

**Want to Buy a Foreclosure at 70% Off But
Think You Might Lose Your Job?
by John V. Kamin, Economist**

[The following article is a good one to give to your kids if they have not already purchased their first property.]

Most counselors would suggest that if there is a 50% chance you might lose your job or be laid off that you should definitely not buy a house.

Even if you're renting and paying say \$1,500 or \$2,100 per month for an apartment - that rent money will be just as hard to come up with as a house payment. At least with a house payment on a 15 year fixed rate mortgage, your equity will build relatively fast. If you're laid off next year or can't make payments for six months after the layoff, you'll still have some equity in your house, unlike apartment rent payments.

I'd suggest you buy the house at \$40 to \$50 per square foot of construction and get the lot free, while you're still employed. It's a lot easier to get a mortgage if you already have a steady job or are employed. Once you're laid off, no matter how cheap houses are, nobody wants to make you a loan. For some exceptions to this rule, see the book [How to Make Money Fast Speculating in Distressed Property](#).

Make \$200,000?

After all, if you can buy a \$450,000 foreclosure for \$150,000 with a five percent down, (\$7,500) while you're still employed, just go ahead and do it. Buy it at a foreclosure action, trustee sale, estate sale or a need-to-sell (NTS) deal.

Prediction: When the real estate bust eventually turns into a real estate boom, you'll make several \$100,000s easier than you could every save that money up by working at your job.

Even better than buying a house is if you can find a duplex, triplex or fourplex that's being foreclosed. That way, even if you are laid off, you can live in one unit and let your tenants help you pay your mortgage payment with their rent checks to you.

Also, by buying foreclosures during a real estate bust, you'll lock in a low property tax value, a low yearly property tax assessment and the tax deduction you can take on your income tax. There is no such deduction for renters. Obama "stimulus" packages have given an \$8,000 tax credit to first home buyers.

Obama has also extended unemployment benefits a longer time so if you can hold on to your job at least another six months or longer, you may be in line to collect more months of unemployment benefits if the worst does happen and you are laid off. Even if you are suddenly laid off and the economy improves suddenly, you may be called back to work or you might even get another job. Layoffs or losing your job may not be desirable, but it is not a lifetime setback. It's just a matter of months.

Income Property Loans are Easier

If you buy a multi-unit property such as a triplex or fourplex, there's less emphasis on you and your job for paying the loan and more emphasis on yearly rental income generated. That's how they make loans on multi-unit income properties! Whether you're working or laid off, you may find yourself increasing rents on a multi-unit property by five percent or so. On the other hand, if you remain a renter, you're the one who gets the bill for the higher rent increase. Got it?

Cycle Timing

The best time to buy growth property is when no one wants it, such as the cycle we are in now. When everyone wants it, that's when prices go way up to unreasonable levels. That's when you should sell and take profits so that you can do it all again in a few years. Wouldn't you rather be independently wealthy with income property ownership and increasing rental income than in your present rental situation? Then, unlike now, you will work by choice, not by dire necessity, living paycheck to paycheck. One inspirational author of [How I Made One Million Dollars in Real Estate](#) used similar reasoning and transactions. In fact, Nickerson was so afraid of being fired or laid off that he kept his phone company job for an additional 10 years after he became a millionaire and multi-millionaire.

Prediction: The credit squeeze will not continue forever. Once the sub-prime mortgage crisis is solved and credit begins to flow into property once again, I predict you will be able to refinance your real estate purchase, possible for even more than you paid for it and get all your money out in a big chunk. Then, you will be in a position to choose to keep it for rental income plus tax deductions, or resell it or simply to ride values upward for awhile as rents increase, riding high on your equity. That's not a bad problem to solve. It's your choice.

Admittedly, this is Contrarian advice that you should buy a property such as a house or small income property, if there's a 50% chance or so that you will be laid off. Mortgage rates on 30 year fixed rate loans are under 5% right now and rates are even cheaper for 15 year fixed rate mortgages.

Can't Take Loan Back?

Consider this – even if you get the loan to buy the property while you're still employed and are later laid off in six to 18 months, the lender cannot insist that you pay up that loan immediately. As long as you keep paying the payments, you get to live in your building rent free. They can't take the loan back just because you are suddenly unemployed.

Also, Obama has promised to restructure loans and give credits and other benefits to struggling homeowners who have lost jobs. You can't qualify as a struggling owner if you have failed to become an owner, when houses are at the cheapest that they have ever been during the 21st century!

No Job Later? How to Pay

Question: "If I get laid off, how can I keep making payments on a mortgage?"

Answer:

1. You're supposed to be saving at least 10% to 20% of your paycheck every month while you are still employed.
2. Mortgage payment or rent payment – you still have to live somewhere. Isn't it better to make a mortgage payment and own the place in which you live? Even if you had to take in a roommate or a boarder? No landlord is going to let you live in their rental unit free just because you're unemployed later on.
3. You can collect 26 weeks to 99 weeks of unemployment checks (Emergency Unemployment Compensation and Extended Benefits) while unemployed. This will help you with your mortgage payments plus time to hunt for a new job and perhaps boost the value of the property you bought.
4. Many companies will offer "buyout" packages to the people they are terminating, often \$10,000 to \$50,000 or even more. Such buyout packages could make years of mortgage payments.
5. Figure about one-half percent to five-eighths percent per month total borrowed for your mortgage payment. For example, on each \$1,000 borrowed, that's \$5 to \$6.25. On a \$100,000 mortgage, that's an estimated mortgage payment of \$500 to \$625.00. Usually counties will also let you run late for a small penalty on payment property taxes, without reselling your house for several years. Plenty of time to change your employment situation if you hustle. Also, on house insurance required by a mortgage lender, get the cheapest policy with the highest deductible (\$1,000) to cut the premium way down. Fire insurance might only run \$200 to \$400 per year – almost nothing.
6. Many unemployed people are very resourceful in generating jobs or extra income even of short duration. It's even better if they are people who know a trade such as carpentry or computer repairs, etc.
7. If you can manage to make payments on a 15 year fixed rate mortgage for a year or two or three, you'll build some equity and probably be able to refinance later with a bigger loan in a less-troubled credit-squeezed marketplace.
8. **Help coming from Washington?** The Obama team keeps promising to help homeowners who are temporarily unemployed. Maybe you'll get a piece of that action.
9. If you're over 62, file immediately for Social Security.
10. Cut your other expenses such as leased cars and other payments. Save money. Cut your fancy habits, your stops for lattes and coffee. Get an inexpensive Internet-cable service instead of the high bill you are now getting. Drive a beater, an old car owned 100% - no monthly car payment. Drop those expensive life insurance policies. Any uninsured medical care – handle those bills as the illegals do – plead poverty.
11. While you're still employed, if you have a medical-dental coverage, get your doctor visits and dental work done now. Don't wait until you are unemployed and "have more time".
12. Sell a few gold coins or rare coins as needed. Krugerrands, \$20 gold, American Gold Eagles are now bringing \$1,160 to \$1,500 per coin. A sale of 10 coins could cover a year or more of mortgage payments.

13. Borrow from retired relatives if necessary while unemployed, but with a formal note and pay them 6% interest, more money than they can earn on the C.D. down at their (shaky?) bank. Tell them you are going to use the money to make your mortgage payments, not for frivolity. Then do it. Make the loan for 36 months. By that time, you should have built up some equity in your foreclosure purchase and the real estate market may already be on a turnaround tear.
14. I should mention again, if you are going to buy a foreclosure, try to buy a property than you can rent to multiple tenants so their rent payments can help cover your monthly mortgage payments. Maybe it's a large house that you can split into a duplex or triplex with kitchen privileges. Maybe it's a house with a garage or maid's quarters that could be rented out separately, as are many properties in Southern California.

I could go on and on with this list, another two dozen ways, but it's too long already. There is a chapter on how to borrow money and get mortgages even if you have no job in the book How to Make Money Fast Speculating in Distressed Property.

Summary: If you want to make \$100,000s, you almost have to be a property owner, an owner of assets worth six figures, using OPM – Other People's Money. Right now, employed (and even unemployed) – the easiest large loan you can get for OPM is a mortgage on an existing building.

John Kamin is a Consulting Economist and publisher of The Forecaster, 19623 Ventura Blvd., Tarzana, CA 91356, (818) 345-4421. Subscription cost is \$180 per year. For more money-making ideas, order his latest book Active Money Strategies & Hidden Wealth Builder Secrets For Young Adults: What They Were Afraid To Teach You In School. If They Ever Knew! \$20 + \$4 shipping and handling plus \$1.65 tax. (95 pages.)

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