

# **PROBATE FOR REAL ESTATE INVESTORS**

3 Ways to Financial Success

Paul D. Wilkins, MBA



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**PROBATE FOR REAL ESTATE INVESTORS.  
3 WAYS TO FINANCIAL SUCCESS.**

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*To Mom and Dad*

*And for all people who have had  
the difficult experience of going through probate,  
and for the investors who will help those individuals  
close their estates.*



## FOREWORD

There is a plethora of real estate investing books out there, covering numerous niches and strategies. Rarely will you find a book such as *Probate for Real Estate Investors*, written by such an authority in the industry. Paul Wilkins is just that type of individual.

Since graduating with an MBA in finance, Paul has been active in real estate well over 30 years, and in the probate field for 23 years now. His livelihood is based on daily probate transactions, not an occasional deal here or there. In this book, he shares with you the substantial knowledge he has gained over this period, explaining in detail steps necessary for you to succeed in probate investing. Paul is an educator at heart. He has taught at and earned an instructor credential from California Community Colleges, and he has taught probate and investing strategies for several years, to hundreds of students at live investor seminars.

The information and lessons in this book are powerful. Channel this energy to your advantage, and read this book today! Take him up on his offer to mentor you to success!

**Raymond Aaron**  
**New York Times Bestselling Author**



## ACKNOWLEDGMENTS

Thank you, Raymond Aaron, and your 10-10-10 Program! Without you and your staff, this book would not have been written!

I also thank my parents, Bea and Rex, for providing me the early guidance in life. Thanks to God for His blessings, and for providing a path for a meaningful life. My brother, John, and my sister-in-law, Lety, have always had my back (literally!), as I have for them. Also, a big thank you to my aunt Connie and niece Nikki for helping me type the manuscript. And thanks to my niece, Natalie, for her own inspiration.

I would not be in this industry had Mitchell Feinstein not taken a chance and hired me at National Consumers Finance, in 1996. His partners, Sheldon Cohn and Noah Furie, both provided me additional opportunities at Budget Mortgage Company—thank you! A huge thanks to my friend, Michael Morrison, at Budget—you were always there for me.

Thanks to my investing mentor and cousin, Jeff Adams, who encouraged me to invest and gain the knowledge that has led me to success. Additional thanks are due to Anthony Patrick (another cousin), who is the best rehabber in the business, and his partner/broker, without equal, Scott Chermie.

Approved Inheritance Cash has been the most fulfilling career opportunity I have experienced. However, this would not have happened without the support of my partners, Ron Valenta and Manny Marrero, the two most astute businessmen I have ever met—

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and wonderful gentlemen, too! My attorney partners, Christopher Wilson and Mark Russakow, are both brilliant lawyers and great family men.

Lastly, I wish to sincerely thank all of my AIC associates that have made my last 9 years so enjoyable. Thank you Sally Lierheimer, Zuzel Castro, and Elisa Rivera. Mark Perez and Mark Keith, you have always been there whenever I or our customers needed your help. Bill Chase, Jerry Koury, Pauline Seeto Marrero, and Curtis Marrero, we wouldn't be where we are without your significant contributions—thank you!

## CHAPTER 1

### WHY PROBATE?

#### PROBATE IS APPLICABLE EVERYWHERE

*“In this world, nothing can be said to be certain, except death and taxes,”* is one of many quotes of wisdom spoken by one of our nation’s founding fathers, Benjamin Franklin. While there are many resources to assist you with your taxes, this book will assist real estate investors with the subject of how probate can present profitable opportunities. Despite the forethought of many individuals who prepare wills, any real property held outside of a trust will be subject to probate. What is probate? Simply stated, probate is the legal process by which assets are transferred from the deceased owner to his or her heirs. Many people assume incorrectly that the existence of a will precludes the need for probate. Unfortunately, that is incorrect, at least in California, and throughout most of the United States.

Now for some good news for investors! Thanks to the probate process, there is a constant and steady stream of millions of prospective investment properties going through probate each and every year throughout the United States. Wherever people live and die, there will be probates, period. Since people die in all 50 states, and in every nation on earth, there will be countless millions of properties always available for resale. In 2016, the most recent year for which data is available, the U.S. Center for Disease Control tallied 2,744,248 deaths across the nation.

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Good estate planners can often assist their clients to avoid probate through the use of a trust. However, a trust is not necessarily a perfect defense to dodge probate. If the trust document is lost, or if there are significant disputes concerning the trust after the death or incapacity of the trust settlor (the person who establishes the trust), these matters will end up in probate court—the venue that the trust settlor hoped to avoid in the first place.

### **PROBATE IS APPLICABLE IN ALL MARKET CYCLES**

One of the benefits of investing in probate properties is that this niche never becomes out of vogue. When I first became seriously involved personally in real estate investing, just after the financial crisis of 2007–08, there were millions of REO (Real Estate Owned, the euphemism for bank foreclosed properties) homes on the market. However, there were many fewer real estate investors at that time, because most people were scared, and could not see the bottom of the market. Those of us who were seasoned real estate professionals saw just how low the market had dropped, and then began buying at a frenzied pace. By approximately 2010–11, the supply of REOs was dwindling rapidly, and dropped even further, as the big Wall Street investors also dove into the market, and purchased tens of thousands of homes, primarily in the Sun Belt states.

Another investment niche that was in favor shortly after the financial crisis of 2008 was short-sales. Short-sales occurred when property values fell below the previous appraised levels, and could not be sold for a sufficiently high price to pay the existing loan in full. The homeowners, in many of these cases, lacked the liquidity to cover this negative spread between the deflated property value and loan balance, and so these borrowers were compelled to request that their respective lenders approve the sale for less than the outstanding loan balance—ergo the nickname, *short sale*. Real estate agents, who had seen their livelihoods negatively impacted by the suddenly stifled real estate market, were now assisted by a cottage industry of small firms,

## *Why Probate?*

which specialized in making short-sales happen for a few years.

This investment sector quickly faded into the sunset once the U.S. Justice Department and other federal and state agencies extracted billions of dollars in concessions from the major money center banks (i.e. Wells Fargo, Bank of America, JP Morgan Chase, Citibank, et al) for their alleged abuses and mismanagement of real estate borrowers during the financial crisis. Instead of paying the U.S. and state governments these multi-billion dollar settlements in cash, the majority of these payments were provided to homeowners via credits given to those individuals who were delinquent or in foreclosure. These credits allowed the banks to either reduce interest rates and/or loan balances, or defer loan payments to the end of the loan. The combination of these remedies provided qualified homeowners with some form of loan relief. This action almost immediately eliminated the need or necessity of the banks to approve short-sales, as now the banks were required to *spend* these concessions on their existing customers who needed assistance. Rather than approve a short-sale and see that loan—that potential stream of income—disappear forever, the new incentives for loan modifications enabled the banks to eventually recapture their lost income via these recast loans. The modified loans would be less profitable than those they replaced, but these loans were once again profitable and still on the books. Whereas REOs and short-sales have come and gone, probate opportunities remain.

### **NO EXPERIENCE IS NECESSARY**

I have earned my livelihood over the past 20+ years as a result of probate transactions. When I first started in the business, I literally knew nothing about probate. Now, after nearly 23 years of 6 and 7-day work weeks of experience, you, my reader, will gain much of this knowledge throughout the lessons in this book. I interact daily with numerous probate attorneys and paralegals in California and many other states. Their information and assistance has added value to my

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knowledge, to become your knowledge! I learn something new every single day—not because I don't know much, but rather because there is so much information in each state's Probate Code, local court rules, and so forth.

The purpose of this book is to provide you with all of the basic requisite information to succeed in probate investing, without spending the next 20+ years that I have already invested in the field. I sincerely want you to achieve financial success, as many of my previous students have. My hope is that I can assist you achieve monetary success in the near future, and possibly work together with you in future financially rewarding transactions, too!

### **AN ENDLESS SOURCE OF LEADS**

Unfortunately, people are always dying. Thus, there will always be an endless source of probate leads. For example, let's say that you wanted to work only Los Angeles County for prospects. If, for some currently inexplicable reason that probate leads or investment opportunities were to dry up in Los Angeles County, you then could switch your efforts to an adjacent county, be it Orange, San Bernardino, or possibly Riverside Counties. Again, even if one county were to become temporarily unproductive, there would be no reason that other adjacent or nearby counties would be so afflicted.

Should an entire state become less or totally unproductive (say there were some significant changes to the probate laws), you could move your efforts or pursuits to another nearby state. Personally, Arizona has provided me several probate investment opportunities over the past few years. The point remains that you will never get tired or bored while pursuing probate leads, as these *wells* will never completely run dry.

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### **LOW COST TO RESEARCH**

Throughout this book, I refer to the probate laws and procedures in the state of California for the basis of the information provided herein. Since 49 of the 50 states base their laws on English Common Law (Louisiana, based on French Law, being the only exception), I assume that the probate codes and practices in most other states are parallel to each other. Over the years in my finance business, that has certainly been true. There are many more similarities than differences between the English Common Law states in the United States.

Chapter Four provides detailed information regarding the understanding and research of probate cases. Suffice it to say, once you understand the process, you should be able to review and extract the requisite information for each case, in 5 minutes or less. At this rate, you can easily gather 10–12 probate cases, your new leads, per hour. This is true whether the research is done at the court itself or online. As part of your initial probate education, you may want to do the research yourself. However, once you have mastered this skill, you will want to hire an assistant to gather this data for you. If you pay this assistant \$10–\$12 per hour, your cost per lead is roughly \$1. This is very affordable, especially since this is proprietary information that you are not sharing with anyone else. Other real estate investing niches, such as foreclosure and bankruptcies, may provide database subscriptions at a lower price per lead, but that information is sold to 50–100 investors each time, and possibly more. The value of your probate data, at \$1 per lead, can and will be proven valuable over time. Since your probate competition is minimal, your results should be very cost-effective when compared to other investors who rely on this aforementioned shared information.

## **LOW COST TO IMPLEMENT**

Successful probate investing has a low cost of entry. As discussed in the last section, the cost of a qualified lead should be around \$1. Once this information is in hand, the only additional cost is the amount of a postage stamp. No costly software or monthly subscriptions are necessary for probate investing, unlike other investing niches. Sometimes the cost can even be less than a postage stamp. A few courts list phone numbers on the basic probate forms. I had some students who once found the phone number for the administrator of an estate during the course of their research. They took the initiative and called the administrator. In less than 10 days, they had the estate property under contract, and within 30 more days, they received a wholesale fee of \$18,000! This transaction will be discussed in more detail, later in the book. For the cost of a few phone calls, these students did quite well—especially since they put up \$0 to secure the deal.

## **CONCLUSION**

Probate is a profitable investment niche that can be pursued everywhere. As people are consistently dying, there will always be probate estates, with most estates having real property for sale. You need no experience to start, as this book will provide you with the required knowledge to succeed. There is an endless stream of leads, with minimal research costs, and nominal costs to start your career as a probate investor.

Want to know who the significant people are in probate? Read on!

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**NOTES**

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**NOTES**

## CHAPTER 2

### GET YOUR PROGRAM – WHO ARE THE PLAYERS?

Whether you attend a sporting or theatre event, you need to know who the respective players are in order to understand the performance. The probate process is quite similar. The better and more quickly you know the players, the more rapidly you will have the opportunity to make real money through probate investing.

#### THE ADMINISTRATOR/PROTAGONIST/QUARTERBACK

The key player during probate is the administrator, no doubt about it! All significant decisions, be it choosing the estate attorney, selecting the real estate agent, or resolving various disagreements amongst the heirs, are usually resolved by the administrator.

If there is a will, the probate is referred to as a testate matter; if not, it is an intestate case. The person named in the will to take charge of the probate process is officially known as the executor, and a female serving in this capacity would be called the executrix. In many jurisdictions, the person in charge of the estate is known as the personal representative of the estate. In California, we use the term, *administrator* (female, *administratrix*). Regardless of the correct term, the important concept is that the administrator is appointed by the court to be in charge of the estate.

There is an important distinction between an administrator with full (court) authority, and an administrator with limited authority. One

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of the most crucial differences (in California) is that an administrator with full authority can sell real property, and/or other estate assets, for a minimum of 90% of the court's established value of that asset. In contrast, an administrator with limited authority must have literally each and every activity approved by the court. The significance of this distinction will become readily apparent in a latter discussion.

A good question is, why would someone want to be an administrator with limited authority? Naturally, there are a few good reasons to opt for limited authority. First, the courts often require that an administrator with full authority post a bond equal to the amount of assets in an estate. If the estate has several hundred thousand dollars or more, such a bond could cost the estate several thousand dollars. Good credit is also required to obtain a larger bond. If the administrator cannot qualify credit-wise, he or she may have no option other than to obtain limited authority. A second reason that heirs might choose limited authority is a lack of trust. Should there be any significant disagreements or distrust amongst the heirs, limited authority is a useful tool. By requiring all significant actions, be it listing properties for sale, accepting contracts, or anything similar, these heirs might feel more secure knowing that everything will be reviewed and approved by the court.

There is another designation for the administrator, important to note but not often seen. A special administrator can be appointed when there is a true emergency—be it a pending foreclosure, a health and safety issue for the property occupants (i.e. repairs needed to correct fire or flood damage), or perhaps to prevent the destruction or disappearance of estate assets. In this case, the application to appoint the special administrator would be filed on an *ex parte* basis (Latin for *one party*), which would not require the approval of the other parties involved, but would only need the approval of the judge, to be effective. Special administrators are usually appointed for a very limited period—usually 45–60 days—and are empowered solely to deal with the emergency issue as presented. Normally, the party filing

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for the special administrator is also applying to be the administrator. The hearing to appoint the special administrator is given special attention, and can be heard in a matter of days, whereas the hearing to appoint the administrator usually takes 30–45 days.

### HEIRS/BENEFICIARIES/DEWISEES

Although the administrator may be the primary decision maker during probate, the heirs are the individuals who will benefit financially from the estate. An important distinction is whether the heirs are testate or intestate heirs. A testate heir receives whatever he or she was left in the will. An intestate heir inherits a percentage of the estate based upon his/her *per stirpes* position in the estate. *Per stirpes* is Latin for *by branch*—in this case, referring to the branches of the family tree. For example, if a father dies and leaves a wife and children, in California, the wife gets  $\frac{1}{2}$  of the estate (if there is only one child), or  $\frac{1}{3}$  of the estate (if there are 2 or more children). For this example, I will assume that there is a surviving wife and 2 children. Assume that one of these children pre-deceased the father, but had his or her own children. These children (grandchildren to the estate decedent) would be heirs *per stirpes* of their deceased father's portion of the estate. Not to confuse the issue but rather to point out some variances, in Oregon, the surviving spouse gets  $\frac{1}{2}$  of the estate regardless how many children there are. It is important to know how your particular state deals with this and other such important issues.

Going back to our previous example, where one child died before the father died, it would not be necessary to have a separate probate for the deceased child. Why? Because the child died before his father died. If that child died subsequent to the father's passing, and was to inherit more than \$150,000, the latter case would require an additional probate process for the child, at least in California, due to the dollar amount of the inheritance. A lesser inheritance would avoid the extra probate case.

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Even though the administrator is typically the primary decision maker, it is not always the case. In testate matters, you need to carefully review the will and follow the distribution of the respective assets. In a situation where the decedent leaves 2 or more houses, and specifically bequests those homes to separate individuals, those people (usually children) would be the decision makers. Years ago, a friend's father died. He had 3 houses, leaving one to his second wife, and one to each of his two surviving children. Even though the second wife was the administrator, the decision concerning the specific bequests belonged to the children, as those gifts were specifically given to them. Yes, the homes were part of the estate, but not subject to the whim of the administrator.

### **THE ATTORNEYS**

Most probate specialists are very good attorneys, who know and decipher the intricacies of probate law with relative ease. However, this cannot be said of all attorneys handling probate cases. Unfortunately, some attorneys take the case for the fee, and don't realize their shortcomings until much later in the probate process. By then, their lack of probate knowledge delays the resolution and distribution of assets. To give you a better visual, when I was young (1960s–70s), most gasoline stations had a mechanic who could handle just about anything—your transmission, your radiator, your brakes—you name it, that mechanic could fix it all. Soon thereafter, specialization became commonplace. Thereafter, you would go to AAMCO for your transmission, Midas for your brakes, Goodyear for your tires, and so forth.

Similar to the mechanic in the days of yore, some attorneys will handle a probate case, and your criminal defense, divorce, DUI, and so forth. I do not agree with this mentality. Law is a highly specialized field of knowledge that requires expertise at every level. The moral of the story: Seek out a probate professional before you put down your hard-earned money, whether you are the proposed administrator, heir,

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a real estate agent, or investor. A probate professional will enhance your professional life, while the jack-of-all-(legal) trades will cost you money, time, and aggravation.

Many of the latter attorneys will attempt to project their control over a probate estate. While their assistance is appreciated, their controlling efforts are not. The administrator runs the estate, not the estate attorney. The administrator hires the attorney, not vice versa. To be a successful probate investor, you must understand this concept, and at times politely but firmly remind the administrator that he is in charge, and not the other way around.

### **THE JUDGE**

Most probate judges pride themselves on impartiality. I have been in court numerous times and have seen firsthand where the judge has delayed making a ruling in an effort to be fair to all parties, especially those who may be representing themselves. In Latin, the term for these parties is *in propria persona* (abbreviated as *in pro per*), meaning *he who represents himself*.

As an investor, you will have minimal direct interaction with the probate judge. The one arena in which you could have such interface will be at the sale of real property, when the administrator has limited authority. As you may remember, these situations require approval of the sale by the judge. The sale will be announced by the court, several weeks before the actual event. Typically, a minimum offer will be presented, and any subsequent offers must exceed that initial offer by a minimum of 5%. There are requirements for the down payment (usually 10% of the bid amount) clearly stated in the court announcements, so do pay attention. If you come to court with your own agenda and attempt to alter the stipulated rules, you will surely fail—so don't try it. Sometimes there are some good bargains available, so overlook these court-held sales at your own risk!

## **THE PROBATE REFEREE**

The probate referee is easily the least known actor in the probate drama, but nevertheless one who has a most important role. In California, as well as most other jurisdictions, the value of probate assets is established as of the date of the decedent's passing. If the decedent had died in the past few months, establishing a value for real property should not be too difficult. What if the decedent died several years ago? That could present a challenge.

The referee is usually appointed at the same time as the administrator is appointed by the court. This individual has the responsibility to establish the value of assets for the court. This number is usually a reasonable valuation, but not always so. The probate referee provides a *desk-top* value, meaning that this number is derived from various databases available in the office, and not from an actual physical inspection of the asset itself. Some of you investors are now seeing that there may be profitable situations arising from potential differences between the referee's value and the market's current value.

Years ago, when the market had crashed after the financial crisis, there were numerous disparities between market values and probate values. Why? If the decedent had passed in 2007 or 2008 (the top of the market in that decade), the referee would be compelled to use that inflated value. For those families that opened probate, say 1–2 years after the decedent's passing in 2007 or 2008, these families usually found the referee's values substantially above the current market prices. This compelled numerous requests, from many administrators, for the court to reevaluate and redefine the home's value. For example, if a property had fallen from \$400,000 in 2007, to \$250,000 in 2010, it would be impossible for an administrator with full authority to liquidate the real property at 90% of the probate referee's value. The courts were overwhelmed, not only with requests to reset values but also with numerous additional hearings to approve sales

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for well below the 90% threshold. I have not seen statistics to back this up, but intuitively the number of probate cases filed nationwide should have fallen substantially during these years. Since many properties had lost much of their equity, the corresponding probate estates would have little, and sometimes no equity for the heirs.

Conversely, once the real estate market values started to increase, the opposite phenomena occurred. Properties that were worth X, in 2011 or 2012, had a 10–20% increase in value within one year. Those investors who were astute enough to see the opportunity for arbitrage, did so, and made some good profits. In Chapter 5, I will present a case study outlining this exact strategy. In conclusion, it is essential to note the date of death, and to compare the probate referee's value to today's market value. In many cases, the values will be similar; in some cases, the discrepancies may lead to profitable opportunities.

### **LIENHOLDERS/DEEDS OF TRUSTS AND MORTGAGES/CLAIMANTS**

One of the biggest mistakes that administrators and heirs make during probate is that they ignore various lienholders. Whether it is the county taxes or deed of trust holders (mortgagees in mortgage states), I have seen numerous properties lost to foreclosure because these lienholders were not paid during probate. Many people assume incorrectly that no loan or tax payments need be made during probate—which is blatantly not true! This is another reason to utilize the services of a real probate attorney. He or she will know what needs to be done to protect the real property from being lost.

Over the last several years, reverse annuity mortgages (RAMs) have become more popular for homeowners, 62 and older. As a result, I have seen a noticeable uptick in the amount of properties subject to these RAMs. Although the term of these loans provides the family with a 6-month period (after moving or passing away) in which to pay the loan off or to sell the home, you cannot rely on the lender's good

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graces for additional time. Again, I have seen many of these properties placed into foreclosure, with some actually being lost. It is critical to review the title records of probate properties as soon as you get involved.

Investors who master this skill will have greater opportunities to profit. You might be able to construct a favorable contract by either helping the estate to reinstate a delinquent loan, or by purchasing a property prior to the pending foreclosure, at a favorable discount.

There are other types of liens that can be impactful during probate. The most significant of these would be medical liens emanating from the Department of Health Services (DHS in California or Arizona), or similar such state agencies. Often, less affluent individuals sign up for state medical programs that may supplement their federal Medicare benefits. In many cases, the various states will cover most medical expenses that are outside of the Medicare program. However, upon passing, these state agencies will make claims against the probate estate, to be reimbursed. A lien is placed on the property, and must be repaid in full before title can be conveyed. If you are not aware of these potential liens, a potential investor could lose a down payment, or more if the medical lien exceeds the value of the property. Not long ago, I had to pass on an investment property that I was pursuing in Arizona, as my attorney politely pointed out that the DHS lien exceed the value of the property.

### **CONCLUSION**

Knowing the probate players is critical to your investment success. Remember that the administrator is usually in charge, and has more influence than the estate attorney. Recognize those situations in which an heir or heirs will receive their own specific home—then they become the ultimate decision makers concerning those homes. Both judges and probate referees have importance; review and recall these situations. And finally, don't forget about lienholders—they could

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provide you, or deprive you, your ability to profit!

Now that you know who the players are, you probably want to know the rules of the game, right? Chapter 3 will provide you with this information.

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## **CHAPTER 3**

### **THE PROBATE PROCESS**

#### **FILE THE PETITION**

The probate process commences once a petition for probate is filed with the court. Typically, a close family member or friend of the decedent will do so. Since the administrator receives a fee for his or her work, often there are competing petitions to open probate. The law has a hierarchy as to who has priority to be appointed administrator. Spouses have priority, followed by children, then grandchildren, siblings, cousins, and so forth. The primary consideration is that the process does not happen automatically, but must be initiated by someone with a relationship to the decedent. It does not necessarily have to be a family member or friend. I have seen at least two cases in which the bank that had outstanding credit card balances filed a petition for probate in an effort to accelerate the timeframe to be repaid.

California has a standard form to file a probate: Form DE 111. The form is fairly simple to use (and understand). It consists of 4 pages, and is mostly a fill-in-the-blanks/check-the-boxes type form. In Oregon, there is no such form, but the petitions are fairly similar state-wide: state the facts concerning the decedent, the proposed administrator, family of decedent, and purported assets. The information provided by the DE 111 will be covered in detail, in Chapter 4: Researching Probate/Implementing Contact.

## **APPOINT THE ADMINISTRATOR/PERSONAL REPRESENTATIVE**

Once the petition for probate has been submitted, the court will set a hearing to appoint the administrator. That hearing is usually 30–45 days from the filing date. There are basic requirements to meet: The notice of the pending probate action must be published in a newspaper of general circulation, and proper notice provided by mail to the heirs. If in compliance, the court will approve the petition and appoint the nominated administrator. If any of the requirements are not met, or if there is any objection to the appointment of the administrator, the court will note its concerns and most likely continue the hearing to a future date. Any party contesting the nomination or appointment of the administrator will be provided this additional time to prepare its objections. Once the court appoints the administrator, be it at the initial or subsequent hearing, the court will also name the probate referee at that time.

## **THE CREDITOR CLAIMS PERIOD**

After appointment by the court, the administrator/personal representative must file their court signed letters of administration. It may happen the same date of the court hearing, or shortly thereafter. Once the letters of administration have been filed with the court, a 120-day creditor claims period begins. During this period, any and all claims, be they medical bills, credit cards, utilities, or even gardener's bills, must be filed to the court to be recognized. Submission of the claim does not guarantee its payment. The administrator, as part of his or her duties, must review and approve the claim, or deny it, be it in part or in full.

Deeds of trusts and mortgages typically do not require creditor claims to be filed, as such liens are against the real property, and not considered claims against the estate. Occasionally, an out-of-state lender will file a claim in the amount of their real estate debt, but if so, the claim will be denied, for it is typically unnecessary.

## *The Probate Process*

The only creditor that could be granted an extension to file a claim would be the Department of Health Services (in California), who are charged with collecting medical debts incurred by the decedent, for the state.

Similar agencies in other states perform the same function as does DHS in California. I would expect those agencies to have a little more legal leeway to file their claims late, and not to have their claims denied for late filing. Most good probate attorneys notify DHS, or its equivalent, almost as soon as the creditor claim period commences, so as not to have the potential of late-filed claims hampering the probate proceedings.

### **VALUATING ASSETS**

As mentioned, the probate referee has the sole responsibility of valuing the assets in a probate estate. The main asset, and often the only asset, is the real property. Again, the valuation date is the date of death. Despite the numerous asset valuation tools and programs that the referees have to perform their jobs, do remember that appraisals are subjective, and are not scientific. These valuations provide a guide for the estate, as well as the court, so that the process can proceed forward. In a relatively stable market, most administrators with full authority will not have much difficulty liquidating a property for at least 90% of the probate referee's assessment. Should this value be unattainable, the administrator can petition the court to re-appraise the asset to provide a more current, attainable value to facilitate a sale.

Often, there are substantial personal property (anything that isn't real property) assets in an estate. Statements for liquid assets, such as bank accounts, brokerage accounts, and the like, are gathered by the administrator. The probate referee then simply verifies the account holdings, and adds the amount to the inventory. Specialty assets, such as antiques, coin collections, gun collections, and cars and motorcycles require the use of experts to establish appropriate values. The referee

obtains the appropriate input from these various experts, and then tallies these additional assets. If you have expertise in autos and motorcycles, or any other of these specialized assets, you may want to contact the administrator, and see if you can strike a deal.

## **LIQUIDATING ASSETS**

The administrator usually contacts a real estate agent early, during the process, and formulates the plan to liquidate the real property. Most probate homes are rougher than most other homes for sale, since the typical probate home has been occupied by a senior citizen for several years. Many of these seniors—now the decedents—either lacked the physical ability or the financial resources to keep their home in tip-top shape. Thus, one of the first decisions that the administrator and real estate agent need to make is what repairs, cosmetic or otherwise, should be addressed. In many cases, the lack of estate cash will prevent these possible repairs from being made, and so the home will be listed for sale in its *as-is* condition. This is one prime example as to why probate properties are usually good investment properties—they are normally discounted for their inferior upkeep, providing savvy investors the chance for a reduced price. An even better way to secure a property at a deeper discount is fully discussed in Chapters 5 and 6.

The liquidation of personal property is a less formal process. Sometimes one of the heirs will agree to take a personal property asset and have that value deducted from their cash portion of the inheritance. In most cases, the administrator will do the best she or he can, either with the assistance of the expert who may have helped establish a value for the personal property in the first place, or perhaps by *winging* it, by selling such property through pawn shops, Craigslist, or numerous other creative ways. Again, if you see an asset in the inventory that may appeal to you, contact the administrator—you might get lucky!

## **FINAL PETITION/CLOSING THE ESTATE**

Once all the assets that are going to be sold, have been sold, the attorney will prepare the final petition. This document serves as a brief history of the estate, quickly discussing the decedent, the heirs, assets, and ultimately the final expenses and distribution of funds. Regardless of whether the administrator has full or limited authority, this petition must be approved by the judge prior to any distributions. Due to the back-log of cases in California, the final hearing can be two to three months after this petition has been submitted to court. In Oregon, this final event is much more pleasant—if no one has objected to the final petition, the estate can distribute assets within 20 days of submission.

## **CONCLUSION**

The entire probate process is a fairly long one. Once the initial petition has been submitted, it takes 30–45 days for the first court date. Assuming approval at that first hearing, then the 120-day creditor claim period commences. Add another, say, two–three months for liquidating assets and preparing accountings, and another 2–3 months waiting for the final petition to be heard, and the probate process can easily last close to one year, if not longer. The truth might be unpleasant, but it is the truth. Inexperienced attorneys and individuals will claim a much shorter timeframe, either in an attempt to placate impatient heirs, or because they don't spend the time to understand the process. When your livelihood and honesty is on the line, be honest and sincere. Your knowledge will gain you respect from those you wish to impress, and protect you from those who will waste your time and efforts for naught.

Want to learn how to obtain exclusive leads for an average of one dollar apiece? Follow me to Chapter 4.

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*The Probate Process*

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## CHAPTER 4

### RESEARCHING PROBATE

#### RESEARCHING THE COURT FILE

The best way to be a successful probate investor is to optimize the use of your efforts. By contacting administrators and heirs early in the probate process, you will have little, if any, competition. However, you must gather this information yourself. Although you may be able to subscribe to a service that will provide you with essentially accurate probate data, that information is purchased by dozens of investors. If you wait to purchase this information, you will have lost a critical advantage, period. Besides, I have seen several of these data bases that incorporate information that is old—sometimes over two years old! Many of these lists do not include estimated values of real property, nor do they estimate real property debt. Unless you have both value and debt, you can't know if you have a potential deal. As always, *caveat emptor*: a good Latin term for *let the buyer beware*.

You can obtain all of the essential information you need, early and quickly from the court files. Although a substantial amount of data is available online, in many cases, it is quite expensive to access. I strongly recommend that you learn how to research the court records in person. If your favorite jurisdictions provide free or low cost internet access, great. Since most courts—at least in 2019—do not provide free online access, be prepared for the less expensive option of in-person court research. Again, once you understand the process, you will be happy to pay an assistant to do this legwork for you.

## *Probate for Real Estate Investors*

A productive probate search campaign starts with a simple database. A basic Excel spreadsheet should suffice initially, but you could do this on paper should your computer skills be challenged. Although you may be prohibited from taking pictures of the documents as they appear on the court's computer (since the court may want you to purchase the documents instead), if there is no prohibition, take pictures. If you can purchase them, you may want to do so until you are more familiar with the data itself. Using the California form DE-111 as our guide, I advise you to obtain the following information:

### **1) DE-111**

- Page 1 – Case number, case name, administrator's name, full or limited authority, date of death
- Page 2 – Dollar amount of personal property, value of the real property, estimated debt of real property, testate or intestate matter
- Page 3 – If there is a living spouse or not
- Page 4 – Attachment 8, with name and address (phone numbers if available) of the administrator and any heirs (in a testate matter) who may receive a specific bequest of real property

This information may initially seem overwhelming, but once you look at a handful of files, you will see that the aforementioned data can be gathered fairly quickly. After reviewing five or six of these cases, most of my students could gather all of that data in five minutes or less.

## **RESEARCH FROM A DISTANCE**

There is a substantial amount of probate information available on the internet, but it usually comes at a price. In California, only San Francisco and San Mateo counties offer free access. Several of the larger counties, including Alameda, Los Angeles, Sacramento, San Diego, San Bernardino, and Riverside are online, but the costs range from 50 cents a page to \$7.50 per document. In these cases, you would be better off to hire a researcher at \$10–\$12 per hour. It will be much more cost effective. Some counties, such as Orange, do not provide information online. Instead, you can obtain their data by going to the courts directly, and once there, using the court’s intranet for free.

You may find probate data online in various jurisdictions—you will simply have to research it. For the state of Maine, you can research for free at MAINEPROBATE.NET, but you will have to pay additionally (\$1–\$2 per page) to access specific information. Other states, such as Missouri, (courts.mo.gov) provide a state-wide site with free information. Over time, I would expect there to be less free information available online, as typically, state and local governmental budgets continue to get pinched. But while it may be available for free, do take advantage of it in your preferred jurisdiction.

## **INITIAL PETITION/WILL/CODICILS**

If there is a will (my guess is that 2/3 or more of probate estates are intestate), it is usually filed with the petition for probate. That is not always the case, however, so you need to completely review the DE-111, or similar probate petition, to verify the existence of a will. If the will is not filed concurrently with the petition, it is usually filed as a separate document shortly after the initial filing.

The most important reason to verify the existence of a will is so that you can examine it. You would be surprised as to how many times a will favors a particular beneficiary, be it a surviving spouse or a

## *Probate for Real Estate Investors*

particular child of the decedent, at the expense of the rest of the family. I will briefly mention a couple of issues concerning wills, namely undue influence (over the maker of the will) and fraud. As to the former, beware if and when you see a will that leaves everything in the estate to a caretaker or a distant relative. These could be red flags to investors. How can you protect yourself (and your investment money) should you see something like this and become suspicious? Simple: Before investing any of your money, make sure that the court has accepted the purported will into probate, and be certain that no one else, be it family members or friends, are contesting the matter. Until you are certain that the court has accepted the will, and there is no pending opposition in court that could subsequently invalidate the will, do not proceed any further.

Fraudulent or multiple wills are rarely submitted to the court, but again, to avoid problems, think the matter through. I saw a case recently in Alameda County (northern California) in which three wills were presented to the court. The first will left the estate equally to the three children. That will was admitted into court. A couple of months later, the decedent's sister produced a holographic (i.e. handwritten) will that disowned the children, and left everything to this sister. The daughters, knowing that their father had been taking some heavy duty medications the last years of his life, did not believe this second will, and continued to look through their dad's papers. Fortunately, they found a subsequently witnessed will (#3, if you are counting!) that left the bulk of the estate to one daughter, and large specific bequests to the other two children. The moral of the story? Just be cautious, at least in the early stages of probate, unless and until the will has been admitted to court. How will you know the will has been admitted? Simple: The court order will state that the will has been admitted (accepted).

The general rule: When there is more than one will, the last one (most recent date) is considered the most valid will. You will see that most wills have language that the current version supersedes all prior

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wills. To avoid the necessity of re-writing an entire will, some individuals rely on a codicil instead. A codicil is simply an addition or supplement to a will. The most common use of a codicil is to change one or more provisions of a will, or to possibly add or exclude an individual's bequest through this instrument. The codicil is generally as valid as the will to which it is attached.

This is the lesson here: to read the will and codicil(s), and make sure you fully understand the content prior to making offers to purchase assets from the estate.

### **CONTACT THE PLAYERS**

As previously discussed, the administrator usually makes the key decisions on liquidating real estate assets. These decisions include, but are not limited to, selecting a real estate agent, setting the listing price, and negotiating the contract. The value provided by the probate referee has an important place, too. In strong markets, such as at present, the referee's value is often the floor, while the administrator and agent aim for a higher yet attainable value. Should there be a specific bequest of a property, that heir or heirs usually have significant input in these aforementioned decisions.

To make money by purchasing probate real estate assets, you need to contact these decision makers early in the process, and often. How early? As soon as possible. The first time you see an administrator's name in the court documents, you should contact that individual then, and monthly, for the next 3–4 months. Even though the administrator will not have the probate referee's value yet, and cannot list the property for sale, your early contact will place you at the head of the line. Years ago, when my grandparents died, I was named executor of the will. Only two investors were clever enough to contact me about the estate property prior to listing the home I would ultimately proceed to sell. Of those two, only one wrote me a second time. Very little competition, wasn't it? But they both failed to follow up.

## *Probate for Real Estate Investors*

Optimally, I suggest writing a short letter to the administrator and/or beneficiary of a real property, once a month, for at least 3–4 months. One or two letters is too few; three to four seems to be the sweet spot. More than that number is probably a waste of time and money, and may even draw some negative responses from those individuals who may feel harassed. It is unlikely that you will encounter phone numbers in the court data, but if you do, consider yourself lucky, and call! I will give you 18,000 reasons to make a call, as presented in the case study, in Chapter 5.

Back to the letters, which will be 99.8% of the contact attempts that you will make. In the first letter, I recommend a soft approach. Rather than addressing the issue of the decedent’s passing (which may trigger some negative response from the proposed administrator/heir), the preference would be to simply state that you are looking for a property in their (estate home’s) neighborhood, and you would be happy to discuss the matter with the administrator—period. The letter does not have to be long or dramatic, but it must convey the simple message that you are interested in the property. Follow-up letters should refer to your prior contacts (i.e. “I previously sent you a letter in April to discuss the property at ...”) and simply reaffirm your interest. If the seller is interested, they will contact you. If not, don’t fret; move on to the next opportunity. Like all sales efforts, this is a numbers game—the more contacts you make, the more deals you will close.

### **VERIFY THE INVENTORY**

Once the seller confirms his/her interest in selling the estate property to you, your homework has just begun. First, verify that the administrator has been appointed by the court. Confirm that the will, and codicils, if any, have also been admitted to probate.

Next, you must verify what the probate referee’s value is, so that you are negotiating a deal that can be approved. Remember, an

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administrator with full authority must sell at not less than 90% of the referee's value. If you try to get too cute and extend your profit margin by going below that 90% threshold, your greed may lose the deal for you. Below that 90% mark, the sale would then need to be approved by the court. Approval by the court necessitates a hearing at which other investors may be able to purchase the property. I will discuss that issue in greater detail, in Chapter 6.

### **RESEARCHING PROPERTY VALUES**

If you are a novice investor, or anything less than a skilled savvy one, you will need to master the art of property valuation. This skill is not difficult to learn, but you must use the proper tools. If you are a real estate agent, or are a friend or an associate of one, ask the agent if you can gain access to the Multiple List Service (MLS), which provides data on all local sales handled by members of the MLS. Notice I didn't say *all sales*, because the MLS does not cover private party transactions, foreclosure and trustee sales, and the like. A better database would instead be provided by a local or national real estate information service. Data Quick is one, for example, that was acquired by Core Logic a couple of years ago. The best (and least expensive) advice I can provide is to contact your local title representative, who should be able to establish at least limited service for you. For those of you who attend local REIC (real estate investment club) meetings, you should be able to locate a title representative or similar provider at your meetings. At work, my primary sources of information are provided courtesy of Chicago Title (Thank you, Dawn Ginter!), and Ticor Title (Thank you, Ryan Orr!), which are fantastic and indispensable tools that I use daily.

The internet is chock-full of valuation sources, such as Zillow, Redfin, Trulia, Realtor.com, and so forth. Many of these services are good, but they use their own algorithms to establish their values. By using the databases discussed in the prior paragraph, you can better determine your values by comparing age, size of the structure, lot size,

room count, and sales prices. Again, this is not a difficult skill to master, but it is certainly a necessary skill. Do remember that when dealing with probate properties, lean more heavily on the lower side of value. The reason is apparent. When working with probate properties, most were owned by elderly people who, due to age or lack of physical mobility, were for the most part unable to maintain their homes as well as they did in their younger days. Typically, these homes have much more deferred maintenance than the average home for sale. You should anticipate this scenario, and offer less. Once you have seen or confirmed the actual condition, you might (at that time) adjust your bid price.

## **CHAPTER SUMMARY**

By gathering probate data directly from the court, you will have an invaluable early advantage over your competition, and provide yourself the first opportunity to bid on estate properties for sale.

Gathering the requisite information is not difficult, and can be obtained easily and cost effectively. Because of the cost, this information is often better obtained at the courthouse itself than online. It is important to review the will and codicil, if any, to understand the impact over the decision makers during probate. Be certain that the will has been admitted by the court. Then, contact the appropriate parties, and begin submitting purchase offers. Make at least a few attempts to contact these individuals, as not everyone will respond immediately. Once you have made contact with a potential seller, verify the value and debt of the subject property, to ensure that you have a deal. Having access to real estate valuation tools is vital to your success. If you do not have access to these valuation tools now, it is a rather simple process to acquire them.

Ready to see how to make money? The first case study is in the following chapter.

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## **CHAPTER 5**

### **THREE WAYS TO PROFITS – WHOLESALING**

#### **WHOLESALING**

Wholesaling real estate entails getting a property under contract and then flipping that contract to a third party, for a profit. You need little, if any, money to wholesale, because you typically never end up buying or owning the property. The key is getting to the position where you control the property, not necessarily own the property. My purpose here is to introduce this concept to you, not necessarily teach you the mastery of this concept. There are many other real estate instructors who do a great job of this. For more specifics in this area, research the subject online, or better yet, join a local REIC group, and learn how wholesaling is done in your market. The reason you, or anyone, would want to wholesale a property is so that you can make a quick profit. To better illustrate this method, I will tell the story of how two of my students made \$18,000, quickly and easily, without risking any of their own money.

#### **CASE STUDY – WHOLESALING IN ORANGE COUNTY, CA**

Bertha Rae and Steve are two of my students who happen to live in Orange County, California. For those of you unfamiliar with the area, it is one of the more pricy areas in higher-priced Southern California. Although it may be more difficult to make money in a more expensive and competitive market, Bertha and Steve did so!

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One day, while obtaining probate data in court, they noticed that this one file had just been valued by the probate referee. The property was a small, two-bedroom condo in a complex designated for individuals aged 55 and up. Nothing fancy here: basic housing for folks hitting or approaching their retirement years. The decedent had passed six months previously, just as values were starting to rise. The referee provided a value of \$200,000, which was realistic, six months prior. Do you remember my discussion of the valuation being done as of the date of death? Well, Bertha and Steve did remember. A comparable unit in that same complex had just closed escrow the prior week at \$299,000. They called me for advice, knowing that they were on the verge of a good deal. An extra fortunate fact was that the administrator's phone number was in the court file. They called the administrator, who lived out of state, and indicated that they were interested in the condo. The administrator knew that the referee's value was \$200,000, but also knew that the market was improving. He negotiated a sale price of \$210,000, while accepting my students' request for a 90-day closing. Why? Because Bertha and Steve needed time to flip this contract. Since the seller was making \$10,000 additional, he agreed to the delay.

Not having the money to close the deal on their own, Bertha and Steve went to their local REIC meeting, where the president of that group made them an offer of \$228,000 for the contract. Escrow was opened, and 30 days later, the administrator had his \$210,000, Bertha and Steve had their \$18,000 (\$228,000 less \$210,000 to the seller), and the buyer had a condo. Once repaired, it was worth at least \$299,000, but acquired for a tidy investment of only \$228,000.

You see, wholesaling works because everyone wins! The out-of-state administrator made \$10,000 over and above what the probate referee valued the condo, without leaving home nor having to do any repairs. The students proudly shared photos of their \$18,000 check with me, earned simply for being the middle people in this transaction. The buyer stood to make a good profit, as it probably only cost an

## *Three Ways to Profits – Wholesaling*

additional maximum of \$10,000, on top of the \$228,000 purchase price, to completely renovate the condo for resale.

### **THE SHOTGUN APPROACH**

A successful wholesaler is constantly looking at properties to see whether there is a potential for profit; thus, the reference to the *shotgun* approach: just as a shotgun burst is spread wide, over an extended area, so is the search and vision of a wholesaler. There may be certain areas, known in the industry as *war-zones*, where you would NOT want to do a fix and flip, or hold a property for rental purposes. Your investment dollars will quickly disappear, sometimes right before your eyes! However, you may be able to wholesale a property here, or in other less desirable areas, such as mixed use industrial, or next to railroad stations or major highways. Since a wholesaler typically does not take title to these types of properties, but rather passes the contracts onto others in quick fashion, there is no ownership risk in dealing with said properties.

Naturally, you will concentrate your efforts for wholesaling properties, in the better, more profitable areas, in a county or counties in which you do business. However, since wholesaling does not require ownership, you have no risks in less desirable neighborhoods, so don't hesitate to look for wholesaling opportunities elsewhere. Discontinue these efforts if you are spending too much time pursuing these less valuable leads, and not giving yourself ample opportunity to succeed with some of the nicer and probably more profitable properties that you run across.

### **I DON'T NEED MONEY? CORRECT!**

Perhaps the single, most important reason to pursue wholesale opportunities is that you do not need to have a wad of money in your pocket, nor in your bank account. Remember Bertha and Steve from our case study—they put \$0 out of their pocket to secure their

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transaction. In some jurisdictions, you may want to shell out \$10, perhaps even \$100, to make the transaction appear more legally binding to the seller. In legal terms, this is referred to as valuable consideration.

Again, it is not necessarily a requirement to pay a token sum up front to the seller. Rather, I would agree that it is a psychological maneuver, more than anything, to show both sincerity in your offer and provide the seller the need to comply with the sale.

You could, of course, offer a larger down payment, open the purchase agreement by means of an escrow arrangement, etc., but on lesser priced properties, this may not be necessary. On the other hand, if you have a really good deal in hand, especially if it is a nicer property in a more upscale neighborhood, you should opt for the additional safety of a more formal contract/purchase agreement, and establish a standard arrangement, as is typical in your region. It is clearly better and safer to enter into a more formal contract, especially when a larger financial reward is at hand.

### **PRIMARY CONTACTS – REIC MEMBERS**

Once you have contacted administrators and heirs, and have agreements to purchase their properties, where can you sell your contracts? The first of two primary answers I will supply you with, is at your local Real Estate Investment Club. At some of the larger club meetings, you will have the opportunity to interact with hundreds of like-minded investors. Many of these will be eager novices, perhaps like you, with limitless ambition and desire to learn everything. Others will be highly skilled and experienced investors who have mastered their skills over time. These latter individuals will be the most likely purchasers of your wholesale contracts.

One of key concepts you will need to learn is that you must have your contract in writing to be valid. In real estate, there is no such thing

### *Three Ways to Profits – Wholesaling*

as a verbal contract. Try it sometime, and you will lose. Do not approach any of these seasoned investors with a verbal contract, as they will snatch the deal from you. How? Once the investor knows the address of the property, he or she might contact the seller directly and negotiate a slightly better deal for the seller, which will leave you outside in the cold, looking in at the deal you just lost. How do I know this? It nearly happened to me, once. A listing had just expired, and I legally negotiated a contract with the seller. I foolishly let slip the contract price, which was substantially lower than what the expired listing agent had been working with. She, being the clever professional, went back to her previous proposed buyer, and attempted to secure a better offer than mine, prior to the official acceptance of my contract. When I got wind of her efforts, I immediately wired my deposit to the seller to officially place the property under contract. You can bet that I will never make that mistake again, and I don't want you to, either!

#### **SECONDARY CONTACTS – LOCAL FLIPPERS**

The second group of individuals most likely to purchase your wholesale contract are local flippers. In almost all communities across the country that I have visited, those are the individuals posting the ubiquitous "I Buy Houses for Cash" signs. These are your local flippers. They make their living by purchasing houses at a discount, and then fixing them and reselling them for market prices.

Undoubtedly, you have seen at least one of the numerous *fix and flip* programs on cable TV. Although these shows portray the fun and profitability of their endeavors, these projects are not for novices without proper guidance. There is one series in particular that I enjoy but masks a critical element of this business.

On this one show (but almost all of the new fix and flip shows neglect this, too), they fail to include the cost of sale. Unless you are a licensed broker working for yourself, you will need to pay a sales

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commission of typically 6% of the sales price to the real estate agent who sells your home. The commission, along with escrow and title services (another approximately 2% of the sales price) must be factored into the ultimate sales price. Fortunately, you, the wholesaler, don't get caught up in this element—but your buyer will. That is why she/he needs a good price—otherwise, there is no money to be made by the flipper.

In addition to the homemade signs that the local flippers hang throughout the neighborhood, you can locate these folks by looking at Craigslist, among other free advertising venues. Many communities have White Pages, Green Pages, or similar weekly free publications (usually found outside of supermarkets or convenience stores) in which local rehabbers run ads. These ads are sometimes free, or very inexpensive.

One of my favorite ways to locate the local *movers and shakers*, takes some effort, but can be extremely valuable. In Chapter 4, I discussed the value of obtaining a title company contract.

Provided that you have made this connection, you can ask the title company for a *farm report* (or whatever the local terminology may be), and identify all individuals and/or companies (LLCs and partnerships are included) who have purchased multiple properties in the past year. Active investors will have several transactions to their name. This information is in the public domain, so there is nothing illegal or nefarious about obtaining it. This information does prove who is active, and will provide you a limited but real list of active players in your designated marketplace. I have seen some real estate *gurus* attempt to sell this basic information for up to \$2,000—but I just gave you this method for free!

## **CHAPTER SUMMARY**

Wholesaling is an excellent method to make money in real estate, which does not require having a substantial sum of cash. Rather, it relies on your ability to get a property under contract for little if any money, and then flipping that contract to another investor. To be successful, however, you will need to contact many probate administrators and heirs with properties to sell. I referred to this approach as the *shotgun* method. It may be labor intensive, but the results will reward you for your efforts. The best way to find buyers for your contract is usually through one of your local Real Estate Investment Clubs (REIC). These groups bring together investors of all skill levels, and provide excellent opportunities to mingle with some of the most successful investors in your region. For an additional source of qualified potential buyers, obtain a list of active buyers and sellers in your area. These lists are readily available through your title company representative. Between your contacts at the REIC, and your list of the most active investors in your area, you should have little, if any, trouble selling your wholesale contracts for good profits.

In the next chapter, I will teach you another profitable step to make even more money than what wholesaling provides.

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## CHAPTER 6

### THREE WAYS TO PROFITS – RETAILING (FLIPPING)

#### RETAILING

Everyone has seen at least one *flipping* show on television, right? They seem to be on day and night, and on several different networks. The actors and producers make it seem so easy to make money fixing and flipping homes. Well, my answer is yes and no. If you buy the property for the right price, and do enough (but not too much) improvements, you should make money— provided you are in the right market, at the right time. If not, you will quickly join the legion of “*you can’t make money in real estate*” non-believers, and quit after your first unsuccessful venture.

There are a few basic rules to be a successful flipper. The first rule of thumb is to not pay more than 65–70% of the ARV (after repaired value) for a home, minus the estimated repairs. Example: If a regular home retails for an average of \$200,000 in your neighborhood, you do not want to pay more than  $\$200,000 \times .65$  (which is \$130,000), less repairs. If you estimate repairs to be \$10,000, then your MAO (maximum allowable offer), in this case, will be \$120,000.

Why must you bid so low? Again, let’s assume you sell the property for \$200,000. At that price, you will typically pay a 6% real estate commission, as well as another 2% or so for your closing costs (title insurance, escrow deed preparation and recording, and so forth). If you borrowed money to purchase and fund your repairs, you are

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probably paying 8–10% per year in interest. In addition to the repair work you estimated before you begin the rehab work, you will probably encounter various additional unanticipated issues, be they electric, plumbing, or HVAC (heating, ventilating, and air conditioning). Using 5% as a proxy for these miscellaneous unforeseen expenses, is reasonable. Additionally, you will have insurance, utilities, and maintenance between the time you acquire the property and the time you sell it. The numbers should look something like this:

Ultimate Sales Price	\$200,000
Real Estate Commissions (6%)	\$12,000
Closing Costs (Title, Escrow) (2%)	\$4,000
Initial Repair Estimate	\$10,000
Contingency ( <i>fudge factor</i> ) (5%)	\$10,000
Financing Costs (10% loan, 6 months interest)	\$10,000
Utilities, Trash (monthly for 6 months)	\$1,500
Insurance, Real Estate Taxes (1%)	\$2,000
Purchase Price	\$120,000
Subtotal	\$169,500

Sales Price Less Expenses = \$30,500, which is approximately 25% of your purchase price.

You can make money, but you really need to know your neighborhoods, comparable values, repair costs, and the like. As one of my favorite human beings (and personal acquaintance), Coach John Wooden, said, “Failing to prepare is preparing to fail.” Don’t be afraid to renovate and flip properties; just take the time and make the effort to learn the basics before you start. I have worked with many successful students, and I want you to be successful, too! The next case study comes from two of my best students.

**CASE STUDY – 12399 OLEANDER AVENUE, CHINO, CALIFORNIA**

Anthony Patrick, president and owner of New Harvest Ventures LLC, ([NewHarvestVenturesLLC.com](http://NewHarvestVenturesLLC.com)) and I go back over 50 years—we are cousins! Our business interactions didn't start until 2008, when both of us were dealing with the hardships that the mortgage melt down had created for real estate professionals in southern California and across the nation. Before long, we were both using our real estate skills to identify and flip properties. Anthony went out on his own in late 2010, and has done an absolutely spectacular job in learning and developing his skills in flipping properties. But don't just take my word for it. You can contact him, and he would be happy to show you some of his handiwork in the Inland Empire and elsewhere in Southern California.

Early in his rehab career, Anthony and his business partner, Scott Chermie, of Meridian Property Group ([MeridianPropertyGroup.Net](http://MeridianPropertyGroup.Net)), realized that probate could be a good niche for them. This fact became more apparent in 2010 and thereafter, as the bank REO property supply nearly disappeared. The three of us went over to the Pasadena, California courthouse, and within a couple of hours I had taught both Anthony and Scott to understand the court data, and to become proficient enough to identify and structure profitable probate transactions.

One of these transactions, which I inspected prior to purchase, was a probate estate property, located at 12399 Oleander Avenue, Chino, California 91710. This home, built in 1964, was a 3- bedroom/2-bath home with 1,350 square feet. The date of death of the prior owner was 6/18/15, and the probate referee's value came in at \$300,000. That was deemed a fair assessment by all involved. Although Anthony and Scott do send out letters regularly, as discussed in Chapter 4, they came across this deal through a personal contact. The decedent's family, still grieving after the recent loss of their loved one, did not want to spend the money and time required to garner a higher price.

## *Probate for Real Estate Investors*

Thus, they sold the property to Anthony and Scott, on October 29, 2015, for \$300,000.

Again, flipping novices need to stick with the rule of thumb, and not pay more than 65–70% of ARV, less repairs. However, once you are an experienced rehabber, you can pay more. In the past few years, in Southern California, the supply of properties has been extremely tight, and demand has thoroughly overwhelmed supply. These buyers estimated that the after repair value would be in the \$360,000–\$375,000 range. With their experience and skill sets, they put approximately \$15,000 into the property, and sold it on 12/15/15, to a cash buyer for \$345,000, netting a profit of \$25,000 in just 5 weeks!

Let's review some of the important lessons here. First, once you understand the basics, let your friends and professional contacts know that you are a probate authority. If you can't answer the basic or complex questions, contact me—that's what I'm here for! By doing this, you will expand your probate contacts exponentially. Next, if the probate referee's value provides the spread, as it did in this case, you might just have a deal, as did Anthony and Scott. Finally, you don't necessarily have to sell the property for top dollar to make a profit. In this case, the ultimate buyer was a cash buyer, who represented himself, and required no real estate commission. Think about the saving factors here—a cash buyer means that you can close now, rather than 30–45 days from now. That means 30–45 days less interest on your financing, property taxes, insurance, utilities, and such. A cash offer avoids the chance (25–33%) that the buyer may not qualify for financing, or may change his or her mind. Finally, a professional buyer does not require a commission in many cases, such as this one. Scott, being a real estate broker, represented himself. However, the 3% commission saved by not having to pay the buyer's agent, translated to over \$10,000 saved in this case—a substantial number. The literal bottom line on this transaction was a \$25,000 profit, or \$5,000 per week. Not a bad week for most of us, right?

## **THE RIFLE APPROACH**

In the previous chapter, I discussed the necessity of the wider, or *shotgun* approach when looking for wholesale deals. When looking for retail (fix and flip) deals or rental deals, you need to use the *rifle* or specific target approach. Whereas many deals with smaller profit margins could be viable wholesale transactions, many fewer deals will qualify as viable retail projects. Why? Simple: You need a much larger profit potential to qualify as a bona fide flip, and then only a handful of the deals out there will offer such profit margins. Remember the rule of thumb: You can pay between 65–70% of ARV, less repairs, and expect to make a profit. Only well-experienced professionals can consistently make money purchasing at prices above these guidelines. Until you have mastered the art of flipping, I strongly recommend that you faithfully adhere to this rule.

Once you have a general idea of where you may want to invest, use local tools to substantiate your suspicions regarding the neighborhood itself. Most local law enforcement agencies have databases that provide crime statistics in their local jurisdictions. Contact them directly, and ask for their help. Another very important factor concerns the quality of local education. Contact the local school districts to see how they stack up against other districts in the county, or perhaps how the local schools rank on a state-wide basis. Some of the larger online real estate databases, such as Trulia, Zillow, and Redfin, have much of this information available for the local properties listed by their respective databases. Check a few properties in your prospective neighborhood, and use whichever information source is best in your particular area.

In addition to the databases that will provide indications of better and worse neighborhoods, don't forget the *old-school* visual inspections. You want to invest in neighborhoods that people enjoy. When you drive the area, do you see well maintained properties? Do you see children playing in the yards or on the streets? If so, these are

often good indications that these are desirable neighborhoods. What you don't want to do is invest in lesser areas that the investment community refers to as *war zones*. How can you visually identify war zones? Let me give you a few examples.

You will see security bars on many doors and windows. In war zones, the houses aren't maintained very well. You will see several broken or boarded-up windows here. The exteriors of the properties will show neglect—several will need paint jobs; many roofs will need repairs. The yards will appear distressed—overgrown or dead (depending on the season), and many shrubs and trees will need trimming and/or removal. You will probably see at least a few non-operative vehicles parked in various driveways, on front lawns, or perhaps on the streets. Excessive graffiti is usually another tell-tale sign of a less desirable neighborhood. One or two incidents of graffiti are not an indictment of the neighborhood, but more than a couple are a bad sign. A final way to decide yes or no, is simple: Would you want a family member or friend to live in the area? If the answer is no, avoid the area at all costs! This is not to put these areas down. Many good, honest, hardworking individuals and families live there. But as far as your investment time and money is concerned, you don't want to voluntarily be there.

### **ACCESS TO MONEY; HARD/PRIVATE MONEY**

Unlike wholesaling, retailing/flipping homes requires some money. You may be fortunate and have access to sufficient funds to flip, or you may not. If you lack the cash on hand, perhaps you own a home with equity. If so, you might either refinance or obtain a home equity line of credit (HELOC), which could help. A more expensive but possibly another solution would be cash advances on credit card(s). Do you have some money in your company's 401(k) or similar retirement plan? Perhaps you could borrow funds from this source, and then repay the funds in full upon the sale of your flip. Better yet, if you have funds in prior 401(k) plans or IRA accounts, consider

### *Three Ways to Profits – Retailing (Flipping)*

opening a self-directed IRA account, and use your tax deferred retirement monies to finance your flipping projects. I have used all of the aforementioned techniques to purchase, repair, and flip properties, and so can you!

In addition to your personal resources, hard money and private money lenders are the typical financing vehicles for rehabbers and flippers. Although commercial banks and credit unions offer more attractive rates and terms, these loans require higher credit scores and verifiable income—factors that eliminate many individuals. Hard money lenders instead rely on the value of the collateral to make the loan. These lenders understand that a typical rehab loan is short-term, often just a very few months. By lending a typical maximum of 65% of the value of the collateral loan, either the investor will finish and sell the property (and pay the lender), or the hard money lender will foreclose upon the property to recoup their loan funds.

Better than hard money lenders, private money lenders offer higher LTV (loan to value) loans at lower prices. Hopefully, you can have a few friends and acquaintances with some money to lend. Once you have proven yourself to these folks, through your reputation or your successful flips, these people will be highly valued and highly likely sources of funding for your projects. How can I justify this? Simple. Typical investment rates for bank deposits today are 2%, or less.

Typical bond yields for US Treasury securities are under 3% as I write, which are low by anyone's standards. You will be surprised how many individuals you know—or will meet in the near future—will be happy to lend you money at favorable rates. How do you meet these people? Some of these folks need to know what you are doing, so self-promotion is one way to find them. Another good way is through the REIC that exist across the U.S.—they work!

## **KNOW YOUR BUYER-OWNER – OCCUPANTS**

When you wholesale deals, you will transact with a relatively limited amount of buyers. When you retail properties, however, you have a substantially larger group of potential buyers. First, you have the homeowner, looking for his or her first home, or perhaps even their second home. Perhaps Mom and Dad are looking for a home for their young adult children, or maybe to get junior out of the parents' home and into his own. If you have the negotiating skills and the savvy to sell your rehab yourself, start by placing a *For Sale by Owner* sign in the front yard (or window, if you have a townhome or a condominium). Trust me, you will get many interested parties from a simple action like that. Unless you are quite knowledgeable about real estate, and have the interpersonal/negotiation skills, you may be better off employing a professional real estate agent.

A professional real estate agent may be the best way to liquidate your property, for many reasons. First, as a licensed agent, she/he should know your local and state laws and regulations, and ensure that your transaction proceeds smoothly and legally. Next, your agent has better marketing tools, such as the MLS, and a stronger, professional internet presence than you or I can command. The agent should be skilled at setting the right price—not necessarily the highest price, but one that will maximize your sales efforts. You will learn quickly that a good agent is worth every dollar of commission that she/he earns. The agent will sift through the many lookie-loos that will come by and through your property, and select the most qualified and highest paying prospect of the bunch.

## **KNOW YOUR BUYER – LANDLORDS**

When I first began to flip homes, I thought that owner/occupants would be my primary buyers. I was wrong. Most of my early flips ended up being purchased by landlords! There is a good number of property owners out there that have no interest whatsoever in fixing

### *Three Ways to Profits – Retailing (Flipping)*

homes on their own, but only want the finished product. You may come across these prospective buyers if you and/or your real estate agent are showing the property. You might also encounter this type of buyer at your REIC meetings. In order to make a sale to these individuals, you may have to present them with a *turnkey* property—one so pristine that all the buyer needs to do is to turn the key, and their new purchase can be rented immediately.

My mentor in the flipping business coined the term *wholesale*, which is a combination of wholesale and retail. Let's say that the exterior of the property is terrible, but the interior is decent. He would suggest possibly doing a good job on the outside to restore curb appeal, and then to sell it immediately thereafter. The logic behind this is that you will make more money than you would on a simple wholesale transaction, yet you will avoid the time and money necessary for the interior renovation. Many first or second-time buyers will jump at the opportunity to save money by doing the interior themselves, because they can take their time on their interior projects. This *wholesale* concept does not apply to many properties. However, if the situation presents itself to you, put some thought into the equation, and figure out if *wholesale* could be your best resolution.

#### **CHAPTER SUMMARY**

Retailing real estate properties, often referred to as flipping, offers substantial paydays for investors. Unlike wholesaling, which requires no money, a retailer will need money to both acquire and rehabilitate properties. You don't necessarily need cash in the bank if you have other assets, such as real estate, or even retirement funds to draw. Don't overlook hard money and private lenders, either. When looking for appropriate and profitable opportunities, you will need to acquire units in more desirable areas. Your retail buyers can be the actual owner-occupant themselves, or they could be landlords looking for a turnkey property to rent. If you have a promising property but perhaps lack the funds or time to complete a total rehab project, you might

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consider the *wholetail* approach, and make more money than a typical wholesale transaction will produce for you.

The next chapter presents the absolute best and most profitable way to make money in real estate— rental properties!

*Three Ways to Profits – Retailing (Flipping)*

**NOTES**

**NOTES**

## CHAPTER 7

### THREE WAYS TO PROFITS – RENTALS

#### WHY RENTALS?

Wholesaling and retailing are great ways to make money in real estate, but they each provide but one payday, and that's it. A good rental property provides income each and every month, and often a huge paycheck when the property is ultimately sold. The latter payoff is typically large because most properties appreciate substantially over time. Additionally, rentals provide benefits that most other investment vehicles cannot provide— the benefit of leverage.

*Leverage* entails the use of borrowed funds to make a larger investment than you could otherwise make, based solely on your cash on hand. With leverage, you can borrow 80–90% or more of the purchase price of the real estate, needing only 10–20% of your own money as a down payment. Because much of this money is borrowed, it then increases your *cash on cash* return, which is the annual cash flow divided by the initial cash invested. Say you purchase a \$100,000 property, using \$10,000 of your own money, and borrow the remaining \$90,000 to make the purchase. For simplicity, let's assume rental income of \$1,000 per month, and expenses of \$500 per month. The net income, \$500 per month multiplied by 12, provides \$6,000 of profit per year. This \$6,000, divided by your cash investment of \$10,000, yields a cash on cash return of 60%! Of course, most investments, real estate or otherwise, won't typically yield this kind of money— but it can!

## **CASE STUDY – 9060 HEMLOCK AVENUE, FONTANA, CALIFORNIA**

One of the primary goals of this book is to teach you about probate. Once you understand the process, you will have the opportunity to make money by contacting the primary probate players. You can also make lots of money by letting your family, friends, and professional contacts know about your newly found probate skills. Once people know that you comprehend probate, many more opportunities will come your way. That's exactly how my cousin, Anthony, who I introduced in Chapter 6, was able to obtain the Hemlock Avenue property. Anthony loves softball, and has been an umpire for various leagues for many years. As part of his love for the sport and his community, his company has sponsored several softball teams over the years. These teams play with their sponsor's logo, New Harvest Ventures LLC, on the front of their jerseys, and the message, "We Buy Houses for Cash," on the back. One day, at one of these games, the owner of the Hemlock property saw the notice, and she contacted Anthony.

The owner's mother had recently passed away. Because the mother had put her daughter on the title as a joint tenant, no probate was necessary after the mother passed, as in joint tenancy, the title automatically reverts to the surviving owner upon the passing of the first owner. The daughter did not know this, but Anthony did. His probate knowledge allowed him to acquire this lead, and make the transaction happen.

The property presented numerous challenges for the daughter. The home had been converted, and had two separate living units, one which was occupied by the new owner's brother. He wanted to remain living in his unit. The other, which had been occupied for many years by a heavy duty cigarette smoker, needed a complete renovation due to the smoke. I did happen to inspect the property, and can attest that the smoke had permeated every inch of this unit.

### *Three Ways to Profits – Rentals*

Because of these two factors—the hold over occupancy of the brother, and the nearly 100% rehab necessary for the other unit—Anthony was able to negotiate a good deal. He was able to purchase the duplex for \$107,000, while simultaneously lining up a rehabilitation loan for \$85,000. Once the *smoker's unit* was cleaned up and rented again, the two units generated over \$2,000 a month in rent, while the total expenses, including servicing the rehabilitation loan, were under \$1,000 per month. Again, once you understand the probate process, and let your social network know, you will have many inquiries and legitimate leads coming your way.

#### **THE RIFLE APPROACH (AGAIN)**

Not every property you look at, and not every lead that comes your way, will be a suitable rental property. You must acquire the property at a low enough price to generate a positive cash flow. A negative cash flow is never an acceptable situation for a novice investor, period! Erase the idea that any negative cash flow situation will be quickly righted, because they usually aren't. If you are not making money up front, you certainly won't be making money once you need a major electrical or plumbing repair, or once you need to replace a heater or air conditioning unit. Trust me—you really don't want to get yourself into a negative cash flow situation. Don't despair, as I am about to introduce the absolute best trick offered by probate investing.

#### **YOUR SECRET WEAPON – ESTATE FINANCING**

Too many individuals are one dimensional when it comes to investing. If the price is not low enough, they get upset and move onto the next target. Price, however, is not the only piece of the equation. Financing is very important, as well as working capital necessary to complete the project. You might negotiate the best price for the property, but lacking the requisite financing and working capital, your only recourse would be to wholesale that deal to another investor. These are two crucial factors as to why you should seek and obtain

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financing for your probate purchases:

- A) There are many probate properties that are owned free and clear.
- B) Current interest rates still remain near historical lows.

In a Zillow report, entitled, “Free and Clear American Homeowners,” written by Nalina Varanasi, 1/9/2013, there is a treasure-trove of important data. This data, from the 3rd quarter of 2012, provided the following:

1. Approximately 33% of all US homes are owned free and clear.
2. Approximately 41% of all US homeowners, aged 65–74, own their homes free and clear.
3. Approximately 63% of all US homeowners, aged 74–84, own their homes free and clear.
4. Approximately 78% of all US homeowners, aged 85+, own their homes free and clear.

So, if the average life expectancy in the US is 78 years, 63% of these homeowners have no real estate debt for themselves or for their heirs to inherit. An heir inheriting such a property can sell it for cash and then earn the paltry sum of 1–2% per year in the bank, possibly less, on the net amount of sale. On a \$100,000 sum, the annual interest is only \$1,000, or a measly \$83.33 per month. That won’t cover a daily meal at a fast food joint! I hope the heir that just sold the home doesn’t go and plan that round-the-world trip just yet! However, what if you could increase that heir’s interest rate fivefold, and help yourself in the process?

### **HOW TO SUCCESSFULLY OBTAIN ESTATE FINANCING**

If most people, nationwide, die when they are in their 70s or 80s, then it figures that their children, or heirs, should be in their late 40s to early 60s. Many of these adults already have their own homes, so any real estate they may inherit will amount to an extra home. For

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these heirs, their inheritance is not necessarily the home they've been waiting for, but rather represents an additional sum to add to their retirement plans.

When you contact these people to purchase their home, do not start out with a low offer. If you do, you most likely will insult them, and ruin any opportunity of doing business with them. Over 30 years ago, I began my real estate career as an REO manager. Many eager investors would contact me with low ball offers that insulted me. Yes, I shouldn't have taken it personally, but I did. Likewise, most of these individuals receiving unsolicited low offers will be offended and will categorically reject the offers.

If you wish to make progress with these folks, change your approach slightly. Instead of making a specific low offer, ask the seller what price range they are seeking. If their response is ridiculously high, thank them and go onto the next property. However, if you are within a reasonable range of their proposed price, stop right there and assess the situation. If you were to offer, say 10% down, with the seller carrying the balance of the loan, could you make money?

Let's look at the simple situation that is reflective of what is happening in Southern California (Inland Empire) today. A property has an estimated value of \$300,000. Most low ball buyers are offering \$200,000 (or less), which is not acceptable to the seller. You offer \$270,000, with \$20,000 down, and the seller carrying the loan at 5% for 30 years. Under this scenario, your monthly payment would be \$1,342.00. Local rents start at \$1,800 per month, so by structuring your offer in this manner, you can make money. If the seller were to sell for \$250,000 in cash, and earn 1% on his or her bank deposit, she/he would make \$2,500 per year. With your deal, the seller makes over \$12,400 in interest the first year. Let the math and benefits of the seller carry-back help you sell your proposal to the probate seller.

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You can improve your deal in several ways. One, you might be able to negotiate a better price. You might also be able to negotiate a lower down payment (to preserve some cash) and/or a lower interest rate to enhance the transaction. I know of some investors who negotiate 0% deals— difficult perhaps, but not impossible.

There are additional important reasons to pursue estate financial deals. Unless you are a multimillionaire, you cannot pay for all of your investments and rehabs in cash. With Dodd- Frank legislation still in place, each and every bank loan you negotiate will require proof of income and credit verifications. Fannie Mae and Freddie Mac, which often purchase loans from banks and mortgage brokers, arbitrarily limit the amount of loans to any investor at four loans. These government sponsored enterprises (GSE) effectively shut down your borrowing abilities from banks and other financial institutions once you have four loans. You do not have any income, credit, or GSE issues by obtaining estate financing, because these transactions are generally not reported to the credit bureaus, nor are they subject to regulation from Dodd-Frank.

### **KNOW WHEN TO HOLD 'EM, KNOW WHEN TO FOLD 'EM**

I love negotiating real estate deals, having done over 2,500 so far, over my 30+ years in real estate. Regardless of your skill level, there are some people out there with whom you will not be able to conduct business. It is not you but they who are the problem, for numerous reasons, too many of which to recount here. Nevertheless, after you have done everything in your power to make a viable, profitable transaction work, and you still get rejected, walk away. There are plenty of deals out there—don't go against your better judgment just to get a deal that probably isn't really a good deal.

## **CHAPTER SUMMARY**

Good rental properties are the best way to amass wealth in real estate. Unlike wholesaling or flipping, which provide but one payday, good rentals provide profits each and every month, and often spectacular returns when they are sold. You must select your prospects wisely, as you will be holding these properties for years to come.

Make sure that your professional contacts, family, and friends know that you are a real estate investor, specifically with probate knowledge. Sooner rather than later, deals will come your way, as will the related profits those transactions offer. Not every lead will be from an existing probate case—some may emanate from closed cases, while others may come from trusts or other types of real property transfers. Regardless, one of your best opportunities to make money may come from estate seller financing, which does not require income or credit approvals. Estate financing does require good communication skills to demonstrate to the seller the value of selling their property to you, while they earn a better interest rate than what the banks are currently offering depositors. Finally, not every deal offered to you is a good deal. Stick to your selection criteria, and you will be successful.

Interested in more ways to make money from probate estates? The next two chapters will provide several opportunities.

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## CHAPTER 8

### ADVANCED PROBATE TOPICS

This chapter covers several important topics that I want you to add to your intellectual arsenal. By understanding and then applying this knowledge, you will enhance your opportunities to make money from your newly acquired probate skills.

#### **SMALL ESTATES**

Not all probate estates are condemned to a lengthy existence. Many states, including California and Oregon, offer a separate small estate probate process if the estate assets total \$150,000 or less. In Arizona, you qualify if the net estate amount is under \$100,000. In these situations, the personal representative files the petition. However, provided that the inventory is complete and either 1) there are no credit claims or 2) any claims are resolved, then the small estate can be closed in as little as 60 days. This knowledge is crucial when prospecting in areas with lower values, such as rural areas or desert areas with primarily lower cost homes. You may encounter personal representatives and heirs who are in need of funds, but are discouraged by the misinformation that the estate process is both costly and lengthy. With your new knowledge of the small estate probate process, you will be able to assist these people and enable them (and hopefully you) to realize money from the estate much more quickly and easily than initially anticipated.

## **ANCILLARY ESTATES**

You may remember that a probate estate is filed in the county and state of the descendant's primary residence. But what happens if the decedent owned real or personal property outside the state of his or her primary residence? A second estate is required. The out of state assets must be dealt with in the county having proper jurisdiction, thus the necessity of the additional probate estate. Usually, any funds generated by the liquidation of these ancillary assets will be paid back to the primary, or main estate. Because of this concurrent resolution of assets, you may be presented with additional money-making opportunities.

In many cases, these out of state real property assets were inherited from parents or grandparents. The personal representatives and/or heirs are often unaware or unfamiliar with these properties. As soon as you learn of the existence of an ancillary probate, quickly review the pertinent court records, and see if there are any assets of your liking. I can assure you that most investors, even self-proclaimed probate experts, are not aware of these additional ancillary probates. Most investors do not know how to pursue these opportunities, and will lose out to you, recently equipped with this additional information.

## **DEALING WITH EXISTING LOANS DURING PROBATE**

Mortgage/deed of trust loans and reverse annuity mortgages (RAMs) have an important yet often misunderstood place in probate investing. I will review a few crucial points to help you avoid some serious problems. First, the lender does not care that their borrower has died; the lender still requires its monthly payment. I cannot tell you how many people assume incorrectly that no post-death payments are necessary, only to lose the estate property a few months later to foreclosure. If you are the personal representative, it is your responsibility to know; if you are a family member, it is highly advised that you contact the lender ASAP after the decedent's passing and

## *Advanced Probate Topics*

determine any payment requirements. If you lack the funds to make payments, you can contact me and my company, Approved Inheritance Cash, at [www.approvedinheritancecash.com](http://www.approvedinheritancecash.com), and we will provide interim funding for you. I will further discuss the value of AIC to you, in the next chapter.

Reverse mortgages get their name because they function almost the opposite of a regular mortgage. Instead of requiring monthly payments, these loans do not. No principal or interest payments are expected (but taxes and insurance payments are required). Some RAM homeowners actually receive monthly payments from their RAMS. However, once the home owner either dies or moves out of the property (say to a convalescent home), that loan becomes due and payable, typically within 6 months of either death or moving out. Again, too many people assume incorrectly that no action is necessary, only to find the estate property in foreclosure shortly thereafter.

Some personal representatives and estates will encounter these problems. Should you come across these situations, you now know what to do. Contact the appropriate party, and make an offer to purchase the property before it gets into foreclosure, after which time every real estate investor in your county will know about the property. Although a lender can foreclose on either a regular mortgage/deed of trust loan or a RAM, there is one huge difference. On the former, you may be able to reinstate the loan, thus bringing it out of foreclosure, by making up the back payments. Often, this amount is not that large—a few thousand dollars or less. A RAM needs to be paid in full, as the loan in its entirety is due. There is no reinstatement available—it is all or nothing. You must structure your investment offers with these critical points in mind.

The estate attorney, if she/he is knowledgeable and skillful, can often *buy* time for the estate, and often negotiate an extension with some lenders. Note that I said *some* lenders. I have seen shameful and reprehensible actions by a few lenders that have unnecessarily

foreclosed on properties with extremely low balances, and others who have deprived widows and disabled people of their homes, with scant concern of their situations. Please do not assume that the lenders will work with you. Some will, but a few lenders remain oblivious to the plights of the heirs, who become collateral damage as a result of the resulting foreclosure.

### **INCREASE YOUR ODDS – LONG DISTANCE LOVE**

Many decedents, especially in the Sun Belt states, lived part of the year in winter retirement communities or away from their close family. Many of these *snow-birds* migrated to warmer climates starting in the fall, and lived in these regions until at least the early spring, at which time many of these folks would return to their original homes. The issue is that when these individuals pass away, their immediate families are often hundreds if not thousands of miles away.

This situation may provide another opportunity for you and me. After you have contacted the immediate family, and determined that they are at a considerable distance from the estate property, you might *offer* to clean out the property for the family—at a reasonable fee for yourself, naturally. Use this situation to befriend the personal representative, as this may give you a strong advantage to be the winning bidder to purchase the real property. If you are unsuccessful in obtaining the real estate at your price, you still may be able to make some side income by winning the clean-up job. Who knows—in addition to some interesting antiques and collectibles, you might locate small caches of cash, hidden in various areas throughout the home. I am aware of several incidents of individuals finding cash in such a manner.

There is another common phenomenon that I must point out to you. This may also generate similar advantages to those investors who know how to deal with this situation. For lack of a better term, I call it *The Great Depression Syndrome*. I have seen this problem first hand

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(and am actually having to deal with it as I write this), and have commiserated with literally hundreds of my probate customers over the years.

Both sets of my grandparents were married during the Great Depression (1929–1941). My parents were born during this period. It is extremely difficult, if not impossible, for the younger generations to understand this concept, but in simple terms, people who lived during this grim era have trouble parting with anything of value, as worthless or little as the value may be. For example, no old appliance, cup, saucer, glass, blouse, or shirt is ever disposed of. Every closet is jammed tightly with items that have not seen the light of day in years. Closets are full of clothes that went out of style a generation ago, if not longer.

Yet in every problem there is some hope. Again, many decedents lived far from their heirs. When you see a situation such as that which I have described, don't demand that the house be squeaky clean before you make an offer. Start the communication as soon as you can, and if you are in a position to do so, offer assistance in helping the family deal with this accumulation of several decades. Think outside the box—extend yourself to the decedent's family, and you should see your opportunities to acquire properties multiply.

The opportunities to make money in real estate are endless. I prefer to think as an investor, and seek the traditional wholesale, retail, and rental situations. However, you need to not stop there. I had another cousin who incurred a rather lengthy stretch of unemployment recently. When he learned of vacant probate properties, he contacted the administrators and offered his services for yard work and pool maintenance. Additionally, if you have skills as a roofer, painter, or general contractor, you too could contact the probate representatives and offer your services.

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There are many other services that are of particular benefit for probate estates. Moving services, and hauling, immediately come to mind. Often, the decedent had an older vehicle that is not in running condition—perhaps towing services will be required. For estates that may need to deal with liquidating antiques, be it furniture or jewelry, individuals who have specific skills in these areas can solicit the work to help the personal representatives with these specialties.

### **PERSONAL PROPERTY PROFITS**

The primary purpose of this book is to educate you to become successful probate real estate investors. Having said that, there will be additional opportunities to make money by means of the personal property in the estate. The most valuable and most common personal property items will definitely appeal to most middle-aged males. These are motorcycles, autos, and guns. I mention these items because I see them frequently when reviewing probate inventories and appraisals. The probate referee will attribute values to these items, but my sense is that said values are established in a rather cursory manner, and may provide aficionados of these types of assets, with additional opportunities to profit. While reviewing the estate inventory, see if any of the personal property items pique your curiosity. If so, contact the personal representative and/or estate attorney, and verify that these assets may be sold to a third party, such as you. Even though, many times, these assets are distributed to one or more of the heirs, those recipients may be inclined to sell them if the price is right.

### **ABANDONED PROPERTY**

It is not commonplace but, at times, estates do abandon property. Typically, there will be lots in rural or resort areas, in which the personal representatives claim that they have made efforts to liquidate properties, only to find weak values or weak markets for which they cannot find a buyer. Conversely, more frequently, I see estates abandoning personal property items, such as inoperable

automobiles, boats, and other recreational vehicles.

Again, I realize this is not for everyone. However, as I have discussed earlier in this chapter, by helping a personal representative or family member remove or eliminate unwanted items, you may make a new friend, and often may obtain some leverage in making an offer on the main estate assets, picking up the listing on the estate home, and so forth.

## **CHAPTER SUMMARY**

Not every probate estate process is the same. Small estates enable the personal representatives and heirs a fast track approach to deal with their estates, which can be resolved in as little as two months. Ancillary probates, which deal with out of state assets, have a life of their own, but generally flow back into the main estate upon termination. Dealing with existing mortgages and loans during probate can be an esoteric process, but a crucial one, which can lead to successful or disastrous and costly investment failures.

There are several social situations that can also provide opportunities to probate investors. Retirees, who maintain two households (one in a colder climate, one in a warmer one), often become *snow-birds*, and migrate seasonally. Often, they accumulate excessive amounts of belongings in both residences, driving their heirs to despair. If you can spot these special cases early on, you may greatly increase your chances at landing these properties when they are sold. Not only might you obtain the property, but you may also increase your earnings by helping to clean up the property for its disposition. Be sure to not overlook personal property or certain abandoned assets, if you have such an interest.

Ready for some financing tips? Chapter 9 awaits!

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## **CHAPTER 9**

### **FINANCING PROBATE, AND OTHER HELPFUL TIPS**

#### **WHY IS PROBATE FINANCING DIFFICULT TO FIND?**

Finding financing during the probate process can be a difficult feat. Why? For starters, the property owner is deceased. Most people, including most lenders, do not understand the probate process, or recognize who the responsible parties are (but now, you do!). Conventional lenders, be it a bank or other mortgage lenders, typically do not lend to non-natural entities, such as a probate estate or trust. These lenders usually bundle up their loans, and sell them as a pool on Wall Street. The Street likes homogenous products, loans included, so loans made to administrators or executors do not meet this criteria. Instead, if you require financing during probate, you will need the services of a specialty finance company, such as Approved Inheritance Cash (AIC).

#### **HOW PROBATE FINANCING CAN HELP YOU**

Approved Inheritance Cash ([approvedinheritancecash.com](http://approvedinheritancecash.com)) is a niche finance company that specializes in probate matters. This niche has been my livelihood for over the past 23 years. Over this time, I have completed over 5,000 probate transactions alone, and reviewed an additional 5,000 during that period. I have no problem discussing probate matters with the expertise and knowledge that the years have provided me.

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So how can AIC help you? I am thinking of numerous ways, so let me list several:

1. Help keep the existing mortgage current
2. Bring the existing mortgage out of foreclosure
3. Pay current and/or delinquent property taxes
4. Provide home improvement to enhance the sales price
5. Provide funds to assist an heir(s) or tenants to move out of the estate home, so that it can be sold;
6. Assist with the estate legal fees; and many more reasons too numerous to list here!

The concept is simple: Neither you nor the heirs necessarily need to use your cash to pay for the above referenced items; you can use AIC's cash! AIC can provide cash to personal representatives and heirs directly. Essentially, AIC is providing the heirs with some of their inheritance now, so that various problems and expenses can be resolved now, rather than later. If, for some reason, AIC cannot assist you, it has numerous connections, not only in the financial world but in the legal world as well.

### **THE RELATIONSHIP BETWEEN PROBATE AND TAX DEED/LIEN SALES**

Tax deed and tax lien investing also have important ties to probate investing. In brief, tax deeds and tax liens represent unpaid property taxes, and are sold by governmental entities (usually individual counties) to recoup these unpaid taxes. In tax deed states such as California, the property owner can lose his or her property if they fail to pay their taxes for 5 years. In tax lien states such as Arizona, the owner can lose his property in as few as 4 years. In addition to probate investing, I invest in tax deed and tax liens, and have a huge advantage over the competition through my knowledge of probate.

When reviewing the lengthy rolls of tax deed and tax lien properties, I look for those that have the word, *estate*, in the listing. If

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the word, *estate*, is used, then obviously we have at least one deceased party involved. By my thinking, the word, *estate*, is an important clue, which signifies a higher probability that I might ultimately pick up the property. Why? If the subject property is currently in probate, or has recently been through probate, obviously there has been a change or there is a change of ownership in process. The decedent's assets are being split up—real and personal property alike. The heirs and beneficiaries are often less financially strong than the decedent, so there is a real chance that they will need or want to sell the real property. My opportunities as a tax deed/lien investor, and as a financier at AIC, are enhanced as a result of probate.

### **DEVELOP RELATIONSHIPS WITH REAL ESTATE AGENTS**

If you are an active investor, you already know the value of having relationships with real estate agents. They can provide you with the industry information, such as access to the Multiple List Service (MLS) and other data sources not readily available to the general public. Additionally, good agents are constantly getting the inside scoop on new and potential listings in the area. It would be very difficult, if not impossible, to be a successful real estate investor without the assistance of one or more local agents.

As you contact your probate leads, you will quickly realize that many personal representatives and heirs do not and will not deal directly with investors. Fine, there is not much you can do about this. But what if these people need help selling the estate property? In some jurisdictions, you may be able to receive a cash referral fee for providing these seller leads to your real estate agent/associate. If your state frowns upon or forbids cash payments for referrals, perhaps you can *trade* MLS access, office space, or assistance with your mailers, for your listing leads. Be certain to remain within the local legal restrictions, but if you pursue probate sellers, you will soon enough encounter these opportunities.

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Over the years, I have worked with hundreds of real estate agents. When teaching them about probate, I strongly suggest that their first contact with a potential probate seller be on the *softer* side, and advertise their sales skills rather than investment interests. This should enhance the opportunity to open communication with the potential sellers. Remember, agents are constantly looking for business. If a letter is written in a manner of seeking a listing rather than purchasing the decedent's property, you probably have a better chance to establish contact with the personal representative or heirs. Contacts lead to deals, or possibly listings.

### **DEVELOP RELATIONSHIPS WITH PROBATE ATTORNEYS**

In a similar vein, when you contact a probate attorney, focus on what you can offer the attorney, not vice versa. Probate attorneys receive numerous letters every year from real estate agents and investors, touting how wonderful they are. If you truly want to stand out from the masses, you will need to develop a message that will resonate with your audience, and win their attention.

You can impress the attorneys with your knowledge and your services. For example, recently, I was working on two situations at AIC where family members needed money to move. Of the two attorneys handling the respective probates, neither one of them was aware that there are money sources available. If you were involved, you could be the bearer of glad tidings to these attorneys, help their clients move, sell the estate property, and close the estates more quickly.

Another way to get noticed is through my prior suggestion of offering a cleaning/hauling/property preparation service. Again, I am not suggesting that you establish a side business in order to obtain probate properties. Rather, if you can provide probate attorneys reliable contacts that can assist them and their (often) distant clients, to do some of the dirty work involved with cleaning out and preparing typical estate properties for sale, you will be rewarded. I can tell you

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story after attorney story about the utility and value of having a source that can assist in these areas. This is *thinking outside the box* at its finest.

### **DEVELOP RELATIONSHIPS WITH FIDUCIARIES /CPA'S/FINANCIAL ADVISORS**

This final group of professionals, likewise, can provide possible invaluable contacts in the probate world. Fiduciaries are individuals who handle financial assets and/or responsibilities for others. In the case of probate, these individuals are often appointed by the courts to act as the personal representatives of estates. This usually happens when the heirs cannot agree amongst themselves who the administrator should be. To break the deadlock, one or more heirs can recommend a fiduciary to the court to be nominated as the administrator. Or, sometimes, the court suggests a fiduciary to the heirs, in the hope of resolving the infighting.

Regardless as to how they become involved in probate, fiduciaries will have the same responsibilities that other personal representatives do—to garner the estate assets, and to liquidate them for the best price possible. If you or your team can gain their attention, you may have found another way to get your foot in the probate door. The CPA/accountant part of this connection may have existed with the decedent prior to his/her passing, or this *nexus* may exist through the estate attorney or fiduciary handling the estate. Don't be afraid to knock on doors to chase business, but it does help if you have more than one sales pitch to make these proposals.

### **CHAPTER SUMMARY**

Obtaining financing during probate can be challenging, but it doesn't have to be so. Approved Inheritance Cash is a specialty finance company, which provides money during the probate period. Amongst the many problems I solve on a daily basis are: helping with mortgage

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payments, reinstating foreclosures and delinquent taxes, and providing funds for occupants to move. If I can't help you, I probably know someone who can.

Probate has some special connections to other types of real estate investments, such as tax deeds and tax liens. Often, the reason that the taxes are delinquent is that the owner is deceased. If you can see the problem, you can solve the problem, and make some good money in the process.

Real estate agents, attorneys, and often fiduciaries are additional important parties during probate. The better your connection to these individuals, the more successful your investing efforts will be. Be certain to treat these individuals with respect, especially in regard to their time, to enhance your chances of making a positive impression, and hopefully, a positive connection.

So now, when are you closing your first probate deal?

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## **CHAPTER 10**

### **CONCLUSION – ON TO YOUR FIRST PROBATE DEAL**

#### **PROBATE WORKS EVERYWHERE, REGARDLESS OF MARKET CONDITIONS**

By now, hopefully, you are excitedly looking forward to your first probate deal. Yes, there was a substantial amount of probate knowledge provided throughout this book, but it is there to help, not overwhelm you. Probate investing works everywhere because, unfortunately, people are dying everywhere. Whether the real estate market is up, down, or sideways, personal representatives and heirs will be selling properties and other assets, and investors will be purchasing those assets. This factor has become more pronounced in the past few years, immediately after the last national real estate crisis. New home construction hit the skids after 2005. After hitting bottom in 2011, construction is still well below 2005 levels. Fewer new homes creates more demand for older homes. It is no wonder then that the Home Depot and Lowe's both continue to expand. You, too, can profit from this trend—probate properties can and should be one source of inventory for investors.

#### **PROBATE IS A NEVER ENDING SOURCE OF LEADS**

As previously discussed, probate is the one source of leads that will never run dry. Death is the ultimate end of our lives, and many heirs will be selling the homes and other real properties that they will inherit. A properly constructed trust instrument will keep property out

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of probate, but not everyone is foresighted enough to create a trust. Even then, sometimes the trusts are not established properly. For example, the properties are sometimes not transferred into the trust, while other properties are often removed from the trust for financing purposes, only to be not transferred back into the trust upon the completion of the financing event. You will see this happen in all markets, regardless of the ups and downs of market cycles.

### **PROBATE REQUIRES NO PRIOR EXPERIENCE**

One of the best features of probate investing is that it requires little, if any, experience on your part. The most important element is that you establish contact with the potential seller, and verify whether you may have a deal or not. Depending upon these facts, you can wholesale the deal, which requires little, if any, of your own money, and still make a tidy profit; or, if your finances and funds allow you the opportunity, perhaps you can pursue a fix and flip, making a much larger profit for yourself. The ultimate profit centers in real estate investing are rental properties. Not only do you create a stream of monthly income through the rents that you collect, but you also benefit from the long-term appreciation that usually goes hand in hand with real estate investing.

### **PROBATE REQUIRES LITTLE OR NO MONEY**

It takes little, if any, money to initiate your efforts in probate investing. The courthouse information is usually available for free, or for a minimal charge at most. Contacting administrators and heirs can be done for the cost of a postage stamp, or perhaps for less via the telephone or email. Once the contacts are made, you can often negotiate purchase contracts for deposits of \$100, and often less. Such deals can be sold profitably at your local REIC meetings, or to active local investors. Remember, you do not need all of the money up front when you wholesale a property; you only need enough to place that property under contract. You then flip the contract to a

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third party who does have the money to close escrow on the property.

Keep in mind the *wholesale* concept. Sometimes, with a minimal amount of clean-up and rehabbing work, you may be able to fix and flip this property on your own. Remember, if you have a credit card or two, these cards can purchase most, if not all, the supplies and services you may need to get the job completed. Some retailers (Home Depot helped me with my first few flips.) will provide you with credit, and even discounts, for establishing business relationships with them. Never let the lack of money dissuade you from a reasonable business opportunity— there are many legitimate and cost effective ways to come up with the money and working capital necessary for your success.

### **LET ME HELP YOU WITH YOUR FIRST DEAL**

Uncertainty and fear are terrible but realistic factors facing many individuals as they contemplate a new business. I don't want this to happen to you regarding your probate business. If you have questions, or if you get stuck in some manner, contact me directly, at [paul@probateinvestingbook.com](mailto:paul@probateinvestingbook.com), and I will do my best to respond to you within 24 hours. Better yet, once you are done reading the book, contact me at this same location, and I will offer you a free, 30-day email service to help you with any and all questions that you may have. Having spent many years of my life learning and teaching probate to thousands of individuals, I enjoy both facets of education. But most of all, I value the relationships that I have developed over the many years, and I am looking forward to having a wonderful and meaningful relationship with many of my readers. That relationship will be enhanced and sustained by my helping you succeed in probate investing.

**SO, HOW SOON ARE YOU CLOSING YOUR FIRST PROBATE DEAL?**

Now that you have all of this probate information, and now that you have a direct connection to me for your 30-day email support, when are you going to close your first probate deal?

Unfortunately, in all my years involved with real estate investing and education, I know that the majority of students never get to savor their first check from their first deal. Why? I'll go back to uncertainty and fear as being the main culprits. I am doing everything in my power to assist you achieve success. By providing an express link to me, I am encouraging you to take advantage of my offer, and to contact me with any questions or concerns. There is no question that is too elementary to be asked, nor to be answered. Please do not allow fear to hold you back—you have too much to live for. Will your life be enhanced by the money you will make by completing your first transaction? I am willing to bet that it will! But an even better feeling will be the rush of success that only you will experience when you conquer your fears and finally beat that internal monster that has held you back. If I can help, please let me do so—it would be my supreme pleasure to help each and every one of you to prevail.

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## **ABOUT THE AUTHOR**

Paul Wilkins was born and raised in Los Angeles, California, and attended the University of California, Los Angeles, where he earned a BA in History, magna cum laude. He went on to earn an MA in Latin American History, at UCLA, after which his career goals changed. He finished his formal education by earning a MBA in Finance and Accounting, at UCLA's Anderson School of Management.

After graduation, he worked for several commercial banks and mortgage companies, eventually beginning in the probate business at National Consumer's Finance, in 1996. He has remained working in probate since then, moving to his current position at Approved Inheritance Cash, in 2010. Paul was one of the founding members of AIC, which is a probate financial services company. He is the general manager at AIC today.

Having been in the real estate industry for over 30 years, Paul's transition to being a real estate investor and teacher was easy. He earned a lifetime Instructor Credential in Banking and Finance, from the California Community Colleges, in 1985, and has spoken at numerous real estate events since then, most particularly since 2008. He remains an active instructor and investor today, and loves helping others learn and earn from his experiences.

