

***A Short Sale Wealth Special Report  
From Shaun McCloskey***



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# The Competition Killer

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**I** think we can all agree that competition is becoming more and more relevant in the world of residential real estate investing. Thanks in large part to the sheer accessibility of information the internet has brought along with it, it's now easier than ever for anyone with a \$500 computer to learn how to make money through real estate. Which also means of course that more and more people are actually out there doing it. And every time I turn around I see another "expert" (real or not) teaching folks how to "make money at home in your underwear" by investing in real estate.

Most of us know that it is going to take a little more than just lounging around at home in your Superman Underoos to make any real money in this game. It takes targeted education, a smart, tactical approach, action and determination.

And while I truly believe real estate is indeed one of the few vehicles that can legitimately take a person with very little education or business experience to millionaire status in the shortest period of time, it takes a certain level of action on the part of the potential investor. But there are others willing to take action too.

## **There are a lot of other people out there doing what you do. (Or trying to)**

So, if you're going to win in the real estate game, you're need to be doing things a little differently than everyone else out there, don't you? When competition rises, it's not enough to just know the steps to take to get a deal done; you also need to know how to rise above your competitors by being more than just a "we buy houses" kind of investor like everyone else.

Look, we all "buy houses". What sets you apart? Why should they choose you over the next Joe? **Why are you so special?**

After a glimpse inside my real estate business, one of the top questions I often get from both new and experienced investors alike is, "How is it that your deals seem to go so smoothly, with so few surprises from the homeowner?" I also hear, "How come none of your deals get stolen out from underneath you by other investors?"

Basically what they're asking is, "How are you keeping your competition at bay?"

## **The answer boils down to 3 common ingredients:**

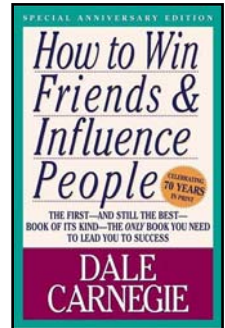
1. You must understand **how to build unparalleled rapport** with your customer right from the very first conversation.
2. You must be able to **recognize very quickly which deals to go after** and which ones are simply time wasters.
3. You must be able to **explain things to the homeowner in a way that helps them understand that you both have common goals.** (We're not out to *get* them or *take* from them.)

# Building Instant Rapport...

Let's start at the beginning: How to build unparalleled rapport with the seller, as quickly as possible. In my book, it starts with **mirroring** and **modeling**. If you want both you and your customer to get the most value out of your encounters together, you'd do well to become a student of these arts.

I'll describe them in depth in a moment. But first, a heartfelt recommendation.

If you've never read the book entitled, *How to Win Friends and Influence People* by Dale Carnegie, you really need to. You can pick it up about anywhere. It was written a long time ago, but all of the principles you'll discover apply every bit as much today as they did 50 years ago. It's powerful stuff.



It was first recommended to me by a friend who I had noticed seemed somehow able to build rapport instantly and effortlessly with just about anyone he met. I looked up to him immensely for this unbelievable talent, so when he recommended the book I picked it up immediately. To this day I still read it at least once a year. Yes, it's just that good.

Even though we all come from different backgrounds, different cultures, and different family structures and traditions, we all still have the same basic emotional needs and many predictable common denominators in our preferences. For example, we all like to be around others we perceive as similar to us in some way – and the more like us we perceive them to be, the more we find we enjoy their company.

Think about it... have you ever met someone and just immediately hit it off with them? Have you ever just “clicked” with someone and felt like you’ve known them for years, though you may have only met 5 minutes ago?



## I know I have.



And I know the reason that I've felt like this in the past is because the person that I felt so connected to was really a lot like me in some way. And I'm not just talking about hobbies we have in common, although that can play a part. But a lot can be said from more subtle similarities – things that may not jump right out at you, but are alike nonetheless. Things like similarities in how you speak or listen, expressions on your face, how you stand, your posture, the pace at which you speak, etc.

**The arts of mirroring and modeling are about being strategically similar to the person with whom you're building rapport.**

People (myself very much included) tend to feel comfortable around other people that remind them of themselves. So when you are having an important conversation, the more you can “model” the other person, the more they will naturally feel drawn to you and let their guard down. Subtly reflecting back to them a little bit of themselves can go a long way in helping them feel generally more at ease.

Now it's important I clarify something so you don't take this the wrong way. I don't mean that you should fake who you are, lie about what you stand for, or compromise your own personality or belief system. This is not “Seller Manipulation 101”.

I'm really just talking about being a more effective communicator – a version of you that's more in tune with how to be as effective as possible in your interactions with others. It's about strategically tweaking yourself a bit to be more accommodating to the other person, not manipulative. It's about style.

I also believe the more you can posture yourself to “walk in another man's shoes” the better you will understand where he has been, and the more willing he'll be to really open up about a sensitive situation – that is, whatever his particular house problem might be.

I actually believe this principle applies in every aspect of your real estate investing career. For that matter, it's not just for seller negotiations. If you try it, you'll quickly discover how effective it can be in all your relationships. It takes some practice, but once you've mastered this art, you can literally feel what other people feel and almost see exactly what they see in their mind.

It's almost like having super powers – but we only use our powers for good, don't we? 😊

## Intro to the Senses...

There is a science that I was introduced to a few years ago called NLP (standing for Neuro-Linguistic Programming). NLP is a method, set of techniques, and personal development system first developed in the early 1970's by Richard Bandler and linguist John Grinder in association with Gregory Bateson.

NLP is basically a toolbox of strategies that teach how to amplify positive behaviors and eliminate or reduce negative behaviors through a combination of thoughts, gestures and words. And that same toolbox also leads us into how to gain instant rapport with another person using the same techniques.

The core principle is this: **Thoughts, Gestures, and Words** – change any one of these things and you literally change your perception of the world around you.

For our purposes, the idea is to modify one or more of these three things through “mirroring” the person you're building rapport with, thereby changing your viewpoint a bit more to theirs – seeing their perspective, through their eyes as much as possible.

Or to put it even simpler, take a moment **step into their shoes** and you'll be much better equipped to both understand where they've been and feel what they feel.



And when you can honestly convey that you can relate to how another person is feeling on some level, you'll find yourself naturally and effortlessly building trust and rapport with them in no time.

Have you ever thought "WOW, this person really knows how I feel"? Or better yet, have you ever said to someone, "I know exactly how you feel"? My guess is you have, and I'm going to go out on a limb and guess that when you experienced it, you also felt connected on a certain level to the other person. It's just human nature. **People long to feel heard and understood.**

## Building Rapport Quickly...

In order to build rapport with someone quickly, you must first feel empathy for how the other person thinks and feels. By mirroring or matching the other person's body language, posture, breathing and vocal tonality, you can more easily tune in to their world, and have them simultaneously tuned in to you. Once a "mirror" has been established, respectfully leading someone down the right path will become nearly effortless. At times it's almost like that person is being led by themselves.

Think of this like a mime doing his routine. If you can imagine two mimes performing an identical routine together, this gives you an idea as to how two people could build some serious rapport very quickly.

Unless the routine is pre-designed and rehearsed ahead of time, there is always going to be an initial tone established by each of the people involved. And this "tone" is usually established by the person you would like to build rapport with. (In this case, your customer.)



There are two major roles: The "listener" and the "leader."

- **Listener** – The listener's job is simple. Sit back and listen to the other person and be open to suggestions. In the beginning of rapport building, the listener is the person trying to establish rapport (YOU). Do not offer solutions too quickly. As the listener, you will *initially* be the most receptive and open to discussion between the two of you.
- **Leader** – The leader will set the initial pace in both tone and the overall feel of the conversation. This person will essentially be the "leader" of the content of your discussion, how it will be discussed and the overall feel of the conversation. The leader will usually be the person you're trying to build a relationship with (your customer). This person will *initially* lead the conversation.

Your duty in the first part of the conversation is to be the listener. You will listen to the homeowner and get them talking. Ask them questions about themselves that demonstrate you have some level of interest in them personally, not just in their house. The more you can get them to talk about themselves, the more rapport you will build quickly. The more you can get them to lead the conversation, at least in the beginning, the more open and comfortable they will feel with you.

**How do you get them to talk?  
What if they aren't the "talking" type?  
What if they're a little quiet?**

## **Asking Open Ended Questions...**

To get people talking about themselves, you must learn to ask open ended questions. An open ended question is a question that requires more than just a quick yes or no answer. An open ended question is one that requires some thought, some explanation, some type of response that takes more than a one word answer.

### **These are NOT open ended questions:**

- Who is your lender?
- How much do you owe on your mortgage?
- How far behind are you on your payments?
- Does your husband know that you're behind on the mortgage? (Trust me... you're going to get some people that haven't told their spouse they're behind yet.)
- How much money do you have saved?



### **These ARE open ended questions:**

- Will you describe to me the last conversation with your lender?
- How long has it been since you've had some extra money to do something nice for yourself or your family, and how did it feel to be able to do that?
- How will going into foreclosure affect your family?
- How has it already affected your family?
- How will a foreclosure affect your credit?
- How can you make sure that your kids learn from these mistakes so that they never have to feel what you're feeling right now?
- How do you think your husband feel if he knew that you were behind on payments right now? What do you think he would say the best solution would be if he knew?
- How would you feel if you no longer had to worry about how you were going to make ends meet every single month?
- How would you feel if at the end of every month you had some money left over to go out and have a little bit of fun for YOU?

## **Can you tell the difference?**

Which set of questions do you think would generate a more insightful response? And which ones would quickly leave you trying to figure out what to ask them next?

Open ended questions get people thinking, and they're equally as useful at helping to get them talking. But most importantly, open ended questions get



people talking **about themselves**. This helps to build instant rapport. Open ended questions inspire people to take action one way or the other. You're asking about their lives, their kids, their situations. All you are doing during this process is asking open ended questions. You can almost always steer a person in the direction you need them to go by asking the right, relevant open-ended questions.

That last statement is so very important for you to grasp, it bears repeating...

## **You can almost always steer a person in the direction you need them to go by asking the right, relevant open-ended questions.**

Bringing up the subject of short sales in your discussion with the seller can be a sensitive subject for some. The way you approach it can absolutely make the difference in whether they're open to the idea or shut down to it immediately.

Instead of asking, *"Have you ever heard of a short sale?"* you should ask, *"Has anyone taken the time to explain to you about short sales?"*

Can you hear how less abrasive this sounds to the homeowner? Anytime you ask someone if they've heard of something, they might feel stupid if they haven't. Few people like to admit to ignorance. And your goal here certainly isn't to make them feel stupid. That's the OPPOSITE of what you're trying to do here, right?

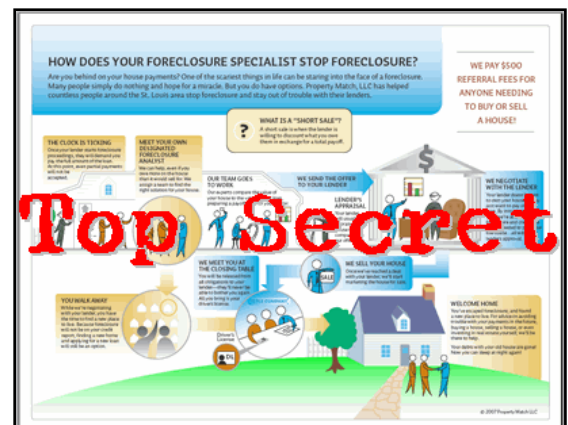
That's why I suggest you never, ever ask them if they're familiar with a "thing" or a "process". Instead it's really just as simple (but much less threatening) to ask them if anyone else has taken the time yet to explain the short sale process to them. Asking the question this way virtually eliminates the possibility of the homeowner feeling stupid if they have to admit they're in the dark.

So with one minor phrase difference I've essentially given them permission to admit they're ignorant of the short sale process, since it's not their fault that they don't know. I've made it clear that someone needs to explain it to them - it's not something they should automatically know. And since no one else likely *took the time* to explain to it to them like I'm so willing to do, I'm in a pretty good position, right? (This alone will help build rapport, since I'm showing them that I'm here to help, and willing to do what other investors haven't yet taken the time to do!)

## **My Secret Weapon...**

Now I've got some KILLER ways to make explaining the short sale process a piece of cake. That's one thing I've found I'm really good at - taking the complicated and making it very, very simple.

One of my secrets is a unique, 1-page graphic illustration I give them that explains, in easy to follow pictures, exactly what short sales are all about, where they are in the process right now, and what to expect each and every step of the way going forward.



I'm not kidding when I say this one element is often enough to completely slaughter my competition. It's so powerful it almost instantaneously sets me head and shoulders above anyone else the sellers may have already spoken to, and completely disengages them from the idea of speaking to anyone else.

Once I walk them through my short sale pictorial, they suddenly understand exactly what 's going on, what has to happen next, and who's truly capable of helping them accomplish it if anyone can (ME!).

I have NEVER seen anyone else do anything like this. It's literally one of my top secret weapons – so powerful I had to think long and hard about whether or not I even wanted to include it in my home study course.

Of course I'm such a perfectionist and a stickler for doing everything at 110%, it's in there. But I'm serious when I say I have serious reservations about arming anyone in my own area with this little gem!

## Modeling and Mirroring...

Mirroring and modeling someone should be done **in conjunction with** asking open ended questions. If you've done this properly (without going overboard) the other person will have no idea it's even occurred. But they'll feel at ease and quite comfortable with you. And since they're in good hands with you, it's a win-win.

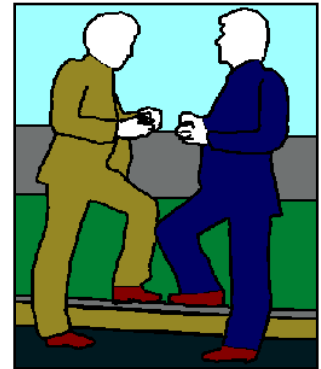
To break them down a little more...

**Modeling** is the process of adapting the behaviors, language, strategies and beliefs of another person in order to "build a model" of what they do, think, and feel. What's interesting about this is that when you "model" another person for a moment, you can literally (temporarily) suspend your own beliefs, feelings, and thoughts for a short time and take on the beliefs, feelings, and thoughts of another person. It's what actors do when they're trying to really "get into" a role, but you'll do it much more subtly of course.

**Mirroring** is the process of physically imitating whatever the other person is doing. Picture yourself in front of a mirror. If you tilt your head to the side, the person looking right back in the mirror tilts his/her head to the side as well. If you lean forward, so does your counterpart. If you cross your legs, he does as well. And when you speak a little fast or slow, he also does the same.

Now you want to be careful not to go overboard in either of these or you'll just come off as creepy or making fun of them– again, not something you're going for. Be subtle, but intentional.

Through the process of mirroring and modeling, you will subliminally build rapport. Once this initial rapport is built, trust begins to occur. And with trust you can transform your seller from a "leader to a "listener".



Once the seller has had a chance to vent their problems and issues to you and you've been the one to actually *listen* (unlike so many of the other investors they may have already spoken to), the roles can easily be reversed. Now, instead of you being the listener, your role can be switched to that of the leader. You are now free to lead the conversation wherever you would like to go and the seller will be more receptive to you because you've really listened to them first before providing solutions.

There's a reason why the last part of that sentence is underlined. You are NOT to provide solutions to problems until you are fully aware of the problem. You can not be fully aware of the problem until you have asked enough open ended questions and then listened.

## To Help Someone Feel More “Connected” To You, Mirror and Model These Four Senses:

### 1. Auditory Senses

#### - The SPEED of their speech

Is the person talking rather fast? A little slow maybe? Imagine the awkwardness of trying to have a conversation with someone who's speaking 500 words per minute while you're only going about 60. Maybe you've even experienced this before. It's troublesome and frustrating for both parties.

Building that rapport “connection” is so difficult in these situations because the fast talker is thinking, “Just spit it out already!” and the slower is saying “Slow down a second, would ya?”

As you become more aware of this, you'll notice that some people automatically adjust their communication speed to match the other person without even realizing it. It can be somewhat intuitive sometimes, but I'm asking you to try and do it intentionally, to help make your overall interaction with the seller more effective.



#### - The INTONATION of their speech

Think of this as the “pitch” how someone is speaking. Are they speaking in high tones? Or are they speaking in low tones? Maybe using a bit of a drawl? Does their speech pattern move up and down? Or is it fairly monotone?

#### - The AMOUNT they are speaking

Are they telling you their whole life story right off the bat? Or are they a little bit more reserved? If that person is a little bit more reserved your position should be to get them talking about themselves. Again, this is done by asking open-ended questions. Don't force the issue with them, however, you can ask subtle, open ended questions with this type of person and still get them to open up to you.

## 2. Kinesthetic Senses

What you literally **FEEL** can be in part defined by your sense of touch.

When you're talking to your seller, notice their hands. Are their hands clenched up into a fist? Are they relaxed and spread out on the table? Are they moving around quite a bit? Are they tapping the table? Is their foot jumping up and down or tapping the floor? Are they chewing the side of their lip as they talk to you? Do they scratch their head every time they start to talk? Do they play with their hair in a nervous fashion? Or is it more of a bored manner? How is the person sitting? Are they upright on the edge of their chair? Or are they slouched in the chair. Are their shoulders tensed up? Or are they very relaxed?

The more you can mirror what can be literally felt by the other person, the closer you will become to seeing their thoughts and feeling what they feel.

Try something for a minute. Before you go any further with this report, I want you to try a brief exercise.



**Do Not Go Any Further Until  
You've Tried This...**



**Exercise:** Sit back in your chair, take a deep breath and get a clear picture in your mind of you driving down the street in your car at a high rate of speed. You're late for a very important meeting. This is a life or death meeting for you. This is the difference between your whole family being supported for the rest of their lives or living on the street. Just as you are less than a mile from your meeting, someone to the left of you pulls out right in front of you and sideswipes your car at 50 miles per hour.

**How do you feel?** Notice what your body did while you were thinking these thoughts. Were you tense? Was your breathing fast or slow? Was it long or short? Were your hands open and relaxed or were your hands clenched and tight?

**Now try this one...**

Sit back in your chair again, and this time I want you to think of someone that you care a lot about. Think about this person and what they mean to you. Think of how much love you have for this person, and how much of an impact they've made on your life. Your life would be totally and completely different without this person. You owe much of who you are to this person, and the love you have in your heart for this person tells you so. Feel what it feels like to be grateful for this person right now. Feel how it feels to know that you are loved by them as much as you love them back. How do you feel now? Close your eyes and do this now.

If you really did this exercise as instructed, you probably noticed your body did something very different this time. Were you tense? Was your breathing fast or slow? Was it long or short? Were your hands open and relaxed or were your hands clenched and tight? I can only imagine that you're kinesthetic reaction to the two different exercises brought you two very different reactions. I know it did for me just while I was writing it!

### **3. Visual Senses**

What you see and focus on will have a huge impact on your thoughts and feelings as well. Visual clues can be a bit more challenging to pick up on. But where are the person's eyes as you're speaking to them? Are they looking up at all? Dancing around the room? Or are they looking down at the ground? Again, the more you can see what they see the more you'll feel how they feel. Ask yourself what you might pickup from where the seller is spending most of their time looking – either about their situation or how they feel about it.

### **4. Breathing Patterns**

Modeling breathing patterns is a dead giveaway to how another person is feeling. This will bring you to another level of closeness to the person you're mirroring to the point where you can almost step into their thoughts. I know it sounds a little spooky, but there's nothing magical about it.

Are they breathing fast and hard? Soft but shallow? Are they taking long, deep breaths? Or are they taking short spurts of breath? Are they breathing from their diaphragm or from their chest? Sighing a lot?

When you arrange yourself into the most accurate duplication of the other person, you will have an unbelievable representation of what they're thinking and feeling, and this gives you a very real edge over your competition.

There is a direct relationship between the mind and the body. When the mind does "X" the body does "Y", therefore, if you can duplicate a persons "Y" you'll have a pretty close (if not exact) representation of what they're thinking.

Think about this for a second... What is everyone's favorite topic to talk about? If you guessed "themselves" you are absolutely correct! People LOVE to talk about themselves, and the interesting thing is that the more you get people to talk about themselves, the more connected they feel with you.

I've had people end our conversations saying things like, "I just feel like I've known you for so long." or "I feel so comfortable around you, like I could just tell you anything."

The reason they feel like this isn't because I'm someone special. The only thing I did differently than any of the other investors out there is that I got them to talk about themselves for a while... and then I actually LISTENED!! Not only did I listen to them, but I was genuinely interested in what they had to say and did my best to identify with them – even physically!

Have you ever met someone that was the exact opposite as this? Someone that just wouldn't shut the heck up long enough to let you get a word in? Someone that just rambled on and on for

hours on end about their life, and their husband, and their kids, and their job, and their hobbies, and their...UGHHH!!! Don't be that person anymore!

Notice how you feel when you're around that type of a person. You may like the fact that this type of person feels like they can open up to you initially, but the reality is after a while you get bored with them. You more than likely don't feel like you have very much in common with them, and odds are you probably don't feel like you've connected with them much, if at all. You don't have that "magic rapport" we're going for here.



My sister jokes around sometimes by saying, "I'm sorry, I've been talking long enough. Enough about me, let's talk about *what you think of me...*" I laugh every time she says that because it's just so true for most people, though they're completely clueless to it.

Again I urge you, make sure you're not that person! You don't gain rapport by talking about yourself for two hours or trying to impress the seller with your endless knowledge of real estate jargon. God gave you two ears and one mouth for a reason. You should to listen at least twice as much as you talk. Invite people to talk about themselves first, and they will flock to you because they feel important and heard.

Keep in mind that these mirroring and modeling techniques can be implemented even over the phone with the exception of the visual clues. You can instantly build rapport with someone in just a few seconds over the phone with these same principles.

Practice this and get good at it. The next time you meet someone, try to mirror and model them and see how fast your relationship blooms to a new level. Remember, people like people who are like themselves, so the more like them you are, the more rapport you'll build instantly.

## How Do I Know Which Deals to Go After?

The last thing that you want to do is get really good at building rapport with the homeowner only to go after the prospective deals that are never going to close. This not only wastes your valuable time, it also wastes the homeowners' time and energy as well.

Following are some guidelines and important things to consider in helping you quickly differentiate between a potential deal worth investing time and energy into, and a time-waster you should pass on sooner rather than later.

### Remember This:

- Just because someone is willing to give you the deed to their house, doesn't mean it's worth your time to take it!!
- The seller **MUST** be motivated. You can not help someone who's not willing to allow you to help in the way that you need to. If they are absolutely dead set on staying in the house, they're not for you.
- You can't help everyone. You can only help the people that your solutions will work for.

- You're not the one with the problem, nor did you put the homeowner in their situation, so all you can do is try to help them. If for any reason the short sale does not work, the homeowner is in no worse of a situation than before you came into the picture, therefore, it is not your obligation to help. It is their privilege for you to help them.
- There is a difference between those that need help and those that deserve your help. The seller **MUST** be ready, willing, and able to provide you with what is necessary to get the short sale approved. If you have problems with a seller up front, chances are you're going to have problems with them later on.
- The seller must have some type of legitimate hardship. If you're trying to help people that just don't feel like paying their mortgage because they don't like the house any more, you're going to get very frustrated in the short sale business.
- If you're spending time on the people that are not good candidates, you're **ROBBING** the other people that you **CAN** help of the time that you're wasting on the wrong people. Remember, there are a lot of people that need you!! Don't take away from the people that you can help by going after the ones that you can't.

### **The Loan Balances Can't Solve the House Problem for the Lender.**

- The debt on the property is \$100,000. The house is worth \$200,000. Is this a good candidate for a short sale? **NO!!** The lender's not an idiot and can easily see there's a high chance they'll actually make a profit one way or another if they foreclose. They've got no motivation to consider a discount.
- If the house is worth \$100K and \$90K is owed, can the house solve its own problem? **NO.** Therefore, a short sale is a good candidate here.

### **You Must Have Enough Time to Work the Short Sale.**

If there's not at least 10 days left to the foreclosure sale date, chances are it's not going to be a good short sale candidate. (This is not a **RULE**, but a guideline.)

- For example, if you have a house where there's a \$200K first mortgage and a \$50K 2<sup>nd</sup> mortgage, and you only need to get a discount from the 2<sup>nd</sup> lender, the 2<sup>nd</sup> lender may be willing to work with you up until the day before the foreclosure sale date since they may be wiped out at the sale anyway.
- If you're in a **QUICK SALE** state, (where the notices come out and then 21 days later there's a foreclosure sale date,) you better be prepared. You need to have a very timely marketing process lined up. And/or you need to try to get the leads before they get to this point.

### **You Must Be Able to Sell the Property Later.**

It doesn't do you any good to get a great deal on a property that you can't sell later on. If a property is in a complete and total war zone, can you get a huge discount on it with a short sale? Most likely, yes. Can you sell the same property once you've bought it? That might be a different story...

Make sure that the neighborhoods that you're working in are "sellable" neighborhoods. If you get to a property and every other house is boarded up, chances are it's going to be a tough sell later on. The only way that I would work in this area is if I already had a wholesale buyer lined up that loves war zones. (Believe it or not, some investors love these areas.)

## There Are 3 Viable **Short Sale Acquisition Strategies...**

### 1. Buy with Cash

In this case, you use the typical MAO formula, (or something close to it depending on what your market value determines - see below.) as well as the amount of repairs the house needs. Sometimes you'll need to offer less, sometimes you can afford to offer more.

Realize that just because we say "buy with cash" doesn't mean you're going to use your own cash here. In my opinion, you should never use any of your own money if you don't have to. You could utilize a loan from a private lender, a hard money lender, or even a traditional lender to close these "cash" transactions.

Frankly this is my least favorite way to buy properties because it requires the most financial risk. Regardless of whether it's your cash or someone else's, it's still a pile of cash, which is inherently riskier.

**NOTE: MAO (Maximum allowable offer) = after repaired value (ARV) minus repairs times 70%.**

$$\mathbf{MAO = ARV - Repairs \times .70}$$

### 2. Reinstate the 1<sup>st</sup> loan, payoff the discounted 2<sup>nd</sup> loan.

In this scenario, you would get the 2<sup>nd</sup> lender to take a discount, and then take over the 1<sup>st</sup> mortgage "subject to" the existing financing. You could then either turn around and sell the property just like you normally would, or get a tenant buyer in there to buy the house on a lease option or owner financing.

In either scenario, your risk is considerably less than buying with cash, since the only money you're out is limited to the amount of the discounted 2<sup>nd</sup> mortgage plus the reinstatement amount of the 1<sup>st</sup> mortgage.

This method is really only a little creative, but extremely powerful when the deal permits it. We recently scored over six figures on a single deal set up just like this.

### 3. Simultaneous closing

If you have a buyer lined up before you actually have to close your purchase, you can sometimes afford to pay a notably more than the MAO formula suggests. Your risk is next to nothing because you no longer have to fund the transaction yourself. The entire deal is funded by your buyer's cash or financing. You buy the property today and sell it the same day.

Of course, having time to find and qualify a solid buyer before you have to close is the critical piece of this puzzle. This is how a "simultaneous closing" occurs. 70% of our deals are done using this method.

**Your deal must have one of these three acquisition strategies to be a viable short sale deal.**

## Are the Comps All Over the Board?

The lender is going to evaluate your offer based on how comparable properties in the same area as the subject property are selling. So it's of paramount importance that you're about to not only view good, recent comps for the property, but that you can make heads or tails of them, and that they legitimately help support a valid case for a short sale on the subject property.

Are the comps in the area all over the place? In other words, are there properties selling for both \$75,000 and \$350,000 all within ¼ mile? This can be troublesome to your deal.

Or are all the comps in the neighborhood selling for between 125,000 and \$130,000? If this is the case, it may be fairly tough to convince a lender they should allow you buy the property for \$50K unless the house needs some serious repairs.

## Is There a 2<sup>nd</sup> Mortgage on the Property?

What happens to a 2<sup>nd</sup> lender when the 1<sup>st</sup> is foreclosing? Chances are it's going bye bye! That is, typically the 2<sup>nd</sup> lender will be wiped at the foreclosure sale. (Again, a guideline, not an absolute rule...)

Very important to remember about second mortgages:

- A 2<sup>nd</sup> mortgage isn't necessarily a smaller mortgage. It really only means that it is 2<sup>nd</sup> place in line, or JUNIOR to the 1<sup>st</sup> mortgage.
- When the first mortgage forecloses, it typically wipes out any other liens that are "junior" to it (like 2<sup>nd</sup> mortgages, etc...)
- When the 2<sup>nd</sup> mortgage forecloses, it wipes out other junior liens (like 3<sup>rd</sup> mortgages, judgments, etc...) but must typically pay off the first mortgage in full. That's why you don't see too many second mortgages actually foreclosing.

## Is the House Really Ugly?

- Does the house need significant repairs to bring back to sellable condition?
- Are there areas of the house that don't fit code requirements?
- Was any work done at the house by the homeowner or someone else that didn't know what they were doing?
- Is the house in need of repairs that affect the safety of other people? (Lenders don't like to foreclose on houses that could be a liability...)
- Is a house that needs paint and carpet an ugly house? NO. Banks can handle paint and carpet. They don't want to hear about minor cosmetic issues. They assume that these things are going to be needed.



## Is the House **Just Weird**?

- When you walk into the house, do you say, “Man, this is weird...”?
- Do you have to walk through a bedroom to get to the kitchen?
- Did the homeowner do a really bad job at their attempt to make their house just like the one they saw on “Trading Spaces?”
- Are there some strange do it yourself type rehab jobs? (You wouldn’t believe what I’ve seen here...)
- Are there strange facades on the house?
- Was there an addition/extra room added onto the house that doesn’t look right with the house, etc...
- Is it a goofy looking house in the middle of a bunch of mansions? Is that why the appraisal came in so high when the homeowner refi’d it and renovated it to make it look as weird as it does right now?

## Does the House Just Seem to Have **Plain Old Bad Luck**?

“Bad Luck” refers to the things around the house that affect its value – although these are things that don’t actually TOUCH the house.

- Was it once a beautiful home that overlooked a gorgeous creek and wooded area, but now they’re building a Wal-Mart in the back yard?
- Did the house not used to be in a flood zone but now it is? (Wonder why it is now when it didn’t used to be?)
- Is the house directly in front of an airport, railroad tracks, race track, power plant, highway, commercial strip center, new drainage problems in the area, etc...?
- Did a horrible incident occur in or around the house? (Mr. Lender, everyone in this area knows that there was a murder or a death in this house, and because of this we’re having a hard time selling it!) This will affect the value of the property.



## Do You Only Need a Small **Discount**?

If the house has none of the above issues with it, does that mean that you’re not going to get a short sale approved? Not necessarily, just don’t count on getting a big discount.

We typically see discounts of less than 15% of the loan balance with these types of properties.

Moral of the story? Don’t expect to get an offer approved for \$150,000 on a house that’s in a neighborhood where every house is selling for \$500,000, that needs nothing but paint and carpet, that is in a highly desirable neighborhood where most houses sell in less than 30 days, and is in only two years old. Why would the bank take your offer? It doesn’t make sense. (Believe it or not, new investors make this mistake daily.)

These are the types of deals where being a realtor leaves you with a huge advantage. You can make a ton of money on deals like this if you can double dip for commissions.

## Eliminate **All** of Your Competition, Once and For All!

What I'm about to say is absolutely fundamental to your deal. Do not waiver on this point.

**You MUST make sure that you convey to the homeowner that once they deal with you, they deal with you only!**

They must understand in no uncertain terms the importance of not working with any other real estate agents, investors, etc, without talking to you *first*.

Understand this is not a personal "thing" that says I'm afraid of a little competition, and this is not a strong arm type of approach that I take with the homeowner either. The fact is that if I am truly looking out for the homeowners' best interest (and I am), this information is an absolute MUST for them to be aware of.

### Let me explain why...

*(By the way, this true story is the exact same story that I tell my customers on every single appointment that I go on! I absolutely do NOT skip this step under any conditions.)*

When I first got started doing short sales, I received a phone call from one Mrs. Watson from South City, St. Louis. She owed about \$75,000 on her house. It was a cute house, and it was in a very decent area. Nothing spectacular, but it had a lot of potential. There were, however, a couple of key problems.

First, the amount she owed might have been realistic to the true value – **if only the house hadn't been literally leaning to one side.**

This house definitely had foundation problems, and since I didn't really know all that much about foundation problems, it looked pretty serious to me.

When I pulled up to the house, I could physically see that the entire house was tilting to the right. I didn't know anything about foundation problems at the time, but what I did know is that I was scared of the property because of how it looked, which meant that I was pretty sure that the lender would be scared of the property too! (Hmmm... This could be a very good thing!)



I met the nice woman at her home, went through our normal routine, and she, like so many of the people that we work with, just wanted to be done with the house. She was ready to move on, but she was overly concerned about her credit... more so than most of the people that we deal with.

Although new to using the techniques I described earlier in dealing with real estate sellers, I was able to build an incredible amount of rapport with her very quickly. I discussed the ramifications of the short sale with her, what all it entailed, and she was very much ready to work with me. She really felt like this was the right thing for her, and happily signed all of the necessary documents to get the ball rolling.

So far, this was a pretty typical short sale deal. We compiled our short sale offer, sent it to the lender, and it wasn't long before the BPO was ordered. It couldn't have been a more text book deal.

We attended the BPO, and it went PERFECTLY. The first thing that the BPO agent said when he got out of the car was, "**Oh my God! Is this house going to fall over?**" Needless to say, he put in an extremely low opinion on his valuation of the property. As a matter of fact, his number was right in line with the offer that we had already submitted to the lender.

About a week later, we got a call from the lender notifying us that our short sale approval was being written up and that we should be expecting it in writing by the following morning! The lender approved our very first offer of \$14,750.00!! That's a \$60,000 discount on a 1<sup>st</sup> mortgage! I was ecstatic about this because I already had it sold to another investor (one who was quite comfortable with foundation repairs needed). He contracted to buy it from me for \$26,000.00.

So it was pretty much a done deal, and I was set to make about \$11,000 on the deal...*until...*

I was busy counting my money (in my head) when about an hour after I'd spoken with the lender, my phone rang again. It was the lender... again. The loss mitigator explained that she was a little bit confused and wanted to know if I worked with a person named "Butch Jenkins". Now I had no idea who she was talking about, but I began to be a bit unnerved – and for good reason it turns out.

Come to find out, Butch Jenkins is another investor. Butch started working with my customer just a couple of days before this and had just now decided to put in a short sale offer of \$25,000.00 right out of the gate. And whose offer do you think the lender was going to accept? Needless to say, I was no longer buying the property for \$14,750.

I couldn't believe what I'd just heard! ***How could Mrs. Watson do this to me?*** We had built such great rapport... I didn't skip any steps... I didn't go too fast for her. She was really excited about her decision... Why would she go behind my back and work with someone else?

I called her to find out. When she answered, she was so happy to hear from me and just as sweet as she was the first day that I met her out at the house. I tried to keep my composure on the phone, but to be honest with you, I was pretty ticked off. Here I had just spent the past few weeks working on this deal to try to save her credit and help out her bad situation, and I just couldn't figure out why she would start working with someone else.

I decided to tell her all of the details of what was going on, and she seemed just as confused as I was. I told her that some other investor had made contact with the lender and offered more than I did, and because of that, the lender was trying to now create a bidding war between the two of us. Because of this, Butch pretty much messed up our entire deal. I told her how I had

just gotten the approval and now the lender was going to back out of the deal because they knew they had a higher offer on the table than mine.

I could hear the disappointment in her voice when I asked her why she decided to work with someone else. She simply replied,

*“Shaun, I honestly thought that two people working on this would be better than just one person working on it. Butch thought the same thing, and that’s what he told me.”*

You know what? **I believe her.** I really do believe that she thought that two people working on the deal would be better than just one person. Not only that, but after talking to Butch on the phone, I can see where he would try to manipulate her into letting him work on a short sale at the same time that I was. (I think he managed to find out that I was able to get a very low BPO on the property, and therefore wanted in on it.)

I called Butch to see if he would withdraw his offer and explain to the lender that he didn’t realize how much foundation damage that the property had. He wouldn’t cooperate. I even told him that I would split part of my profit with him, and he wouldn’t back down. He approached it like a cold hearted business person looking out only for himself. When I asked him why he would try to work on a short sale that he blatantly knew was already being worked on, he simply said that the highest offer wins, and that I was out of luck.

Now... **IF** I was a total jerk (which to be honest with you, I really felt like being at this point), I could have just gone ahead and recorded the deed that I already had signed from the homeowner at our initial meeting. I checked with the county and Butch hadn’t recorded anything against the property. I checked with the homeowner, and she said that she never signed a deed with him... only with me.

So, if I wanted to play hardball, I certainly could have... but I didn’t. I didn’t only because it would have only ended up hurting Mrs. Watson. So I let it go. I let Butch win. As much as it killed my ego to just let him win, I knew letting him close the transaction was in the best interests of Mrs. Watson, and I decided to just let it go.

### **Now get this...**

I got the phone call from Mrs. Watson a couple of weeks later. Come to find out, Butch could never get the money together to close the transaction, and the house ended up going to foreclosure. Not only was I furious to hear this news. Mrs. Watson wasn’t so happy either. Ugh...

The moral of the story is this: **If more than one person works a short sale on the same property at the same time, the only party that wins is the lender.**

The lender tried to create a bidding war against Butch and I, and I’m not about to play that game – especially since Butch’s first offer was almost the same amount I was selling the property for!

Nowadays I make sure I always tell each homeowner a condensed version of this same story at each appointment so that they know without question that our deal is exclusive once we agree, and to deal with anyone else simultaneously is no appropriate.



**(The Lender)**

If they do, chances are they're going to be in the same boat that Mrs. Watson found herself in anyway... especially if they're dealing with someone like our friend Butch!

Also, if you come across a deal and realize another investor is already working a short sale with the lender, **BACK OFF!** Don't be a Butch! There are way too many fish in the sea to be a Butch! And your integrity is the most valuable asset you have – don't lose it!

It's not going to do you any good to create a bidding war against you and the other guy. If you're seriously interested in the property, call the other investor working on it and let him know that you're interested in working the deal together. In most cases the other investor will probably love to have a buyer like you lined up for when the deal gets approved. If he/she is not interested in working with you, move on. There are plenty of other deals out there, believe me.

Another important note I should make at this point is that I also use my initial appointment with the seller to explain very candidly that I will gladly walk away from the transaction at any time if they feel like they would rather work with someone else.

I go on to explain the only thing that I ask if this ever happens is that they make sure they call me right away to let me know so that it doesn't end up hurting *them* in the long run. By reiterating how it will affect them, they won't ever try to work with someone else (or even attempt another solution) without talking to me first. In fact, I've never have never had a problem since I started relaying this story.

At the same time, I recently hired a new employee, and I forgot to let him know how important this information is to relay to a homeowner... and guess what? He lost his first deal because of a very similar situation. Do you see why this is so important?

Either way, if you're not relaying this information to the homeowner on the front end, you're not only dramatically increasing the possibility of doing a whole lot of work for nothing, you're also not doing someone like Mrs. Watson any favors either.

**This two-minute story could be crucial to your deal.** Feel free to use my story as your own. And you can be honest with the homeowner as you tell the story too. You don't have to say that this exact same thing "happened to you." You can just tell the homeowner that this happened to a friend of yours and you don't want to see it happen again.

# I Hope This Helps!

I've just introduced you to just a few of the ways that we build rapport quickly in order to help those that really need us, as well as some of the most important things you need to consider when prescreening a short sale deal.

As investors in the short sale business, you and I have to luxury of being able to really make a difference in the lives of the people that we touch each and every day. But we also need to be as effective and efficient as possible in this process. That's what I hope I've just helped arm you to do.

Remember though, this will only work if you put it to practice immediately! It's great to know this information, but knowing it is not always enough. You must now put your knowledge to work.

Remember, give first.

Shaun McCloskey

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