

HOW TO BUILD A FORECLOSURE INVESTOR NETWORK

Introduction

In my **Complete Guides** I discuss various ways of finding out about foreclosure deals. These include checking the local newspapers, subscribing to a foreclosure database, or more effectively, using an online foreclosure database. Another effective way of finding out about foreclosure deals is to build a network of investors.

Investment Club or Network

Now let me clarify the difference between an investment club and an investment network. An investment club is a group of people, potentially a large group, who meet on a regular basis (e.g., biweekly or monthly), have membership dues and rules, provide training, and offer encouragement to each other to pursue and close deals. An investment network on the other hand is loosely organized, conducts few if any meetings, and requires no dues and rules. Network associates (versus club members) keep in touch informally and focus on referring potential deals to each other.

Investment clubs and networks are both very effective approaches to increasing your awareness of potential deals and expanding your opportunities to making money from these deals. Some club members over time will naturally gravitate toward each other, depending on their backgrounds and interests. And they may, without consciously thinking about it, form a network while continuing to participate in the club. They might call each other first if an investment opportunity becomes known, and they might even pool their resources to pursue the opportunity. This is a great approach to taking advantage of your participation in both a club and a network.

Forming an Investment Network

There are a number of other ways to form an investment network. You can cultivate relationships from other investors you meet at foreclosure auctions or at real estate events. In addition, you can talk to people you associate with, who in turn may know others who are investing or may be interested in investing. It doesn't matter if they are interested in other types of real estate investing such as lease options, land purchases, or creative financing. In fact, you might prefer to have a diverse investment network so that each associate can refer deals that might be more suited to a particular associate. The other advantage is that you can learn from each other.

Building an investor network is not as difficult as you might think. In fact, you may already be doing this to some extent. Anytime you meet or converse with another investor (potential or experienced), you should treat the contact as an opportunity to develop a relationship. So you should start thinking about it now, and begin thinking about your network. Obviously, I'm not advocating that you stand on the street corners looking for investors, but you should make the attempt to interact with those who you meet to determine if you have similar interests. The advantages of making such contacts are twofold. You can team up with one or more investors to do deals (as partners) or you can refer deals to each other (as associates in a network).

Referring Deals

As an example, let's say that an associate of your network prefers to buy vacant land, but you prefer to deal in townhomes and single family homes. If you find a foreclosure deal for a parcel of land, you would refer it to the associate. Likewise, if an associate finds a good foreclosure deal but it is not in one of his preferred neighborhoods, he might refer the deal to you.

Alternatively, an associate may come across a deal that requires too much work. Or another associate might be in the middle of another deal and can't spare the time or the money. He can refer it you or another associate in your network.

Note by the way that referral fees or other compensation is not mandatory (more on this later). As a network, the associates can decide that they would refer deals but provide very little additional information about the deals. The associates can also decide that they will find out the physical and financial details of the deals before passing them on to the network. So the associates should decide up front whether they want to do the preliminary work and to establish referral fees and rules for calculating the fees. This doesn't have to be formal; it could be based on a simple understanding of what each associate wants to get out of the network. Obviously, the more formal these relationships and rules become, the more you transition from being a network to being a club, or potentially a partnership.

There is absolutely nothing wrong with either of these approaches. Just make sure that the associates (or members or partners) agree on how each wants to participate, whether each wants to keep the relationships informal, or whether each wants to establish referral fees.

To Fee or Not to Fee

There is no hard and fast rule on what to pay in terms of referral fees. I've paid a flat dollar amount and I've paid a percentage of the profit on referrals. I felt it was win-win in both situations. It's really up to the two associates involved to negotiate equitable fees. Note that referring deals to investors for a fee is known as bird-dogging. The associate referring the deal is known as the bird-dog. [See the booklet in my Foreclosure Food Chain series for step-by-step details on **How to Make Money as a Bird-Dog**].

As an example, if you expect to make \$20,000 or \$40,000 on a given deal that was referred to you, a referral fee of \$500 or \$1,000 or even \$2,000 might be reasonable. This range can be negotiated depending on the amount of work involved and the risk associated with the deal. The referring associate (bird-dog) should provide as much information about the deal as possible (financial, physical, etc.). After all, the associate does need to earn his or her fee. The associate receiving the deal (investor) should agree during the initial discussions to a specific amount or percentage for the fee.

Referral Agreements

Needless to say, the agreement should be in writing, although there are networks which operate very informally – without paperwork. Keep it simple; a 1-page agreement should suffice. The fee should be paid from the proceeds as soon as the deal is concluded.

Beware of Investors Bearing Gifts

Now that I've presented a brief overview on building your investor network, let me discuss some of the caveats. I can tell you that I have worked various referral deals, and they have all been successful, and I've willingly paid the fee. There are two obvious challenges you will face. For the receiving associate, the question you need to ask yourself is "How do I know whether this deal is all that it's cracked up to be?" For the referring associate, the question is "How do I know I will get paid?"

As the investor, you need to treat a referral deal just as you would any deal. And that is, make sure you do your homework. You should conduct the same type of research, ask the same type of questions, and do the same type of analysis (see Validating Deals below). Don't let someone try to con you that this is the deal of a lifetime and that you must jump on it right now or it will be gone. Check it out for yourself.

Learning from My Personal Experience

I once had a bird-dog who tried to verbally abuse me over the phone because my research showed that I should pass on the deal. I found out that he and the original investor were partners who were in deep debt to a private lender. They desperately wanted to get out from under a deal that is too complex to discuss here. Needless to say, I had to hang up on him and walk away from the supposedly great deal. So don't short change the process just because someone supposedly brings you an "amazing, astonishing deal of a lifetime." Always, always, do your homework. Foreclosure investing is still a business and you should treat it that way.

As the bird-dog, you need to make sure that you have an agreement signed by both parties. This is the only legal recourse you will have in the unlikely event that the investor you referred the deal to decides not to pay. That is why it is so important to cultivate relationships with several investors.

Leverage Existing Relationships

Join a real estate investment club. Ask other investors about their referral experiences. Find out which investors are trustworthy and which ones are not. Believe me, you'll find this out quickly. As the saying goes "good news travels fast, bad news travels faster." I hate to admit it, but real estate investing has its share of shysters. Again, this is a business. Find out about who you're dealing with before you start talking about making money together.

Bottom Line

The bottom line in any investment business is that you should explore different ways to making money. You can certainly be successful investing by yourself. But you open up a whole new world of money-making possibilities when you participate in an investment network. This report focused on forming your own network, but there is no reason you can't join an existing one. Again, talk to other investors or people you know to find out what investment networks, clubs, and/or partnerships might exist. Then take the action to join one or more of these networks or start your own.

Final Words on the Benefits of a Network

The benefits of learning and profiting from your investment networks can be very significant. You could learn about investment possibilities from previously unfamiliar sources. You could learn about other real estate professionals (foreclosure attorneys, realtors, home inspectors, etc.) who could assist you during your deals. You could also learn about which neighborhoods to pursue and which ones to avoid.

More importantly, you could work with your associates to discover even more deals than you could find out on your own. You could refer deals to your associates for a fee. And best of all, you could receive very profitable referrals, for which you would gladly pay fees. Right?

A Few Words on Analyzing Deals

Naturally, you will be using the strategies and the step-by-step techniques in either of my three **Complete Guides** to make big bucks with foreclosure properties. These will be either the properties you find on your own or those that are referred to you. Keep in mind that regardless of the source of the deal, you must always analyze it before you make any commitments. It's okay to trust your associates when they're referring deals to you – but not that much. You must be able to analyze deals carefully. Don't be too hasty in rushing through the analysis. And don't waste a lot of time pondering each deal to the nth level of detail. The **Complete Guide** you purchased has an entire chapter on how to analyze deals effectively. So go for it. There is money to be made.

Getting Help in Analyzing Deals

You can analyze the deals yourself or you can take advantage of my Mentor Program to guide you through the analysis. The program provides you with one-on-one, step-by-step support to jump start your money making investments, including getting your deals analyzed. As another option, I include my **Deal Analysis Form** (in Excel spreadsheet format) as a FREE bonus for investors who purchase the **Complete Guide to Preforeclosures**. Check out both options at <http://www.foreclose.com>.