

BIDDING TO BUY

**A STEP-BY-STEP
GUIDE TO
INVESTING IN
REAL ESTATE
FORECLOSURES**

**AARON AMUCHASTEGUI
& DAVID OSBORN**

New York Times Bestselling Author of Wealth Can't Wait

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A STEP-BY-STEP GUIDE TO INVESTING IN REAL ESTATE FORECLOSURES

**DAVID OSBORN
AARON AMUCHASTEGUI**



Praise for David Osborn's Books

“When it comes to all the tools that David and Paul deliver as they play to win on the road to financial freedom, ‘abundance’ may be an understatement. Their passion for entrepreneurship and commitment to supporting their global community add depth to their success strategies for ‘life at the top’ and the messages of inspiration in *Wealth Can’t Wait*.”

—**Robert Kiyosaki, Entrepreneur,
educator, and author of *Rich Dad Poor Dad***

“Osborn and Morris offer their approach to building a successful business and building wealth. There is a lot of information packed into the book, and yet it remains an engaging and accessible read.”

—**Caroline Ceniza-Levine,
Senior Contributor at Forbes.com**

“If you’ve struggled to make change, or it seems like you’ve done everything right and something still seems wrong, my bet is that you’re disconnected from the fundamental truth that who you surround yourself with determines your future. Your opportunity to rediscover that truth—and change your life—lies in this remarkable story.”

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and Co-founder of Priceline.com**

Praise for Aaron Amuchastegui's Books

"The 5-Hour School Week is the guide that will show you how to identify the best educational model for your family. Highly recommended."

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Bestselling Author of *The Miracle Morning***

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CEO of Gobundance and Fambundance**

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—**Jim and Jamie Sheils, Bestselling Author of *The Family Board Meeting*, and Co-creators of the Education Matrix
and the 18 Summers Movement**

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Bidding to Buy: A Step-by-Step Guide to Investing in Real Estate Foreclosures
David Osborn and Aaron Amuchastegui

Published by BiggerPockets Publishing LLC, Denver, Colorado
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Publisher's Cataloging-in-Publication Data

Names: Osborn, David, author. | Amuchastegui, Aaron, author.

Title: Bidding to buy : a step-by-step guide to investing in real estate foreclosures / by David Osborn and

Aaron Amuchastegui.

Description: Includes bibliographical references. | Denver, CO: BiggerPockets Publishing, 2020.

Identifiers: LCCN: 2020936055 | ISBN: 9781947200333 (pbk.) | 9781947200340 (ebook)

Subjects: LCSH Real estate investment--United States. | Foreclosure--United States. | House buying--

United States. | Investments. | BISAC BUSINESS & ECONOMICS / Real Estate / Buying & Selling Homes |

BUSINESS & ECONOMICS / Investments & Securities / Real Estate | BUSINESS & ECONOMICS / Real

Estate / General

Classification: LCC HD255 .O79 2020 | DDC 332.63/24--dc23

Published in the United States of America and printed on recycled paper.

10 9 8 7 6 5 4 3 2 1

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INTRODUCTION PART I

Love, Foreclosures, and the Freedom to Choose

On the surface, this looks like a book about real estate.

Specifically, it looks like a book about one type of real estate investment that for both me and my co-author, Aaron—as well as thousands of others—has been incredibly rewarding.

But that's just on the surface. What lies underneath is more like a love letter—a testament to our unwavering belief that real estate is the greatest tool in history for not only building wealth but taking control of your life.

Believe me, I know. Starting out broke and unemployed at age 26, I had begun selling homes simply because I had to do *something*. I was a C student with an uneven track record and only the murkiest idea of where I was headed. Yet, ten years later, I went on to build one of the top real estate brokerages in the world.

For me, real estate checked every box. It was safe, it gave me leverage, it provided cash flow. If nothing else, I could drive by a house I owned and just *look* at it. Heck, I could move in if I really had to.

At some point, I made the mistake of thinking I could do the same thing in the stock market. And for a while, it seemed like I could; my portfolio kept climbing in value, and the only downside seemed to be kicking myself for all the market years I'd missed out on.

That is, until I lost it all. Not long after my fist-pumping, high-flying success, the market tanked and so did my net worth.

I was shattered. That had never happened to me in real estate. Sure, the housing market was cyclical, like everything else, but through careful buying, I had cash coming in even during down times. Better still, I had real assets I could see and touch.

It was now painfully clear that I couldn't say that about stocks. I realized that, for me, they were just numbers on a screen. I knew they were assets, but I couldn't internalize them. I couldn't fall in love with stocks the way I had with real estate.

So I dusted myself off and doubled down on what I knew to be true. Less than a decade later, I found a new love. It was still real estate, but now I was buying foreclosures—hundreds at a time. The numbers were huge, but at the end of the day, I could still drive past any one of those homes and say, “Yup. Still there.”

Since then, I've never looked back. To this day, the vast majority of my wealth is real estate-related. I love it, plain and simple.

To be clear, it's not the money I love. That's only a means to a much more important end: the freedom to do the things I choose with the people I love. A nine-to-five job can't give me that freedom, and it won't give you that freedom either. For that, you need to be in business.

You could start a tech company. You could become a restaurateur. You could open a retail store or a factory. The sky's the limit.

Of all the possibilities, however, real estate is the simplest business I know of. You get to buy something of value and then immediately use it to make money. You don't need a staff. You don't have to build products or open a store. You buy a house, rent it out, and *voilà*: you're in business.

Try doing that with a restaurant or a tech company.

The foreclosure business is like a machine for making money, but you get to see exactly how the machine works. There are no hidden parts. There's no mystery.

Foreclosures also shine in one special area. They offer you all the advantages of real estate with one more game-changing bonus: You get to buy at a discount.

That's big. Ask any investor or entrepreneur what the secret to building wealth is, and invariably their answers will lead you back to something that rests on the idea of buying at a discount: Buy low, sell high. Never lose money. Lock in your margin. Build in a safety moat.

Buying real estate at a discount gives you options like no other investment. Your costs are lower. You have cash flow.

That is the real story of buying foreclosures on the courthouse steps. It's a chance to create a near-instant business with a safety margin, one that can start delivering cash back to you almost immediately. Meanwhile, someone else is paying for that business. And when you're done with it, there's a bunch of people standing in line to buy it from you.

That's what I love, and that's why this isn't just a book about real estate; it's a book about freedom, about taking control of your life and living it the way you want to.

There is, of course, a caveat. It would be easy to read this and think foreclosures are foolproof. They aren't. Real estate is simple, but it's not always easy. To manage risk, I've relied on the single most powerful tool in my kit: discipline. I've bought thousands of homes, and for all of them, I've used a system. I've used a system to find them, a system to analyze them and choose the best ones, and a system to buy them.

This book is about a reliable method not just for buying real estate but for moving a little bit closer to true freedom every day.

How could you *not* fall in love with an investment like that?

Thanks for joining us on this journey.

—David Osborn

New York Times best-selling author of *Wealth Can't Wait*



INTRODUCTION PART II

Finding Profits on the Courthouse Steps

In 2009, I was going out of business.

That might sound like an event, but going out of business is a *process*. It takes time—painful, slow-motion, can't-sleep-at-night time.

My partners and I were home builders, which was a great business to be in...until it wasn't. After the housing crash, everything changed and we were left worrying about how to make payroll and pay the bills.

Watching our business dry up did leave us with more time, and we used it to do what any true entrepreneur does when facing failure: look for a *new* business. That may sound crazy, but as you'll learn, falling in love with difficult problems is a kind of superpower. With any luck, by the end of what follows, it will be your superpower too.

We had heard of people who were making money by flipping foreclosures. I was skeptical—it had a vague, get-rich-quick feel to it. Still, it was related to the skills and experience we had, and I thought it was worth looking into. It was certainly better than feeling powerless as our business slowly evaporated.

The people we knew were finding homes listed on our local MLS, or multiple listing service—a database of properties for sale. The idea was simple enough: find a home that someone had stopped making payments on, buy it cheap, then fix it up and resell it for a higher price.

What, we thought, could be any easier? After all, we were home

builders. We were experts at this kind of thing. How hard could it be?

Harder than we thought.

We spent hours, then days, then *weeks* trying to buy foreclosed properties through MLS listings. There were five of us, and we wrote *hundreds* of offers. We made offers with no conditions. We made offers in cash. We did everything we could think of that you would normally do to buy a damn house on the MLS.

Not one offer was accepted.

A Different Kind of Foreclosure Listing

At the time, *foreclosure* was a word we were hearing a lot. It was 2009, and people were losing their homes every day. Still, we had only the most basic understanding of what foreclosure meant and how it worked. As we understood it, when someone stopped making their mortgage payments, the bank eventually took possession of their home. That meant the loan had been “foreclosed on,” and the homeowner lost their property to the lender.

That was essentially true, but it didn’t explain why we couldn’t seem to *buy* one of those houses people had stopped paying for. We were utterly confused.

What we didn’t realize at the time was that we were trying to buy homes *in the wrong place*. Not “place” as in geography but “place” as in the wrong point in the timeline of the foreclosure process.

When a foreclosure is listed by a Realtor on the MLS, *anyone* can see it, and they can do so from the comfort of their home. The MLS is where everyone is looking. The competition for properties is high, and as we soon realized, the Realtors listing those properties already had preferred clients they were working with. We simply couldn’t find our way in.

We had no idea there was a whole different arena for foreclosure sales—places where properties were bought before they ever made it out into the wider public eye.

The *Aha!* Moment

As luck would have it, one of my partners discovered that a property right beside his was listed for foreclosure. Curious, we tried to find out more, but the property was nowhere to be found on the MLS—it wasn’t online *anywhere*. The only information we had to work with was the physical

foreclosure notice at the home itself. It listed a date when the property would be sold at *auction* and an address where the sale would happen.

The address turned out to be the local courthouse.

That was when the lightbulb went on. Suddenly it made sense. There was a whole *world* of properties being sold at auction before they were ever picked up by real estate agents or listed on the MLS! We'd been swimming in a sea of competing buyers when the real deals were happening *upstream*—they were happening earlier in the foreclosure timeline.

We went to an auction the very next day.

We weren't there to buy, just to observe. The problem was that it was difficult to tell exactly what we were seeing. It was an oddly informal process. As far as we could tell, only a couple of buyers were there, and the closest thing to someone in charge was a guy who stood there and read out a list of information.

We tried to ask how it worked, but no one really wanted to tell us. At the time, there was no how-to resource we could turn to. With only days to go until the auction on the place we'd found, we'd have to figure it out for ourselves.

I spent the next two days in the county recorder's office reading every document I could find on the property we were interested in. We did our own title searches to be confident that we knew exactly who owned the property and who was owed money for it. I read page after page of legalese.

Eventually, I decided: *We can do this.*

The Courthouse Steps

Our first auction experience was nothing short of bizarre. I still look back at it with a mix of amusement and shock.

We arrived at the courthouse at the appointed time but had no idea where to go or what to do. Instead, we just hung around the courthouse steps in a corner near the entrance. There was just us, a few other people who we assumed were also there to try to buy property, and a garbage can. That was it.

A few minutes later, I looked up to see a guy in a T-shirt and shorts roll up to us on a *skateboard*. He hopped off, pulled a laptop out of his bag, and set it on the garbage can. A moment later, he began reading off property details, and a couple of other guys began bidding.

That's all there was to it. It was as casual as stepping up to a food truck and ordering a taco.

The fifth listing of the day was the one we were interested in. Skateboard Guy read off the address, along with a few details.

"The opening bid is \$215,000," he said.

There was silence. No one said anything in response to the opening bid, including me. At that point, I was still in shock that a guy who arrived by skateboard and set up his office on a garbage can was auctioning off honest-to-God houses.

"Going once," Skateboard Guy said. "Going twice..."

Our partner snapped to attention. "We'd like to bid!"

At this point, it was pretty clear we were new to the process. He said to us, "Would you like to bid a penny over?"

"Yes?" we said uncertainly.

"Do you have your cashier's checks?" he asked, making no effort to hide his skepticism.

In fact, we *did* have our checks. We'd learned early on that you have to pay in cash with the precise amount (more on that later), and we held out the envelope we had received at the bank after scraping together every dollar we could round up.

"Sold," he said.

Immediately, a *gasp* went up from the strangers around me. The same people who had just been confidently snapping up properties like they were tacos now began to stare at us and whisper.

I felt my face flush. Had we made a mistake? Had we bought a property we shouldn't have? *What had we just done?*

I could feel my heart pound as I signed over our cashier's checks.

Skateboard Guy handed me a receipt. I looked at it. It had almost no information on it—not even the address of the property that (I hoped) we had just bought!

"Is this it?" I asked.

"That's it."

"But...this is just a receipt. There's no address, no...*anything*. How do I know what we just bought?"

"Oh," he said, closing his laptop. "We don't do any of that. We don't guarantee addresses. We just sell the properties. You'll get your deed in the mail."

And with that, he hopped on his skateboard and pushed off.

I looked down at the piece of paper in my hand. As he turned the corner, I thought, *That's all the money we have.*

What had I just done?

After...Math

We spent the next two weeks in a state of near panic, my nights more sleepless than ever.

I kept thinking back to the gasps I'd heard when we bought the property. What did that *mean*? Why hadn't anyone else bid? I had just spent the last of our money on something I wasn't even sure we owned. Even if we *had* bought the property, I was now lying awake at night worrying that there was something deeply wrong with it. Had someone trashed it? Was it a burned-out shell? Was it built on an ancient cemetery?

I kept berating myself. How could I have given all our money to a guy on a skateboard?

It turned out I had worried for nothing.

Two weeks later, the deed to the property arrived in the mail. We immediately had it entered at the recorder's office. Then, just to be extra sure, we got a new title report showing that we owned the property free and clear.

All my worries about the property itself were wasted too. It was just fine, and we were able to sell it right away at a significant profit—to someone who, as we had been a few weeks earlier, was trying to buy foreclosed properties on the local MLS.

I was elated. We'd pulled it off! Not only had we made money, but we could do it *again*. We'd finally found a way into the exclusive club where properties were selling at a discount. That night I slept like a baby—an exhausted, relieved, financially solvent baby.

In the coming months we repeated that success and repeated it again, buying properties at big discounts right on the courthouse steps. There wasn't always a guy on a skateboard, but it was always exciting.

We began to refocus our investment energy almost entirely on buying at auction. We bought even more properties, discovering that we could buy them and flip them—sometimes the same *day*—or that we could keep them and rent them out. Or we could add value by fixing them up and then selling them for an even bigger profit.

It was, and still is, a thrill beyond anything else I'd experienced in real estate.

Your “Backstage Pass” to Real Estate Investment

Much of the thrill of buying at auction comes from getting more-exclusive access to properties. Buying on the courthouse steps represents the early phase of the foreclosure process. It’s the backstage pass of real estate: instead of waiting in the long MLS line out on the street, you sneak past the velvet ropes and through the back door, and suddenly everything changes. Instead of being one more face in a massive crowd, you’re in a small group of rock and rollers. Instead of hoping to get a seat at the back, you’re already in, *and* you get the best view of the show...for less money.

That’s the advantage of buying at auction: You get access to properties long before most people even know they’re for sale, and at a price lower than you’d pay anywhere else.

The goal of this book is to give YOU that same backstage pass to the world of real estate.

The Path Ahead

Our job in the pages that follow is to make sure you feel comfortable finding, analyzing, and bidding on your first foreclosed property, right on the courthouse steps.

To reach that goal, here are a few of the things you’ll find in the chapters that follow.

- You’ll learn to understand the foreclosure process, and all the distinct advantages of buying property at auction.
- You’ll develop the skills to find, analyze, and select the ideal properties to bid on—those that fit *your* goals and leave you a significant financial safety margin.
- We’ll walk you through every step of how to attend an auction, bid in real time, and buy a property!

Along the way, of course, we’ll cover a wide range of other critical steps, like building your team, dealing with money, and managing your own mind and emotions. You’ll hear stories—both good and bad!—based on our own experiences and those of other seasoned auction buyers. Best of all, you’ll build the confidence to know that you can succeed at investing in foreclosures.

The Biggest Thrill in Real Estate

Buying at auction gives you the one thing that every investor wants—the opportunity to buy at a lower price. To get *value* for your money.

We've spent a lot of time in the real estate business. Together, we've bought *thousands* of properties and been involved in more transactions and real estate deals than we can count. We've had our fingers in just about every aspect of the real estate business, and one thing I can tell you for sure is this: There's nothing like buying foreclosures at auction. Nothing in real estate is as exhilarating as bidding live on a property, then walking away knowing you made a great investment.

Here's to your first profit on the courthouse steps.

—Aaron Amuchastegui, CEO of Roddy's Foreclosure Listing Service
Sacramento, CA

BIDDING TO BUY

PART I

**FORTUNE FAVORS
THE PREPARED**



CHAPTER 1

RISK AND REWARD

How Foreclosure Works and Why it Matters

After you buy a house at auction, one of the first tasks on your list is to change the locks. You have no idea how many keys are out there or who has them. It's simply good practice.

For me, the act is also symbolic. When we change the locks, it means our diligence has paid off. We've worked the process, and the process has worked. Changing the locks is the moment when the place is officially *ours*.

I don't have to actually change the locks myself, of course, and neither will you. But in the early days, I would often do the job just to take a closer look at the place and get that little jolt of satisfaction that comes from knowing you've made a great investment.

One particular sunny California day I was doing just that, hunched over the front doorknob with a few tools, when I heard footsteps. I turned to see a man standing on the walk.

"Excuse me," he said. "We're here to do the home inspection."

"I think you might have the wrong place," I said. "We just bought this property at auction and didn't schedule one."

The man's face fell. "I'm a Realtor," he said. "My clients were trying to buy the place. A short sale."

A *short sale* occurs when the bank agrees to let a struggling owner sell a home for less than is owed on it. The homeowner gets to avoid having a foreclosure on their record, and the bank gets to avoid the hassle and

uncertainty of the entire foreclosure process.

In this case, it was obvious that the short sale hadn't happened in time. The home had gone to auction, where we'd become the lucky new owners.

Still, here I was, standing face-to-face with a buyer. We'd just bought the place hours ago, but who was I to say no to the winds of fortune?

"Write up a cash offer," I told him, "and we'll look at it."

We did more than look at it; we accepted it immediately.

Two weeks later, the deed arrived in the mail, and we closed the sale.

We made \$40,000, and I never got past the front door.

This story perfectly illustrates the backstage pass offered by auction sales. By entering into the foreclosure process earlier, you get access to better deals. In our case, that meant buying the property for tens of thousands of dollars less than market price. It then gave us a chance to turn around and sell it right away to someone willing to pay more.

What this story *doesn't* tell us, however, is exactly why buying at auction offers such great advantages. To understand that, it's helpful to first understand what the foreclosure process looks like.

The Foreclosure Process

Backstage real estate passes don't just fall out of the sky. If they did, everyone would have them, and they wouldn't be worth anything. To understand why buying at auction can be so effective, you need to understand what a foreclosure is, and how it works.

Foreclosure is a legal process. It's a series of events that happen over time, and it begins when someone borrows money to buy real property—often a home, but it could be another type of property, too. In this book, we speak in terms of single-family residential homes, but the principles can apply to almost any kind of real estate.

The easiest way to understand the foreclosure process is through a simple example.

Let's assume that the lender is a bank—let's call it Bankopolis—and the property in question is a residential home, lived in by the homeowner, Dave.

When Dave arranged his mortgage, he signed a contract agreeing to pay back the money he owes Bankopolis at an agreed-upon rate. Dave also used the home he was buying as *collateral*—insurance, essentially, for

the bank to make sure they can still get their money back if Dave doesn't keep his promises.

Using the house as collateral means the home now has a *lien* against it, and Bankopolis has a legal right to take possession of the home if Dave doesn't make his mortgage payments.

As long as Dave keeps up his end of the bargain, everything is fine. If he misses a payment, however, things start to shift. The process and timeline vary from place to place and bank to bank, but here is an overview of what happens if Dave starts to drop the ball.

1. The First Missed Payment

One day, Dave faces an unexpected crisis: He loses his job. It's not long before he's burned through his savings, and soon he can't make the agreed-upon mortgage payment. So he doesn't.

At this point, it's not the end of the world. Many mortgages have a grace period—often ten to fifteen days. Bankopolis will likely send a letter that says, *Dave, you didn't make your payment. We need to sort this out.* If Dave simply makes the payment, all is well.

2. The Second Missed Payment

If Dave doesn't pay up, however, and he misses another payment, things move further along. Bankopolis is (a) going to start to worry, and (b) add late fees to what's owed, as outlined in the mortgage.

Now that he's more than thirty days behind on his payments, Dave is likely to find Bankopolis becoming more concerned. He'll probably get phone calls and notices.

Still, things aren't disastrous for Dave. The bank would rather get paid, and Dave would like to keep his house; both parties *really* want this to work out. If Dave pays the overdue amount (plus any fees), he's square again. His credit record may take a hit, but no one is going to take his house.

3. The Third Missed Payment (and Beyond)

But if Dave doesn't settle up, new machinery starts to grind into action. When Dave misses *another* payment—that's three—he's going to get another notice, and it's more serious.

After three to six months with no payment by Dave (the time varies, depending on Dave's mortgage, his bank, the state he lives in, and the local