event in a couple weeks. Please stay in touch. I encourage you to go to the [MillionDollarWholesaling.com](http://MillionDollarWholesaling.com) website and register for this event and just to send a note to us to say how you enjoyed the ***seven critical elements that must be included in a killer short sale package***.