Working with Banks

Gary Wilson

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Any time you have the intention of doing, you definitely want to create goals. I know I keep hounding on it, but it’s critical. When you have a goal, a golden nugget that you’re working toward, everything else is going to make a lot more sense. Even when things go sideways, you’ll easily be able to get back on track. We call this “one eye on today and one eye on tomorrow.” The point is this. You’ve got to establish a goal. It may be out in the future, but between here and there are steps you will need to take. It all starts with the first step, which is right here, right now, setting your first goal.

At the beginning of the series, I went over some stuff with you about how to create a vision statement, and then identify yourself inside of that vision exercise. You figure out your goal, then you determine what actions need to be taken to achieve those goals. Then you actually do the plan.

Personally, I don’t ever set goals until I’ve done my vision statement first. Every single year I revise it, and then throughout the year I set new goals, revise older ones, and achieve many of those goals. That’s how you gain alignment between you and your higher self.

Every marketing campaign needs to have a goal. Think of a marketing campaign as a little microbusiness that you’re kicking off. It may take you days, weeks, or months. Whether your goal is 10 transactions or 50 transactions, I suggest you write it down. And write it from your heart, not from your head. When you do that, your head will then follow suit.

Kinds of properties

Banks are going to have properties that have been reclaimed through a foreclosure. Some states and provinces may be different than others, but for the most part, there is a process they follow. The bank can take the property in possession. They can take ownership of it. In the banking world they call that “REO,” real estate owned.

So if you go to any bank and ask to see their financial statement for last year—a good thing to do just for the practice—you’re going to see a category called “REO,” real estate owned. You’re also going to see other buckets: “reserve,” “cash reserve,” “capital reserves,” “loan loss reserves.” It would be a good idea to get these statements from a couple of banks to gain a clearer idea of what banks looks like internally. Then you can speak the language.

The second kind of properties are pre-foreclosure, which some call “short sales.” Pre-foreclosure is a property where loan payments haven’t been made for 30-60-90 days, but the owner still owns it. The bank has not taken it over yet. In a foreclosure the property has already been turned back over to the bank. Think about which one you would prefer to work with. You can do both, but let me give you some things to think about.

If you’re dealing with a pre-foreclosure, the current owner still has possession of the property. They still own the property, so you can’t just get the property from the bank. You have to first get the property from the owner. You’ll want to get it listed through a normal MLS listing, with documentation and the whole nine yards. Then you’re going to have an addendum where the owner gives you the right to represent them in short sale discussions, negotiations, and proceedings. In other words, you will represent the owner, and you've also been given specific rights to represent them in dealing with a bank. This is important because if you don't have these rights, a bank may not take you seriously. Otherwise, you could hire an attorney for perhaps $1,000 per deal to complete all the intermediary work. Then you get the listing and the commission, and sometimes even the buyer.

The problems with pre-foreclosure can happen in dealing with the owner as well as the bank. The owner is probably under stress. Maybe there was a death in the family, somebody lost a job, or someone got divorced. All kinds of things happen, and you need to be prepared that some of these consumers will want to bury their heads in the sand.

With pre-foreclosure, the bank has what's called "first right of refusal" on any offer that's made on the property. So let's say you get it listed and are receiving offers on the property. You've got to present those to the bank first because they will have to say, "Yes, we'll allow that transaction to go through because it's enough to cover the loss of the loan." If it's not enough, then they're not going to allow that transaction to proceed. "Nope, not enough. Not going to work out." This was a big problem back in the late 2000s, when foreclosures were rampant in the U.S.

Foreclosures, the REOs, are a lot easier for a couple of reasons. First, you're only dealing with the bank, not the owner or an attorney. You're just dealing with one entity, and you can negotiate with them until the cows come home. You'll get a title policy that verifies they've cleaned up all the liens and all the restrictions. You get a clean bill of health on the property title-wise, and you can normally get a pretty good deal if you're offering cash.

You can use Banktracker.InvestigativeReportingWorkshop.org to determine which U.S. banks have non-performing assets. I haven't found a similar tool for Canadian banks, but in Canada they don't sell mortgages. Every bank is a portfolio lender, so as a result much more is done through due diligence.

On the left of Banktracker's site, choose to look at "Credit Unions" or "Banks." "Failed Banks" are banks that have already failed. I don't really pay attention to that because it's already water over the dam, so instead focus on banks and credit unions.

Right now it lists 5,785 banks. That's over 100 banks per state, big and little. Notice their amount of deposits (money sitting in checking and savings accounts), as well as outstanding loans. It's good news when banks have more deposits than loans. The assets are loans plus other assets like stocks and bonds.

Then notice troubled assets. "This includes loans 90 days or more past due, loans that are no longer accruing interest on the bank's books, and property the bank has repossessed for nonpayment. The Workshop adjusts this amount to deduct loans at full or partial government guarantees." In other words, the problem is even bigger. But this is not a huge problem, by the way. Sixty-five billion dollars might sound like a lot of darn money—and it is—but compared to $15 trillion in assets? My gosh, that's not even seven percent. Of banks with TAR—troubled asset ratio—greater than 100, there are only 10 of them, so 10 banks are in deep trouble.

You can also look at credit unions, but you're going to get better results by looking at the banks.

Under the "Find a Bank" feature, start typing in a place. I typed "Allegheny." Now, don't press the "Enter" key. Don't do anything other than scroll down. This is one of the little, quirky things with this new website. Notice you'll see several banks come up. Let's click on Allegheny Valley Bank to get some vital statistics. I used to do a lot of loans with Allegheny Valley Bank. I probably had millions in outstanding loans with this bank. I made them a lot of money, and I sent all my clients there, too.

So check this out. Total assets are $446 million. This bank is growing a lot. Total deposits are $334 million; total loans are $314 million, so they're a little bit thin there. In other words, their loans outstanding are almost as much as their deposits. Loan loss provision is only $100,000. That's not a lot.

They made $290,000 in profit. They've got almost $40 million in capital. Total reserves is $3.8 million which is better, and their past due is only $303,000, so they're doing okay right now. In other words, they're at about 10 percent. What this means is the past due—mortgages 90 days past due—are equal to about 10 percent of their reserves, so they're not in any real trouble right now.

Now notice the REO. Real estate owned is at $42,000 right now. That's probably just one property. Capital plus reserves is $43,000. You add the capital to the reserves and you come up with capital reserves. For total troubled assets, they've got $5.4 million in loans that are 90 days past due. Okay, I'm going to reverse my earlier statement when I said these guys are in pretty good shape. If any of you are in the western Pennsylvania area, I'd even talk to this bank the next day.

Look at the troubled asset ratio, 12.3 percent. In other words, 12.3 percent of their loan assets are in trouble. Now, here's the real kicker. Their total troubled assets of $5.4 million are greater than their reserves. If all these loans actually do go into foreclosure, it's going to wipe out their reserves and they'll be negative. They'll have to do what's called a "cash call." Anybody who owns part of that bank has got to kick in cash to keep it solvent.

So, anything close to or exceeding 10 percent is a candidate bank to visit and see if you can get a listing from them or buy your own properties, for that matter. In any case, this is how you interpret the data.

Total Troubled Assets includes loans 90 days or more past due, loans that are no longer accruing interest on the bank's books, and property the bank has repossessed for nonpayment. The Workshop adjusts this amount to deduct loans that have full or partial government guarantees. So if there's a loan that's HUD-insured or any insured loan, they'll remove that from this figure because they know the government is going to kick in to cover that loss.

Now let's look at a Florida bank. Let's type in "Miami." There's Apollo Bank. From what I remember, that's a local, small bank. That will be good. Biscayne Bank. Let's just see. Coconut Grove Bank. That would definitely be a local bank. Helm Bank, I'm going to guess that's a local one. We've got a bunch of them, guys. There's a bank called "TotalBank." How about that?

Notice the Bank of Miami in Coral Gables has already been taken over by the government. They failed already. I just saw another one—Hamilton Bank has failed. Metro Bank of Dade County has failed, Premier American Bank has failed, and The Bank of Miami has failed.

Let’s pull up Apollo Bank and see what we get. Let’s go to the bottom line. Their troubled asset ratio is 5.53 percent, but they don’t own anything right now. Their real estate, whatever they had taken back in foreclosure, has already sold. If you remember, Allegheny Valley Bank had one property at $42,000. That means they’ve probably got one they still have in possession that they need to sell.

This bank has over a full $1 million in troubled assets, so it looks like they’ve foreclosed on everything they’ve got. They’ve got enough of 90 days past due. Reserves are $5 million. In other words, their total troubled assets are less than their reserves. But they’ve got some troubled assets. I would definitely approach them eventually, though I would first approach banks that have a 10 percent ratio or higher.

Let’s look at some of the other ones in Miami. Let’s do Alarion Bank in Ocala. Their troubled asset ratio is 12.47 percent. I think I’d go visit them, though Ocala is a long way for most of you. It’s north of Orlando, just south of Gainesville. They’ve got $3.2 million in troubled assets, $4 million in reserves. Capital plus reserves are $26 million. This is a tiny, tiny bank. Two hundred thirteen million dollars in loans, which is less than deposits, so that’s good. They’re making some money and they’re doing okay. Capital is $22 million. They’ve only got $50,000 in loan loss provision. You guys, I don’t like to see that. This bank is capitalized at $22 million and they’ve only got $50,000 in loan loss reserves and they’ve already got $3 million in troubled assets.

I’m definitely going to go visit this bank. They now have $2.7 million in properties they own, that they don’t want to own. Banks are not real estate people. Banks are banks. They’re going to be selling these properties and there’s a lot of money for a bank this size. That’s a lot. Wow. Does anybody want to carpool? If you’re in Melbourne, I’d go there. If you’re in St. Augustine, I’d go there. I’ve taught in those market centers, so if you’re in those market centers, drive into Ocala. I’ve done it before from St. Augustine. An hour and a half, that’s all it takes.

What’s the trouble for banks?

“Why would the banks be in trouble if they can sell the troubled asset for the mortgage owed?” Well, I used to be in banking, and when they have a property in possession, there’s an associated loan with that. In accounting terms, the property is the asset and the loan is a liability. Switch gears and put on your banker hat. The loan itself is an asset to the bank. The property is nonmaterial. It’s not a factor in their books, but if the loan gets into trouble and the owner is not paying on the loan and the bank has to take the property back in possession, now the bank does have to account for that property, the physical building itself. Plus they also have to account for the loan.

The reason why banks don’t like foreclosures is that it’s a big deal on their accounting system. Let’s say they had a $1 million loan and nobody’s paying on it. The loan value went from $1 million to zero.

There’s actually a negative effect, too, below zero, because now they’ve got a property they have to pay insurance on as well as taxes. They have to maintain the property if they want to advertise and show it. That means they have to keep the electricity on and keep the grass cut, so it’s taking money out of the bank’s coffers. It’s a liability.

Remember: an asset is only an income-producing asset if it feeds you. If you're feeding the asset, it's not an income-producing asset. It's a liability.

I know the bank will call the property an "asset" to you. I get it. The property is an asset to you, but it's not an income-producing asset, because if you live there, it will take money out of your pocket every single month.

So when banks have a troubled asset and want to sell it, they'll shift the value of the loan from the total troubled assets and put it in the real estate owned category, and then they sell it. That brings the troubled asset down to zero. But they might not get the full loan balance paid off. They might only get it partly paid off. In that case they have to write off the remaining balance as a loss.

The total troubled assets bucket gets filled up with loans they've already taken back in foreclosure. Now, as they take a property, then put it into a listing service, and ultimately sell that property and reduce the total troubled assets by the value of what they sold the property for, the "REO" balance goes to zero, even if they didn't get the full loan balance. They still bring it to zero and write off the loss.

You might wonder if a lender would ever sell the asset for less than the loan balance. The answer is yes, but not all the time. The real estate market is good right now, both in the U.S. and Canada, so the bank is not going to be as anxious to dump a property. They'll definitely want to cover the loan loss so it ends up netting out on the books and they don't take a big loss. They're still going to take a hit on it, by the way, because of legal costs and stuff like that. But when the economy goes in the tank, like 10 years ago in the U.S., you'd better believe we were buying properties for pennies on the dollar. It was like Christmastime. So they absolutely will sell at a loss, but usually only when it's a more depressed economy.

Approaching a bank with troubled assets

This is a method where you're actually going to go visit the bank in-person. You can't do it over the phone, and you can't do it via email.

You're looking for a troubled asset ratio of 10 percent or more. You can search property records online, or your county's tax assessor database. Look for the bank name that has a troubled asset ratio with 10 percent or more and you can see specifically which properties they've taken back by using foreclosure.

Make a list of all the banks you want to visit. Right now there are not going to be a lot of them. Then you want to visit the branches one at a time and plot a course so that you're not driving all over the place. Maybe do it on a day when you're already showing properties. Whatever bank you're closest to, go visit that bank first.

Remember, we only want to work initially with community banks for portfolio lenders. Remember, the word "community" means something. In order for a bank to call themselves a "community bank," they have to follow certain guidelines. It's a legal term in the world of banking. They have to actually invest in that community. Each branch manager is responsible for their loan portfolio in their community.

Dress appropriately, business casual. For men that's slacks and good trousers, and for women, wear whatever makes you feel comfortable and confident.

You want to speak directly to the person in charge of that branch. You don't want to talk to anybody else except the person in charge. You're going to see the teller line on one side, and around the perimeter you've got all the offices. You're looking for the person in charge. It'll say "Branch Manager" or "Vice President" or something like that.

Assuming that person is in the office and accessible, first, introduce yourself. "Hi, I'm Gary Wilson." Then you're going to tell them you're a realtor. "I'm a realtor in the area and I have clients who are interested in properties just like yours."

Now, at that point, you just raised their guard because you told them you're a realtor and you've got clients. They're going to say something like, "Okay, what's this about?"

You're going to lower their guard quickly by saying, "I just want to sell one." Whoosh, that lowers their guard. Then you follow up with a pitch, which is three statements: "I just want to sell one, so let's do one together and when you like the results, then perhaps we can do more."

Now, on that third sentence, I add some body language. I convey to the other person that I'm passing control of the conversation to them, and subconsciously they've got to respond. It's called "auto function" and they can't help it.

Half the time they're going to say, "No." It's just part of the business. We have to get used to the "no's." Sometimes they'll say, "Yes," and other times they're going to say something like, "Well, you've got to talk to Louis. Louis is the attorney on the board who handles our foreclosures."

I'm okay with that. The thing is, now I know who I need to speak to. The current person I'm already speaking with can give me a warm introduction. I'm also going to gather these five things: the who, what, where, when and how of Louis—who is Louis, where is Louis, how do I contact Louis, what is Louis's contact information, and when is the best time to contact Louis.

Make it conversational as you gather that information, then contact the next person. "Hey Louis, Rosemary said blah, blah, blah," or "Rosemary will email an introduction." Now you make yourself an appointment to go meet that person and get yourself a listing.

Banks are smart. They're in the business of making money by lending money. That's what they do. If you're pretty new, they're going to know it. Don't try to hide it. Just tell them you're working with the largest brokerage company in the world and you're being professionally trained to work with investors, being a certified investor-agent.

Don't be surprised if they give you a crappy property right off the bat. Just take it, get the thing sold, and then later on they will give you a better property.

You can also adapt the script for your own investment purchases. I might say, "Hi, I'm Gary Wilson. I'm interested in properties just like yours." That's how you change that script to get your own properties.

From my own personal experience, when I approach banks offering them a cash offer, I get way better responses than when I have 20 percent and need them to give me a loan for the rest. They've just taken the property back from a loan that went south. They might not want to make a loan on that property again. So cash is always going to give you better deals.

Now, in a lot of cases, this could be a one-branch bank. But the more branches the bank has, typically one will also serve as headquarters, and where their central operations for deposits will be located. REOs could be part of those centralized functions. You can't really know that, so you still want to visit the individual branches. They might say, "I know what you're talking about. However, once the property goes in a troubled asset category, we don't handle that here. That goes up to the office over on Main Street where they handle all the foreclosures for the branches."

At this point, you can get a name, and then you'll know exactly the right person at this other office. Stick with small, local banks and look for the person in charge. Sometimes a sign on their office will say "Branch Manager," or perhaps "Vice President." If you're in a really small bank, you might find the bank "President."

Now, I'm not saying you're going to get in to see that person, although you can try and I've done it before. Generally, the vice president or branch manager is who you want to work with.

Leverage

When I was actively doing this, I would keep with me in my briefcase at all times a full set of paperwork for buyers and for sellers, because every now and then you'll get lucky.

The bank officer might say, "We tried to sell this property. The bank president's neighbor's nephew had his license and said he could sell it. It didn't work out. You think you can sell this?" Sometimes you'll get deals right there.

Another time I told the branch manager, "Look, I've got clients interested in properties just like yours."

He said, "Come on in, young man. Sit down and talk to me." He asked, "Well, by the way, who are all these people? Who is…?" I think he was trying to catch me, like, "Who specifically are you referring to?" Well, thank goodness I had a printout of my clients in my briefcase.

I always kept this list handy, highlighted in yellow for the investors who were actively engaged in buying something. So I literally pulled out my list and said, "Well, here's what I'm talking about… this guy, this guy, this guy, this guy." I literally signed that listing right there on the spot, just because I was carrying this extra bit of leverage.

You just never know what's going to happen, or when, but always be prepared. I know it sounds old-school because now we've got Command.App and all kinds of neat stuff. Everything is electronic on your phone or whatever, and you can turn your phone around to show the guy, but quite frankly, if you pull documents out of a briefcase it's suddenly real for them. Consider printing off your database once a month and highlighting names of those actively engaged.

In closing

Just keep swinging the bat. You're going to have times you're tired and not wanting to do anything. But before you ever quit for the day, do one more thing. Pick a five-minute task you can accomplish that day. This is one of my rules I live by, because if you add up five minutes a day times 250 days (50 weeks, five days a week) that's 1,250 minutes. or 20.8 hours of "found time." That's almost three days of work. How much more could you accomplish just by doing an extra five minutes 250 times a year?