Fast Business Credit

THE BEST STRATEGIES TO AVOID AND SURVIVE A FINANCIAL CRISIS!

With Todd Rooker, President & CEO of Armor Financial Services and Financial Crisis Recovery, LLC

Learn these important financial strategies:

- *Why is transparency your enemy when you are in a financial crisis?*
- *Why banks are making so much money on foreclosures and why that is bad news for you*
- *What is the best way to prepare for a financial crisis and how to avoid one!*
- *Why a loan modification will rarely work (and sweet spot for the numbers when it will)*

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Todd Rooker

Scott: Good evening, everyone. Welcome to our Top 5% Club monthly conference call, where our goal is to help you, in your business, be part of the top 5% that's not only in business after 5 years, but also profitable. In order to do that, you have to master 2 skills: 1) how to grow your profits in the shortest period of time; and 2) how to keep them.

Hello. My name is Scott Letourneau, and I am the CEO of Nevada Corporate Planners and Fast Business Credit. Welcome to another powerful call this month.

Tonight is critical as a subject. Unfortunately, a lot of people are finding themselves in or close to, with the recent changes in the economy over the last couple of years, and it's how to avoid a financial crisis or how to survive a financial crisis if you're already in one.

I know many of our clients and many people we've talked to have especially a crisis when it comes to real estate. They got into real estate investing late in the game. They're upside down, under water. Perhaps your business isn't working. It's forcing you to become late on perhaps some of your personal payments on your home, other bills, things of that nature.

We're going to cover all that the next 60 minutes, in a fast-paced teleseminar training with one of the experts in the country on this subject, that will help you to avoid that financial crisis.

So let me go ahead and introduce our special guest, and we'll go ahead and get right into the call.

Our special guest is Todd Rooker, and he says, "People are going through major financial crises today. They're going to many people like yourselves, insurance agents, real estate agents, mortgage brokers, financial advisors, CPA's, and attorneys. And everywhere they go, they get different advice and different information, none of it seemingly that cohesive, and walk away more confused than when they started.

"'I need to know everything there is to know about tax implications related to losing things and going down in flames,' what most people commonly say. 'Everything from the 1099A, the 1099C, I have to know all the credit implications. I have to know all about mortgage lending. I have to know all about real estate. I have to know all about financial planning. Plus I've got to know all about bankruptcy laws. All these things I must know.' And I'm not the person who, when someone calls to me, I say, 'Well, I just can't talk to you about that, I'm not an attorney,' or, 'I can't talk to you about it, I'm not a CPA.' I don't get to say that."

"I have to know all these things," and this is from Todd's perspective, our special guest this evening. "And people actually come to me for exactly these reasons. I can tell you, frankly, that if you talk with me about these things, you'll find that, in fact, most the people will say, 'I've already been to most of these professionals you've mentioned, and you've told me more in one hour than all those people combined.'"

That's a frequent comment Todd gets when people go to him; because, as you know, it's very challenging when you get different answers from different people.

He'll continue. The feedback he gets is, "'I didn't know someone like you existed, who knew all of these things.' The whole notion behind is this: Here's my client. I'm going to give you an instance of who that person might be, and it's not obscure, the average client of mine. I also teach for the Minnesota Bar Association. So, I teach attorneys and have clients who are going through this very thing, believe it or not. The people you'd think you'd go to actually are coming to me for the very same help, losing their homes and losing everything."

Imagine the attorneys and CPA's and financial planners you rely upon for advice in this very subject, some of those same people are losing their homes, suffering the same problems they're teaching. You know where they go to. They go to our special guest, Todd Rooker.

A client would come to Todd and say, "Alright, Todd, look. I've never missed a payment in my life. As a matter of fact, I couldn't imagine that I ever would. However, I've been exhausting all of my resources in an effort to make my payments on time. I've been taking loans against my retirement account. I've been taking cash advances on my credit card. I've been borrowing money from my family and friends, all in the effort to make my payments on time."

"I know, very shortly, I'm going to run out of rope. And when that happens, I'm certain my credit and my finances are going to go down very fast and very hard."

"Here's my questions, Todd. Do I let my house go into foreclosure? Do I need to consider short sale, deed in lieu, loan modification, credit counseling, God forbid even bankruptcy? How in the world am I going to rebuild my life? When will this whole nightmare be over?"

"That's my world, and I'm definitely qualified to give advice and information on that particular subject."

Again, that comes from our special guest tonight, Todd Rooker, who is the expert on this subject when you're facing these financial situations. Maybe you're currently in the middle of it, maybe it's just going to be starting. But this is the call to get the answer.

Please welcome our special guest, Mr. Todd Rooker. Todd, how are you doing tonight?

Todd: Very good. Wow, that's a mouthful.

Scott: I probably didn't do a very good job at that.

Todd: Yes. So, that is me. That is me, my job, as you have tried to summarize. Again, I'll say I didn't know you were going to read all that. But the summary is that I have to essentially know what all of these professionals know, and put it into one cohesive strategy that addresses all of them. And that is entirely unique; because, as you said, most of the time people go to a different person, the CPA, the financial advisor, the mortgage broker, the attorney.

When you're a hammer, everything looks like a nail, and you tend to get one perspective. And then you go to another professional and get a wholly different perspective, and you walk away more confused than when you started.

My job is to bring it all together and address every issue, then help people make decisions in the midst of that. So that's what I do, Scott.

Scott: And that's outstanding. It's probably even worse than that; because if we're really honest, **what happens is you go to 3 different accountants to get 3 different answers, 3 different real estate people get 3 different answers, 3 different attorneys. Now you've got each niche of a profession times 3 different answers. I don't remember my probabilities statistics, but I'm sure it's quite a high number. The odds of getting the right answer are probably pretty slim.**

Todd: I deal with that very issue in this way. I tell people that, "If I tell you something, it's because I've been through it hundreds of times." I always tell people, "No matter which direction you go, you're the boss. I'm not going to tell you what to do. But I'll tell you that every direction possible, I've been down that road hundreds of hundreds of times. So, if you hear something different from someone else…" And it would be great if it were actually from a professional, Scott. More often, it's from my brother's sister's cousin, kind of thing.

But what it actually is, coming from somebody and it's different than what I said, I just make it very clear. "I'm right, and they're wrong."

Scott: And I love that, and that's an easy way to look at it. Before I get started with one of my first major questions, I want to comment on what you just said, which is a common challenge. I face the same thing, too, when it comes to starting a business, entity structuring. All of a sudden, everybody's the expert. And typically, just like your industry of financial crisis, if you got the advice from your brother-in-law's cousin's uncle, whoever, the question is most people aren't even qualified to give advice.

If you were able to ask a battery of questions to determine if they have any experience/expertise in the area, you'll find that probably 90% of the people that are giving opinions really aren't even qualified to give an opinion. And that really just saves everybody a lot of time and money.

Todd: If a guy has filed bankruptcy twice, he must be an expert at bankruptcy, right?

Scott: He can probably tell you about his 2 experiences of probably 2 different attorneys and how it worked each time. He can tell you about perhaps what he had to do, and things of that nature. I agree with you.

<u>Todd, for our listeners, can you just take a couple minutes and give a little bit more about your background and your company, and how you got to where you're at today?</u>

Todd: Sure. I have been in the financial planning business for 25 years. I've been a financial planner. And as you've already indicated, I teach for Kaplan Professional School, so I teach continuing education to certified financial planners. I also teach to the Bar Association, so I teach attorneys.

This strategic planning and crisis takes a grasp of a whole number of things. I got indoctrinated into it when I started in the financial planning business over 25 years ago. And some of you who are old enough to be on the call will remember this.

I went out to do estate planning. I grew up on a farm in northern Minnesota. So when I entered the financial planning business, I went to work for friends who, like myself, were from farms.

Now, farmers tend to be asset-rich, generally, in that they've got a large asset – the land – that doesn't generate tremendous amounts of income. So, we commonly say they are asset-rich and cash-poor.

At the time, estate planning was a really big issue. Still is. But it was a really big issue because of the estate tax that was associated with it, and the horrendous nature of that.

I went to work for family and friends, to do estate planning. And during that time, which would be early to mid '80's, you folks on the call may remember, that was the time of the farm crisis. And so I went to work for these folks, thinking I was going to do estate planning. And very quickly, I figured out that they were not worried about the estate planning issue. They were more worried about going to war with the guy who used to be the best friend, their best friend, the banker, who now had their farm on the auction block and was liquidating it for pennies on the dollar, simply to get enough money to pay the loan.

I did that exclusively for 10 years. So I learned a whole lot about what works and what doesn't, and all of the estate planning tools that won't meet the scrutiny of going all the way to the wall. And what do I mean by "all the way to the wall?" I mean bankruptcy.

When I talk about an estate plan, and obviously an estate planning attorney or an asset protection attorney – and rarely do they call themselves that, because obviously that presupposes that you're actually protecting assets where you may have creditors coming after you, so it's always under the guise of some other purpose, maybe estate planning.

But whenever you do that, I say, "Okay, can it be defended by a bankruptcy attorney?" And, of course, the asset protection attorney would say, "Well, God forbid, that's the whole reason we don't ever want to be in bankruptcy."

But you know what? If you have to go all the way to the wall in bankruptcy, can a bankruptcy attorney defend it? If you want bulletproof asset protection, if you can answer that question, yes, then you're probably in good shape.

I learned what would survive that. Now over the years, I owned a company that does credit, I owned a financial planning firm, I've got 3 attorneys who work for us (an estate planning attorney, an asset protection-specific attorney, a real estate attorney, and a bankruptcy attorney).

I've done this for over 20 years, and typically I'm the guy who's negotiating with the bank.

The other thing I will say is that my job primarily is to go to war with a bank. I negotiate millions and millions of dollars of debt. And when the guy – an example – has a net worth of $30-million, $40-million, $50-million, you can't imagine the number of people who would tell you, just 10 years ago, that they had substantial net worth, that were in the $20-million, $30-million, $50-million range.

But if your income or your net worth is derived from development real estate, and you've got $100-million in development or speculative real estate with a loan that's say $60-million, that means your net worth is derived from that, and that's a $40-million net worth, asset minus liability.

The problem is what happens when the bank – you've not missed a payment now, mind you – calls the note due, calls you in to the bank and your annually renewable note of $60-million they want you to perform on, and they say, "Oh, by the way, we've already done a preliminary assessment of the value of your real estate. And what used to be $100-million we believe to be now worth about $35-million to $40-million. And by the way, we want you to perform on $60-million."

That's my client. That's the type of person I deal with, and now we go to war.

Scott: That's amazing. It makes a lot of sense about your skill set and background required to do that.

<u>For a moment, what's on the other end of the spectrum as far as the maybe typical person in America that has faced walking away from their home? What's the profile of that average person that may contact your firm?</u>

Todd: That person generally (and you can about imagine at $250 an hour I'm not dealing with people who have been financial disasters and have multiple missed payments through the years), I'm typically dealing with people who have never missed a payment in their lives. And as you said earlier, never thought that they would.

But they're exhausting their resources. They're upside-down severely in a declining market, in a house. The loan possibly has adjusted, or some other factor economically, like their income has been cut in half. And now, although they've not missed a single payment, they're now having to make real extreme choices as to what they're going to pay and what they're not going to pay, because they have essentially run out of money. So, I deal with that.

And here's the irony. What's the difference if it's $30-million or if it's $300,000? Because at the end of the day, if you can't afford to make the

payment and you've liquidated everything, then it's all just zeroes; because if you can't pay, you can't pay.

Scott: That makes sense. Just out of curiosity, the economic situation, the US, worldwide, where the economy has been over the last couple years, especially we'll focus in on the US in a moment, do you foresee, as far as what I think a lot of people are hoping, is either the ease of credit is going to ease up somehow or they're going to have to get access to more money through jobs, through their business getting better? That's a separate subject with the economy.

<u>But do you see it easing up or potentially getting worse? I know the whole commercial real estate industry is kind of in the middle, the next big shoe to drop. What are your thoughts in general?</u>

Todd: Yeah, I think the next bets shoe is already dropping. The largest owner of malls in the United States filed bankruptcy, and commercial financing is experiencing horrendous defaults.

You can just go about anywhere, to the malls and what have you throughout the United States, and you'll see all kinds of vacancies. It's happening, as we speak.

The economy itself related to real estate doesn't look good. I watched the Today Show I think maybe a month and a half ago, maybe it's been, and saw 2 leading economists say that, in residential real estate, they expect to see an additional 10% to 30% decline nationally, on top of what we've already got.

So, it's going to continue. The commercial real estate continues to decline. Part of that has much to do with the fact that the banks are in such a sorry state. When your loans go into accrual as a bank, you can lose as much as 10 times your lending ability. So for every $1-million that you have that is 90-

days-plus delinquent, that's a loan that's in accrual, that means you can lose as much as $10-million of your lending capability based on depositor funds.

It's a huge issue, and the banks are more focused on trying to patch the holes than they are in writing their way out of it, in the form of new loans. Consequently, financing, although the interest rates are great, is very, very tough. Talk to any mortgage originator or loan originator, and they'll tell you, "Yeah, great. Rates are fantastic, but I get an endless slew of stipulations. I can't get what used to be a slam-dunk 5- to 7-day loan. It takes me months and months and months to get these things closed."

So until the doors open up for financing, so that there's competition in the market again, we're going to continue to see the value of properties decline. And in this world, cash is king at this moment.

Scott: That makes sense. You've commented a few times about the banks. I know a lot of people might want to feel that, "Geez, the banks got a bailout a couple years ago now, cleaned up their balance sheets." I know there's a statistic that they're going to take over $2-trillion out of the consumer credit market on everybody's credit cards. As you pay down the debt, they kind of lower your limits.

I've had a line of credit in my business for probably 12 years. I've never heard once from my bank, until last year. They gave me a letter saying, "Oh, next year we're going to call your line of credit due." Like I say, I've never gotten a letter, a phone call from them.

<u>What's the reality of banks and their position? You commented about it. So everybody has who thinks that, "Geez, why don't the banks just negotiate with me? I've been good on my payments and my income is a little short. Why don't they work with me to just reconfigure the loan? Why are they making it so difficult?"</u>

What is the bank's position?

Todd: That's a complicated question, because it really depends on the bank. The larger banks, who are receiving subsidy money for losses – and let me be specific about that, receiving subsidy money for losses – these banks tend to be inclined to want to foreclose. And some of the major banks, you hear people say, "Well, obviously they don't want my house back." Well, anybody who says that, really doesn't know what they're talking about.

Because if a bank complies with the Making Home Affordable Program, or the HAFA program, if the bank forecloses on a property because they are seemingly trying to work it out with the homeowner but are unable to, they can get as much as 85% subsidies on their losses.

Remember, the banks like Bank of America, and JP Morgan Chase, Bank of America bought the largest home lender in the United States, Countrywide, for 8¢ on the dollar. Washington Mutual was the largest savings and loan. JP Morgan Chase bought them for 10¢ on the dollar.

So, when you think about a $200,000 loan, remember that they've only paid $20,000 per $100,000. On a 10¢ on a dollar proposition, that's $20,000 on $200,000. They foreclose on that house at $100,000, they've still made money. And, in fact, on the remaining deficient debt of $100,000, that being the difference between the $200,000 mortgage and the $100,000 foreclosure sale price, they are still getting an additional 85¢ or $85,000 on that loss. They get to write off the difference on their taxes. And then in many states, can still sell that deficient debt for cents on the dollar to a debt collection law firm.

They're making money hand-over-fist on foreclosures. And in point of fact, it's become a business model. That's what the whole ROBO signing was all about, where they've got 5,000 files in the loan modification department for every one person handling it, yet they

seemingly have no problem staffing the foreclosure department. They were foreclosing on 17,000 properties a day.

Hey, "We purposely under-staff the loan modification department, so that we can foreclose and make money, money, money."

So, the idea that banks don't want to foreclose may not be an accurate portrayal.

But now having said what I just did, that's not all banks. Not all the banks are participating in that. Many of the smaller banks aren't getting any of that. Now, if we talk about the smaller banks, they're in a lot of trouble. They've got the FDIC that is camped out in these banks, and they're telling the banks that they have to fully collateralize their loans, dollar-for-dollar.

The banks, as you've talked about Scott, are calling the notes due. And in a declining market, obviously, if we fully collateralize that loan today, if the market does continue to decline, whether that be residential or commercial, you can expect in a year from now they're going to be asking for more collateral.

But the FDIC is forcing the issue; because if they're not able to fully collateralize their loans, then the FDIC will downgrade the rating of the bank. Consequently, who wants to put your money in a bank whose savings accounts are not guaranteed? So that bank is going to be forced into receivership, and is going to have to be acquired by another bank with a stronger collateral position. The banks are scared to death of this.

So they're pushing the issue and calling everybody in, calling the notes due, and asking you to collateralize the loan. But remember, for every dollar that you collateralize that loan to strengthen the bank's position, you further weakened your own financial position. Because if it all goes to hell in a hand basket tomorrow, they're going to take all of those collateralized assets.

Scott: Wow, that's a lot. And that's the brutal truth of what's happening. Hope already you've gotten an indication. We're talking to Todd Rooker today, and he is the expert on this subject. There's a lot involved.

I think to win any game, you've got to know what the rules of the game are and the intuitive part of, "Oh, why do the banks want to take my home back?"

Unless you don't understand the mechanics, the numbers, how it works, and why it's to their advantage. Again, they're not in it to lose money, they're in it to be profitable. That makes sense.

Todd, what I'd like to do for the remainder of the call is cover 3 major subjects, so we give the listeners kind of an overview what we're going to go through. Then we'll get into each one, for a few minutes.

Number one, what are the steps to avoid being in a financial crisis? So for those, everything is still fine. No issues. What do they need to do, in case things got off-track a little bit?

Category number 2, what about those individuals who have not missed a payment? They're still on-track, but in order to make those payments they've really had to liquidate some other resources that probably they wouldn't have wanted to do otherwise, to stay afloat.

And number 3, are those people who are in that financial crisis situation, going down the road of they've missed a payment or 2 and they see themselves going under, what are some of the things to do and some of the mistakes to avoid when you're in that situation?

So, those are the 3 big ones we want to cover. Let's start with number one.

<u>What are some steps for our listeners to take to avoid being in a financial crisis to begin with? I'm just going to say that some of these may be</u>

fundamental; but if you're not doing them, they're not fundamental. So, take good notes.

Todd: Alright. Well, you're absolutely right. And the first point that I'll make, writing this down, folks, is this: nothing ever goes wrong until it does. Right? So, Scott kind of alluded to understanding the ground rules. I'll say the rules of engagement.

You're talking to a guy who's 4th-generation military. I was in Naval Special Forces, and my brother just retired from the Navy. And I've got 4 generations. I don't know how to not think strategically. It's how we do everything.

Having said that, there's a lot of things that seemingly are commonsense. But when you lay it on a person who's never missed a payment and, not in this lifetime, ever thought they'd be in this position, it is a new way of thinking. Although they can intellectually understand it, wrapping their head around it is another thing. They're not often prepared for that.

You've got to think, first and foremost, that the longer you have to prepare for a crisis, the better; which means if you believe that you're not in one at all, you never will be, but you want to plan just in case, then you're in a perfect position. Because if everything goes to the house of crap tomorrow, you've positioned yourself well in advance. And any good estate planning or asset protection attorney will tell you, "The more time you have to elapse and to delay, the better off you are, provided that you're evading to a purpose," and that's another concept.

But if you're looking at this, there's some basic concepts that I want to explain, and they're very important.

If you wind up getting into that position, imagine the person that I described momentarily, who's never missed a payment in their lives, they're seemingly an icon in their local area, they're worth tens of millions of dollars as a net worth, and out of nowhere the bank calls the note due, although they've not missed a single payment. That person is utterly shocked, and never saw it coming.

You sit in my office and watch enough of these folks, who never thought they'd be in this position. They were in my class, and they said, "3 years ago, when I came to hear you speak, Todd, best class I'd ever been to, but never thought I'd ever be sitting in your office. And here I am."

So when you hear that enough times, you have to recognize that everything that you do strategically, as a business owner, should be done under the premise that everything could go bad tomorrow, and what am I going to lose, and what am I going to be able to keep? That's very, very important.

Scott: I agree.

Todd: When I'm in a crisis. Know this: transparency is your enemy. Now, of course, when you go to get loans, you need to show transparency because that gives the bank confidence. And of course, just like any business owner, we always used to say you've got 3 sets of books: you've got the books that you show to the perspective buyer, you've got the ones that you show the IRS, and you've got the real ones.

Well, in this case, what is it that we're trying to show? We're trying to show a lack of transparency, because transparency allows someone to track everything that you have. And if you go to the wall, and you're going to fight, you need to know that that is your enemy.

The other thing you have to recognize, very important, is that the stronger you look financially – so when you go to the bank, and the bank wants you to fill out a personal financial statement because they see that you're in a weakened position, and the FDIC is forcing the issue, telling the bank that you need to collateralize this loan because the value of the land, the value of the property has declined to a degree that they're no longer collateralized adequately – **when you bring in your personal financial worksheet, remember this: the stronger that balance sheet, the stronger that personal financial statement, the weaker your posture to negotiate.**

Now, that's another one of those things where you say it, it's easy to understand, but it's hard to wrap your head around.

On the flipside, everything that makes you look bad, strengthens your position in terms of negotiation, because it's hard to fight a kamikaze.

If I'm in a position where I can say, "Screw it!" or at least – now here's the key, – seemingly I can say, "Screw it!" and walk away, remember the person who cares least is always the one who controls the relationship.

So a strategic battle always entails that you are in that position to say, "The heck with it!" Because if you care, you lose. So you've got to make yourself look such a way that literally you are in a strong position to negotiate. That's pretty obvious.

When you're looking at trying to position yourself, take things off the table. When you have assets, I like to say you keep those assets between you and God. Obviously, there's some things that are going to be on the table; but remember, when the banks further collateralizes its position, it's weakening yours because they're asking you to hook other assets. They always want you to bring in more and more. Have your wife sign. Have this additional entity become a guarantor on this note.

Everything that goes that way, you are trying to avoid that at all costs. And it's interesting that when you put your heels in the sand, and you say, "Screw it! This is how far I go, and I'll go no more," it's surprising how far you can get.

But if you don't even know to say that, and you come to the table with your arms wide open, because you just want to do the right thing and you just want to pay the bills, and you've got nothing to hide, and you lay it all on the table, let me tell you what, they'll slice your wrist for you. You've got to be very careful.

Scott: Very good point. Let me ask you a question on that. I know this comes up often. Like you say, if people aren't thinking strategically, you're caught off-guard.

I know with our bank account, personally – and I've got multiple accounts, probably more business than I would want to go into in the moment, but there's lots of accounts – I remember the bank would say, "Oh, do you want to add to your overdraft protection? Oh, we see your wife isn't on this particular account, but if you add her to the account we'll skip a step in the process. We'll just upgrade you." Is that one of those things you're talking about, if you're not prepared?

I knew better; I didn't do it. But what sounded like a good thing in the moment was, "Hey, they'll increase my overdraft protection or line of credit," whatever it was in the moment. But they realize a hole in their structure, which was, "Hey, we don't have his wife as a guarantor on this account also. How can we work backwards to basically manipulate/motivate Scott to add her, so we have more protection?" Is that what happens?

Todd: That's exactly right. Scott, you and I have had this conversation before**. It's like the credit card. "Is there anyone you'd like to add to your credit card?" Well, when you add that person to your credit card, they just became a guarantor. And guess what? If you file bankruptcy tomorrow, they've got another person to pursue, don't they?**

Here's the interesting thing. All of this stuff relates back to the same thing. Preparing when you've got nothing to be concerned with. Why would I do that? Well, let me tell you why you'd do that.

Because when you do have something to concern yourself with, when you do have a problem, it's too late to do anything about it. It may not be too late, but the options that you'll have will be entirely different.

If you're 2 business owners, you don't want to have everybody's name on everything. You want to be able to pick and choose. If anything goes bad tomorrow, you want to be able to say, "Alright, we're going to make the payments on this person's name, and these over here we'll not make. One person is going to go down in flames, but at least it won't be both, simultaneously." What are you a guarantor on and what are you not? So, you're absolutely correct.

And here's the interesting thing. People say, "Oh, come on, I don't want to have to think that way." That's delusional. Anybody who says that is just delusional." You need to recognize that it can go bad tomorrow. Nobody's insulated. Things can always go bad. So, you always want to be cautious of what it is that you're calling in and try to minimize that so, if something should go wrong, you're still in a strong position to negotiate.

That's why you never disclose more than what you need to. I hear people say, "Well, I don't want to live that way." Well, the bank, as you said, is making strategic moves. And I have no doubt that the bank justifies their thinking. "Okay, what can we offer to get them to, without any resistance, just lay that on the table?"

People don't know how to think this way, so they do just lay it on the table. And then, we're screwed. So, there it is.

Scott: That makes a lot of sense. I'll add a comment that I think will help people with what you're sharing there, Todd.

One of my favorite marketing guys, Dan Kennedy, he talked about being an entrepreneur. And he said, "Successful entrepreneurs are generally optimistic about most things, and paranoid pessimists about other things." He goes, "If you're just an eternal optimist, you constantly get your head handed to you, and you can't live." He goes, "Hope and faith are good, but they're not a solid business strategy. They're an element to a business strategy."

But he goes, "Generally, entrepreneurs, being optimistic, things will go well, and being optimistic about opportunity; but really being pessimists, could be that one vendor, the bank, whatever it is, they all go lame. Something's going to fall apart. It's going to happen, because then it puts you in a position, it forces you to strategically anticipate worst-case scenario."

I know a lot of people – I'm a fan of the law of attraction or in that arena – they just don't even want to go there, what could go wrong. But I think that being successful, all successful entrepreneurs are people that have their net worth and survive these things, had stepped into it. Because if you don't step into it, you won't do what Todd is talking about, to strategically look at thinking a little bit differently as you're going through this. I think the upside will be able to take care of it itself in the long run.

Todd: Agreed. So the things that you can do, and this is interesting because regardless of what we talk about, 1) where you didn't think anything would ever go wrong, but you want to plan just in case; 2) I've never missed a single payment but I'm using resources and I know that I'm going to begin to run out of money; and then the last one, "Oh, my goodness," as you said, Scott, "I'm in it."

It's an interesting thing because this will be consistent with all of those, but I want to say it anyway. It is this: you want to look at the assets and the things that you hold to be important as relates to the assets that you have in your hand. Maybe there's 5, 6, 10 things that you consider to be significant.

Well, **what you want to do in all planning is you want to look at it this way: if you could only protect one thing… "What do you mean just one thing? I want to protect it all?" Yeah, yeah, yeah, yeah, yeah. But if the whole world went bad tomorrow, what would that one thing be? Draw a circle around it.**

Then, if you could only preserve 2 things, what would that be? Draw a circle around those 2 things, and so on and so forth. And you just created contingency plan A, B, and C, moving back. So you go all the way ultimately your fallback position.

Now, as you do that, you begin to formulate a strategy immediately around those things; which is to say that you would never offer up as asset or collateral for any loan, this particular thing, other than what's already against it. You would never offer up the equity that is in your home. You would never use your retirement account to support or subsidize payment.

As you said, these eternal optimists being entrepreneurs, "I'll just make more money." And they've lived on credit, then they catch up, and they live on credit, and they catch up. And they may have tremendous net worth, but they've operated that way.

Well, in this new economy, in this environment, that doesn't work. It's a bad idea. And you don't want to touch those things that you've circled around option one and only thing, and the option 2, and option 3. You want to hold those back in any conversations, and you want to begin to move those out of harm's way, under protected mechanisms.

Protected mechanisms are things, as I've said, you've already gone to the wall. If you had to file bankruptcy tomorrow, what would you keep? Well people say, “Oh, my God, well, I’d lose everything.” Well that’s absolutely not true.

First thing that you’ve got to recognize is that in the United States, many states offer tremendous protections afforded a homestead. You go to Florida, they’ve got an unlimited homestead exemption. That’s why the guys from Enron went and built $15-million homes, because they could exempt it, they could file a homestead declaration and exempt it. Wow!

What about your retirement accounts? Up to $1-million. Here in Minnesota, where I live, if you’ve got a homestead, you can protect $360,000 worth of equity. If you own a farmstead, up to $900,000. That doesn’t mean you need to be a farmer, by the way, just means you’ve got farmland that somebody uses for agricultural purposes, which could be the neighbor across the road. Then, you can protect up to $1-million in your qualified plan. Well, my God, that’s $2-million. You could file bankruptcy and you could discharge all your other business debt, eliminate all those personal guarantees, and your fallback plan would still be $2-million. That doesn’t sound like broke to me.

But most people don’t plan for that. And they think that bankruptcy is the worse thing that can possibly happen. In point of fact, bankruptcy can be one of the strongest asset protection mechanisms there is, but you can’t do it tomorrow.

In other words, I can’t throw in $1-million in my retirement account in one tax year. I have to plan in advance. I cannot build equity instantly, take asset that was in harm’s way, what would be known as a nonexempt asset, and turn it into an exempt asset in one day, and now all of a sudden it’s protected. You have to be strategic.

Isn’t it interesting that you’ll find somebody in a state where they’ve got homestead afforded them $200,000, and they’ve got a home that is upside-down, with no equity, yet they've got a lake home that has $150,000 worth of equity. They'd have been much better served having taken a loan against the lake home and diluted that interest with a line of credit against it, and used that to pay down their primary homestead, that would have been protected. But they never think about it, until it's too late.

Scott: That makes sense. Should we talk about one or 2 more examples? Obviously, the first case was to avoid being in a financial crisis. We talked about that.

There's probably a lot of people in category number 2, haven't missed a payment. <u>What are some of the mistakes they do, Todd? I know again as part of that entrepreneurial mentality, "Things will get better. The business is slower. I'm not getting the revenue I need. I needed the money from the business to make my personal mortgage, so I'm going to take a loan against the retirement plan," or something. When is that or a similar solution you know people come up with okay to do, and when does it become a mistake?</u>

Todd: Well, it's a great point because the first group of people and the second group of people may not be too different from the third group of people. A lot of it just has to do with convincing themselves that they're not in that position.

When I teach the classes, I always tell the people who are in the classes, because I'm conditioning them for the type of person, frankly, that I'm really looking for, which is that person who's never missed a single payment and yet they feel as though they're throwing good money after bad, delaying the inevitable. I tell them that, because that's who I'm really looking for.

It's interesting because when they come in my office, they'll sit down and say, "Well, I don't know if I'm like most of your clients. I haven't missed a single payment. So I really don't have any problems." They'll say that to me. And I laugh. And I say, "That's all my clients. Most of my clients haven't missed a payment."

But once you're exhausting resources, in so much as you're in an upside-down burn position, it's interesting because people don't manage budgets well. Even people who've been enormously financially successful have never really managed a budget. Because especially entrepreneurs, as I said earlier, their answer to every financial problem is, "I'll just make more money." So, that's problematic because it's their sense of things right from the very beginning.

But a burn rate is to say that, "I am spending more money than what I'm bringing in." And when you get paid in such a way where you get these big chunks of money when you close a big deal, that already is problematic.

But when you consistently are burning cash, your income does not sustain your lifestyle, and you're tapping into resources like savings accounts, retirement accounts, taking loans against one's home equity, the minute that you begin doing anyone of those 3 that I just mentioned, you are in a financial crisis. The fact that you've not missed a single payment doesn't mean anything, because your income is not sustaining your lifestyle or the pure cost of living.

Consequently, however much you have to subsidize those payments is undoubtedly of a finite nature. And the question becomes, "How long can you continue to subsidize until you run out of money?"

Here's another interesting point. When people are in a financial crisis, statistically, meaning that they're utilizing resources to sustain their lifestyle, however much the resources may be, interesting statistic: you guys listening to the phone call, do you think that people spend less money or more money on discretionary spending when they feel as though things are not going so well financially? Well, everybody already knows they spend more.

The idea that people should be managing a budget, when they've never really had one in their whole lives, the idea that when they're in a financial crisis or beginning one, burning cash resources, the idea that they should focus on that, doesn't even occur to them.

But the truth is if there's ever been a time in their lives when they need to have one, it is right now, while they're in this position. Because if the resources that subsidize are of a finite nature, they're going to last less time, rather than more time.

Once you're in the situation where you recognize that you're there, now there's some important points. Because I've not missed a single payment, chances are nobody knows that I'm in that bad a position.

Now consequently, I may very well have high ratios on credit cards, I may have tapped out business lines of credit or personal lines of credit. So obviously, that could be telling or indicative if someone wanted to look closely at it. But the fact that I've not missed a payment means that I still have options and I still have time to do some things.

Know this. The minute you miss a payment, the trigger mechanisms are in place at the bank, and bells go off, and everything changes.

Scott: Todd, let me ask you this question. <u>I know a lot of people in the call, a lot of our clients, got into the real estate investment game late. They probably got 2 or 3 properties. A lot of them, they might be upside-down, $100,000 on their house, $200,000 on their personal residence. They have one or 2 rental properties that they might be upside-down $100,000, $200,000. They're making payments on everything, but they see, "When do I let the rental properties go? When do I let my house go?"</u>

<u>I know it's a full subject. Do you have a couple quick tips, as far as the evaluation process that they need to go through in that situation?</u>

Todd: Sure. The couple questions are before you let the real estate go, the obvious thing is can I pursue a loan modification? Is that a doable proposition, and will that fix my problem?

Anytime that a loan modification that is required to fix your problem includes principle reduction, I think you should throw that strategy right out the window. In other words, if you believe that the only way that this is going to be a viable proposition is if they take your $500,000 loan and write it down to $300,000, which is what your home is currently now worth, and that's a necessary component to keep you in the house, I would tell you that that's a flawed strategy, because the chances of that happening are slim and none.

Having said that, will a loan modification fix your problem? It may fix your problem. But you have to first see if you're within the sweet spot and you have a possibility of having that happen. And you've got to know that your 31% of gross income gets you there.

You take your gross income times 31%, and divide it by 12. If that gives you a payment that's less than what you have right now, then you have a shot at a loan modification.

If you use that same formula, and the number that you arrive at is bigger than the house payment that you currently don't think you can afford, just know that the mortgage company believes that you can make an even bigger payment. And it has nothing to do with debt-to-income ratios or the number of children you have. They won't look at any of that like they typically would when they do a loan. That's the first question you go to ask.

Then the next question is can the mortgage company modify my loan? Do they have it within them to get you to 31%? You don't get 2% modifications. You get your mortgage payment decreased to 31% of your gross income, and a mortgage company, under the government program, will decrease the interest rate to as much as 2% to accomplish that objective; which means Scott may get a modification from 6% to only 5% to accomplish his 31% of gross. Where, me, they may need to take me down to 3½%, because my income is lower, to get me to 31% of my gross income.

So, that's an important thing.

Now, if I've already done that, and that gets me to a certain number, and I say now I'm still wrestling with whether I should stay or go in the house, then we always have to look at the contrast. What would the alternative be? If I went elsewhere, and lived somewhere, maybe in the same school district, who knows, what would it cost me to live in terms of rent?

If someone says, "Well, I have a $1,500-a-month mortgage payment, I think I could rent for $1,000 a month," the first thing you better know is have you gone and looked at the houses at $1,000 a month? Because if your wife won't get out at the curb, that might be a good indication that this isn't going to work. You'd better look at that.

The other thing you got to take into consideration is if you're going to walk away and have to rent, which inevitably you probably will have to do, you're going to lose the tax write-off, or the interest write-off that you were enjoying as a homeowner.

Now, if your tax refund at the end of the year was $6,000, and much of that was derived from the interest that you were writing off, divide that number by 12. My goodness. That's $500 per month. If your mortgage payment is $1,500 a month and your rent payment is $1,000 a month, but you're getting a tax incentive equal to $500 per month, $6,000 per year, guess what? You're no farther ahead by renting than you are staying.

You really need to take all the factors into consideration to determine if you should stay or go.

The other thing that I'll bring up, that is vitally important, is to recognize what a tremendous tool bankruptcy can be in keeping and preserving one's home. If I've got a first mortgage of $200,000 and a second mortgage of $50,000, and I could file bankruptcy – and many times people will say to me, "Well, I know I have to get rid of my house, I'm going to have to short-sale my house because I can't afford my mortgage payment," then I say, "Okay, so how much is your mortgage?" And they tell me what I just described. And I say, "What do you think the house is worth in this market?" "Oh, gosh, it's worth no more than $180,000."

Then I say, "So, look, let's look at the contrast here. If you had a mortgage of just your first mortgage, and you walked away, what would be the difference if I rented?" "Well, if I rented, I'd still be paying $X."

"So you walk away, you're renting, and you still got $90,000 in credit card debt. Have you really fixed anything?" "Well, no, I guess."

"Okay, so let me ask you. If I told you that we could position you to strategically plan for bankruptcy, discharge your $90,000 in credit card debt, and also discharge and strip out your second mortgage of $50,000, then modify your first mortgage of $200,000 from $1,500 to $1,200 a month, you'd no longer have a second mortgage, you'd no longer have credit card debt. Would you still want to walk away from your house and short-sale it?"

"Well, of course not. Can you do that?" "Yes, you might be able to. It depends."

Scott: Yeah, that's powerful.

Todd, I have a couple more questions, before we wrap up the call today. We could go on for hours in this subject. It's just great strategies, information. <u>But I know people out there wondering how do they get a hold of you, number one. And number 2, what is the current backlog when you've got to get a hold of the best? I know you don't call them tomorrow. So, give me the realistic timeframe, and then how do we get a hold of you?</u>

Todd: Well, that's part of the problem, and Scott, it's the reason that I'm doing DVD's and things of that nature, because the reality is that I see 5 to 7 clients a day. I'm booked out 6 to 8 weeks in advance. And it's a heck of thing for a person to say, "Thank God I found you. I've learned more in 15 minutes than I've learned from all these other people combined. Yes, I want to book an appointment with you."

I don't do free consultations. I charge $250 just to have them walk in the door, and I spend 2 hours with the client, explaining what their options are, the implications, and the length of time it takes to recover. Then if they go beyond that, then it costs several thousand dollars to do that.

Well, I don't have any shortage of people coming to me, and I'm booked out weeks and weeks and weeks in advance. **So I've tried to make this more affordable by creating a DVD series that gives you probably 80% of everything that I can do in person. It's more affordable. It gets out to more people. And potentially, I may actually begin to have a life at the age of 50. Maybe, maybe.**

But the other thing alternative to that is a free download, which provides you with a tremendous amount of information, as well. And that might be the best place to start.

So, if you go to my website, www.ToddHelp.com. You scroll down the middle of the homepage on the right side, and you will see the financial

crisis bible. And it goes through many of the things, and then additionally a whole lot more of the things that we've talked about.

It's a free download. You got to give up your email address to be able to get that information. But it is information that is incredibly valuable. And a lot of people will tell me that that information just changed everything of their perspective. They felt like the world was spinning out of control. They laid awake at night and didn't know what was going to happen next. For the first time, they understood exactly what the options were, and they got to choose. And that changed everything in their minds, because they felt like they were back in control.

The Financial Crisis Bible is the first place that you go. If you want to go beyond that, we have a DVD and video series.

Additionally, if you want my help directly, you simply contact us at that website, and schedule a phone appointment for us to go through your information. We have you fill out a 14-page discovery document, where I'm asking everything that is licensed, registered, titled, and insured, because I want to get a perspective of exactly what the bank is going to see, and how we can position you to look a certain way, so if we have to go to battle we've got everything locked down, and we're prepared.

Scott: Outstanding. So, it's ToddHelp.com. That's the place to start to contact Todd Rooker and to get the free download, and look at the tools and support, which is tremendous.

<u>Todd, last situation. Somebody has missed a payment. They're behind one or 2 payments. They have a couple pieces of real estate, their home. Their business isn't doing well. We talked about some of the options a little bit. Any other thing you want to add to that category?</u>

Todd: Any lines of credit that you might have, that you believe you'll be using to settle with. Let's assume that you adamantly say, "I'm never going to file bankruptcy. We don't even need to go there."

Alright. Well at this moment, remember, you may not even be late as it relates to credit, because you don't actually become late on a credit report until you're 30 days late.

So, if the bill is due on the 1st of May, you don't actually become late until the 1st of June, as it relates to credit. And may take a week or 2 before it actually hits your credit report, possibly longer.

Whatever credit you may have available to you, you'd better take advantage of it and get it out, so that you can use it, should you have to go and settle these accounts for cents on the dollar and be able to repay that money at a reasonable interest rate.

I know that sounds absurd, it sounds crazy. But you've got to remember that if you're going to buy your way out of it, it's going to take lump sums, not payment plans.

The other thing is if you need to buy a car because you've got to lock yourself down, again, this sounds ridiculous. But remember, if at this moment your credit still looks good and you can get the 0% financing, and within 9 months to a year you're going to need to replace that car, I don't know. Would you rather do it now, at a 0%, or 1%, or a 4% or a 5% rate, as opposed to getting your financing in a strip mall at 22% on an auto loan? You'd wish like heck you had done it. So, you need to do that.

Any monies that you have in a bank account, especially if you've got credit cards or mortgages with a particular bank, say Wells Fargo, say US Bank, whatever the bank happens to be, let me tell you what. You

better get your money out of that bank account right now, before you miss a payment, because all of those banks have provisions that will allow them to pull the money right out of your account if you don't make the payment.

It stands to reason if you've got 10 investment properties and they're all financed with Wells Fargo, you probably don't want to deposit the rent into your Wells Fargo bank account. That probably makes sense.

The other thing is that you also want to be aware that once you go down this road, you may find it very hard to open up a bank account elsewhere. I always believe that you should have multiple banks that you do business with. Also, if, God forbid, you should end up filing bankruptcy, know that once you do file bankruptcy you'll not be able to open another bank account for 12 to 24 months, depending on the bank.

Having a relationship with 2 or 3 different banks so if something should go wrong you can walk across the street tomorrow, all of that is just simply prudent, should something go wrong. And you don't know which direction it can go, so you want to have contingency A, B, and C. So if option A, the best case scenario doesn't work, you know exactly when to pull the trigger on option B, and you've got everything prepared and ready. So it's not catastrophic. It's just a part of the strategy.

Scott: That makes a lot of sense. Going back all the way to beginning, we've talked about it before. I'll just have you finish with this comment about the fundamentals again. The fundamentals are easy to do and easy not to do. If you do them, you can be successful. <u>Can you share a comment or 2 about what most people still haven't done?</u>

<u>I know I work on it every month with my wife and at the business, is the comprehensive budget. Why is that a must?</u>

Todd: It's everything. It's absolutely everything. And it's hard. I did, in 2010, budgets for 38 CPA's. I have an endless supply of certified financial planners who are no better at managing their budgets than anybody else. When you're dealing with someone who's an astute business owner, who has got a financial background, the minute you bring up budget, they roll their eyes because they believe that any idiot with a calculator can do a budget. And they are, quite frankly, offended by the fact that you even bring it up.

Well, let me tell you what. I've been a financial planner for 25 years and people are horrible at managing a personal household budget. They're very good at reconciling at the end of the year. They push a button and Quicken or QuickBooks prints everything out. But that does absolutely no good when it comes to managing money and controlling spending through the end of the month.

Which means at the end of the month, if I'd allocated $600 for groceries, and then I calculate that I spent $750, what in God's name are you going to do about it now?

Managing a budget is what you need to make decisions from a position of financial accuracy. So a person says to me, "Todd, I'm willing to do anything to keep the home." Case in point. And I say, "Really? Anything?"

Well, it's always so easy to say that, when you don't know what anything actually is, because it's nebulous. It's not anything specific.

I say, "Really? You'll do anything?" "Well, yep, yep." Then I say, "Alright, so let's do a comprehensive budget." And Christmas, birthdays, anniversaries, Mother's Day, every single doggone thing. Hunting, fishing, football, dance, gymnastics, all of these things, the things that make life worthwhile. And I say, "Alright, now let's do this. Let's eliminate the house payment, because we're trying to determine should we stay or should we go? This is making decisions from a position of financial accuracy."

And we go through that. We leave the house payment out. We use modest utilities and I say, "Let's decide if we can afford to stay. Now, you told me you're willing to do anything. So, tell me, which of the things that you're willing to give up? Which one of the kids isn't going to get a birthday party this year? Tell me about the fact that you're not going to be able to have 2 cars, you're going to have to give one up."

Well, of course, now the tears begin. Because now we're getting to something that's really serious and really specific. And then they'll say, "Well, that's where I've got to draw the line. Life just isn't worthwhile. I'm not willing to give up those things." And I laugh. And I say, "What in the world are we actually talking about, then?"

It's real easy to say, "I'll tighten my belt, and I'll watch my money," when it's not specific. When you lay it in front of people, and they say, "I'll do anything to keep the house," but then they realize to keep the house they have to eliminate every trip to McDonald's, there will be no swimming lessons, and there will be no dance for their daughters, all of a sudden they change their perspective and maybe they don't want the house as much as they thought they did.

This is the specifics of making decisions from a position of financial accuracy. And this is a part of what I do with every client before we formulate contingency plan A, B, and C.

Scott: That makes total sense. Todd, one more time, the website, for everybody to go to?

Todd: It is ToddHelp.com. Go to the Financial Crisis Bible. It's mid-page, on the right-hand side, and that will get you started. And then, if you want to go farther, that's what I'm here for.

Scott: Outstanding, Todd. It's always a pleasure. You're the best in what you do. It's a blessing to have you on the call. Thanks for everything. Have an outstanding day.

Todd: Thank you for the opportunity, Scott.

Scott: You're welcome.

This will end the call for tonight. Everybody have an outstanding evening.