10 mistakes that made flipping a flop

Posted 10/22/2006 9:32 PM ET
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SACRAMENTO — If there's a poster child for everything that went wrong in the real estate boom, it just might be Casey Serin.

In one year, the 24-year-old website-designer-turned-real estate-flipper bought eight homes in four states — and in every case but one, he put no money down. At his peak, in April, Serin had $93,000 he'd taken out of the homes as he bought them. By July, he was broke, desperate for one last deal.

Now? Serin has $140,000 in credit card and credit-line debt and five houses in foreclosure. Last month, he started iamfacingforeclosure.com, a blog that's drawn both notes of condolence and expletive-laced condemnation.

"I did some stuff shady, but I'm not going to hide from it," he says. "Somebody can learn from it. I've already had people contact me and say, 'Hey, I'm in the same place.' "

The rise and fall of Casey Serin is a tale with moral and financial lessons for real estate buyers, lenders and regulators. Having consumed real estate guides and seminars, Serin made just about every mistake a newbie could make — most of them, he admits, were no one's fault but his own — from fudging loan applications to buying homes sight-unseen. That he began with bold dreams of class mobility makes his fall a peculiarly American saga.

Serin didn't know much about real estate at 19, when he bought his first condo. As a website designer, Serin was earning $35,000 a year at S.M.A.R.T. Association, a maker of marketing systems for health care providers. He quit to start his own Web-design company but couldn't earn enough to cover his mortgage. So he moved in with his parents and sold the condo a few months later. His profit: $30,000.

"My goal was to reinvest that money," Serin says. "But I also needed a car. My car was falling apart. I used some of it to keep me going, and for living expenses and things. And I used some of it to go on dates."

He also stopped working for three months.

By the time he married in 2004, the money was gone. He and his wife used credit cards to cover living costs because Serin's business wasn't bringing in enough money. When he found a job that summer as a Web designer, the couple had piled up nearly $20,000 in card debt, half of which they'd spent on real estate courses.

He bought Carleton Sheets' *No Down Payment* real estate program and attended seminars by Russ Whitney, author of *The Millionaire Real Estate Mindset*, and others.

"Sure, they used pressure sales tactics to get you into it, but looking back on it, I don't regret it," he says. "They told me how to start safe, but I really didn't start safe. I went all out. So it was my own fault."

As with all investors, Serin's goal was to build wealth. He was intrigued by Robert Kiyosaki's *Rich Dad, Poor Dad: What the Rich Teach Their Kids About Money — That the Poor and Middle Class Do Not!*

"My eyes were opening up: 'Oh, OK, this is how the world works.' "

Mistake No. 1

Using 'liar loans'

In October 2005, Serin was desperate to pay off credit cards. But he was eager, too, to put his real estate training to use. He sought "a motivated seller — someone who wants to sell quick and doesn't mind giving a discount to get the deal done."

He found a Sacramento couple who'd twice cut the price on their home and were asking $360,000. Aware that the market was softening, Serin successfully bid $330,000, including his closing costs. But he also wanted to pay off his credit cards. So he took out a $360,000 mortgage and asked the sellers to give him $30,000 in cash once the deal closed.

"I was able to qualify for the loan at 100% financing," Serin says. "I used a 'stated-income loan.' It was really higher than I was making, so it was a 'liar loan' — that's what they call them in the industry."

Stated-income loans were created to help people with variable incomes, like commission-sales jobs, qualify for mortgages. Lenders require little or no proof of income, but they charge a higher interest rate to compensate for the risk. Stated-income loans have grown in pricey areas where traditional buyers are stretching past debt-to-income lending ratios, and some lenders turn a blind eye.

In California, 75% of purchase loans this year have little or no documentation of income, up from 34% in 2000, First American LoanPerformancesays.

But Serin also deceived the bank by saying he'd live in the home. Banks typically charge higher rates and require larger down payments for investment properties.

"Lying on a mortgage application is a federal crime," says Joseph Falk of the National Association of Mortgage Brokers. "It includes bank fraud, wire fraud and mail fraud and potentially a host of state offenses. This can result in jail time."

At the time, though, Falk says some lenders were willing to ease their criteria for borrowers because, with housing prices surging, they knew they likely wouldn't lose money even if the loan went bad.

Mistake No. 2

Overpaying

Serin flipped the Sacramento house immediately, and agreed to purchase the buyer's old house. But Serin's buyer needed to put 20% down and had to pay a penalty to the bank for paying off his mortgage early. So Serin helped him out at his own expense.

"I paid too much for his house," he concedes. And since he'd already used cash from the first house to pay off credit cards, Serin took out a $10,000 credit line for repairs on the buyer's old house.

Mistake No. 3

Lacking cash

Serin put the second house on the market but lacked the money for the $2,500 monthly mortgage, plus his rent and payments on the credit line. So he rented the house with an option to buy it later. Acting in haste, he rented to tenants who could pay just $1,400 a month.

"I got desperate," he says. "I couldn't flip it, and I had to stop the bleeding."

Mistake No. 4

Quitting your day job

"Now, I'm thinking I've got negative cash flow, I've got the credit line. I need to do more deals."

As the California real estate market hit the skids in late 2005, investors began looking in such states as New Mexico, Texas and Utah, where prices were still climbing. Serin, with dreams of becoming a full-time investor, decided to take three weeks off work in January and go to New Mexico.

"My goal was this: to find enough deals in three weeks that I could put under (a sales) contract ... so I could have enough in the pipeline so that it's safe for me to quit my job. If I can't get anything out there, then I go back to my job. But in my mind, I was already succeeding, and I wasn't looking back." He bought two homes in New Mexico with no money down and liar loans. He took back $20,000 in cash — enough to carry his payments for a while. Back in Sacramento, he gave two weeks' notice.

Mistake No. 5

Hiring an unlicensed contractor

Serin next bought a house in Modesto, Calif., that he'd found through the Internet. The deal was packaged by a "wholesaler." A wholesaler finds an under-priced home, puts it under contract and then transfers it to an investor in exchange for a fee of $5,000 to $15,000.

The house was appraised at $380,000; Serin paid $323,000, including closing costs and $15,000 he got back from the seller. The wholesaler "told me the repairs that needed to be done, but it was a lot more than he described."

Serin hired a contractor, but when he sought the license number, he couldn't find any records. The contractor said the work would take a month or two. After three months, the job was only half done and the contractor wanted more money.

Mistake No. 6

Buying sight-unseen

The sixth home Serin bought was in Utah. A developer had subdivided a tract and sold off the lots for custom homes. The last lot had a 25-year-old house on it.

"I bought it sight-unseen," Serin recalls. The developer "told me, 'It's outdated; you just have to update everything.' I didn't realize, not only is it outdated; it's awkward looking. ... Every room had a different color carpet. Some rooms had a photo-type wallpaper with nature scenes."

He realized that the $18,000 in cash he pulled out of the deal wouldn't begin to cover the renovation needed. He put the house back on the market and left town.

Mistake No. 7

Buying out of state

On the trip to see the Utah property, Serin stopped in New Mexico. One of the homes he'd bought there was rented; the other was on the market but not selling. Fearing he'd soon have to start paying the mortgage, Serin tried to rent it out with an option to buy. "I was even saying, 'You don't need to put anything down, just show me you have a good job, good credit and take over," he says. "But I couldn't do it fast enough. I was only there a week and a half."

Mistake No. 8

Buying too many properties too fast

The seventh house was near Sacramento.

"I basically used up all of the equity... and the market is already going down," Serin says. "But it made sense to me at the time because I'll take the $50,000 (cash back from the seller). I'm finding it takes a lot more money than I thought, and what if I run out of the money I already took out?"

The mounting financial pressure was getting to the young flipper. "I'm thinking about how to use the cash (backs) wisely and keep everything afloat," Serin says. "I realize I'm buying way too much. I'm not able to manage it all. And it just sort of happened. By April, I had six houses."

But he didn't stop buying. He was caught up in the frenzy.

Mistake No. 9

Underestimating remodeling costs

In May, he snatched up a house in Dallas. "I thought it was going to be my best deal so far, because of the spread," he says.

The wholesaler said the property was appraised at $310,000, and the owners would sell it for $190,000, but it had to close quickly. Unable to get another loan so fast, Serin went to a private lender, who appraised the property at $275,000. To get the loan, Serin had to put down $30,000 and put $30,000 more into escrow to cover the needed repairs.

Sight unseen, Serin went for it.

When he finally saw it, he said, "The layout was weird. There was a garage conversion, which I knew about, but because of my inexperience I didn't know the garage conversion kills it because very few people want an extra room. Most people want the garage."

Serin thought he could renovate the property for $15,000.

"I ended up spending $30,000," he said. "It ended up being a monster."

His bank balance was dwindling. Serin was also burning cash traveling between his properties. He purses his lips and inhales sharply. "That's the sound I was hearing."

Mistake No. 10

Having a poor exit strategy

Having just read *How to Sell Your Home in 5 Days* by Bill Effros, Serin flew to New Mexico in June and auctioned the vacant house in one week, eking out a tiny profit. He tried it a week later in Texas. A disaster. Just three low bids.

By July, Serin was out of cash and living off credit cards. He took out more lines of credit to try to keep pace with his mortgages. He wanted to go for one last deal in New Mexico. His wife saw copies of the letters he'd written to the banks.

"She's like, 'I don't want no fishy business.' "Part of me is like, 'Well, I know it's not right. I know I'm lying to the banks, but I've got to do what I've got to do. I got into this mess. I've got to get out somehow.' And it was like, once you make one lie, you've got to keep lying, in a way."

His last loan was rejected, and Serin hit bottom. The bills for his mortgages and other debts total $20,000 a month. He's says he's determined to pay off his loans. He's considering bankruptcy, restructuring the loans and trying to get another Web-design job.

Serin's current situation is bleak. He is currently unemployed as is his wife, who has gone back to college to get an accounting degree. They rent an apartment and have $140,000 in debt, and the remaining five houses he owns are facing foreclosure.

Yet, ever the optimist, he says, "There might be some other possibilities in the works right now for some additional real estate deals that would be completely aboveboard and allow me to make some money.

"There are some wholesaling opportunities where you find a contract and sell it to another investor. You can make 5, 10 or 15 grand on that stuff. That's enough to almost carry it for a month."

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