



THE ZERO SUM GAME

IN BUSINESS . IN FAILURE . IN SANITY

JOSEPH A. SUTTON

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A Tale of Two Joes

“Those that panic at the thought of failure, who do not act with clarity and determination when the moment of crisis is upon them, deserve the limitations for which their fears committed them.”

My oldest son absolutely loved that quote and was heartbroken when he learned it wasn't an original. I told him one Sunday afternoon that it was from a spy novel I had read while traveling throughout Europe after graduating college. He still loved it and printed two copies. One for him and one for me. Mine he taped to the dashboard of my minivan. He figured I could really use the help. My son wasn't wrong. I was a mess. And if you're wondering what Jared did with his copy of that quote, it's still taped to his computer keyboard.

So, on the worst Thursday of my life, August 18, 2008, as I sat in my car about to lose my proverbial shirt, that quote was in my face. Taped to the dashboard, right where Jared had left it, the words crashed over me like a wave. “*Those that panic at the thought of failure...*”

Don't panic, Joe. Take a deep breath. Let's think this through. My head still spinning, I stepped out of the minivan and headed for the Pinellas County courthouse in the city of Clearwater. Florida in the summer can be brutal, especially if it rains in the morning. This would be one of those brutal days. Hot and humid, with on and off rain. At least the courthouse had air conditioning. We'd be comfortable when the docket of all the foreclosure cases was read.

Sitting there waiting for my case to be called, I thought, *What's happening here? How did I go from "Joe Sutton, Mortgage Lender" to "Broken-Down Joe"?*

In the months that followed, my transformation would be complete. Businessman, mortgage lender Joe became heavily-medicated-with-twenty-two-loans-in-default Joe. But on this Thursday morning, the worst was yet to come. I had become the owner of three homes before Kenneth City, and had nineteen loans in some form of default waiting their turn. The Kenneth City house was the one on the docket that day, and it was more than I could handle. How the hell had I gotten here?

Beach Bum Joe

I'm Joe Sutton, an East Hollywood beach bum who went off to college kicking and screaming. I wanted to be an electrical engineer, but my casual lifestyle and the serious student lifestyle were at total odds with each other. At seventeen years old, with absolutely no parental guidance, I decided to surf, chase girls, and play water polo over calculus, chemistry, and SAT prep.

I was lucky just to be accepted to the University of Florida, much less to make it through a rigorous engineering curriculum. While I did try, I ended up where most failed engineering students go: business school. It would be the only time in my life that I quit something and settled for being average.

Business school eventually turned into a business degree, and, right after graduation and a month stint in Europe, I landed in the mortgage business. Fast forward to 2004, and I had built two businesses from the ground up under the mentorship of a portly Portuguese banker who'd started Wall Street Mortgage Bankers in 1985. For the first five years, I learned everything there was to know about managing risk, managing customers, and managing expenses.

Listed in the Who's Who registry of banking, my mentor Rudy provided me with a lending foundation that no business school ever could. He gave me five good years and then retired. He moved back to Portugal and left me to plow ahead and grow shareholder value. A

totally symbolic gesture as there were just two shareholders, him, and me, but I took over majority interest and continued where we both left off.

Over time, I accumulated enough cash that I could convert Wall Street Mortgage Bankers from a broker to a banker. I was no longer matching lender-to-borrower for a commission. I started funding mortgage loans myself and selling the loans to banks at a sizable profit. With the cash pouring in, I opened a second business - Wall Street Servicing.

This servicing business would take the net proceeds from the first company and invest it in collateral-based loans for people with credit issues that kept them from going to the bank for a loan. These “hard equity” borrowers certainly had the income to make the monthly payments but, for various reasons, were non-bankable. I wasn’t judging, though. They got a home loan from my company that they could pay for, and I was making money. Over time, as their credit or their ability to show income improved, they would find a cheaper loan from a bank and happily be on their way. I, in turn, received my principal back and readied it for the next borrower.

*I had that drive.
I had it bad
and, suddenly, it
was killing me.*

The interest earned on these loans paid my personal bills, and whatever was left over was invested back into Wall Street Servicing. It was the perfect business plan that was built slowly over time. I nurtured it year after year and watched it grow. The creation was proof that I had mastered my skill.

Beach Bum Joe had become Businessman Joe, with two companies and over eight and a half million dollars out in loans.

Most people will never come close to mastering a particular skill. They clock in to work, clock out of work, go home, go to sleep, and hit the repeat button the next day. I’m one of those other people who can’t stop. I’m always striving, reaching, and searching for the next opportunity. The fine-tuning and the “perfecting” of the skill is the thrill! It’s like the musician who composes the simplest yet most complex concerto, or the cook in the smokehouse who smokes the sweetest, hottest, most drop-off-the-bone pork ribs you’ve ever eaten in your life.

Perfecting one's skill is the high, and the goal. It's the thing that motivates you in everything you do and makes you a craftsman. I had that drive. I had it bad and, suddenly, it was killing me.

Back at the Pinellas County Courthouse, I was a desperate mess.

There I was, sitting, waiting for CACH – 1342FL to be called. That was my foreclosure lawsuit against a Russian couple who had financial difficulties in 2005. My loan, secured by their house, had been the plan to get their lives back on track. That plan blew up when they fell behind on their payments and then stopped paying altogether. The borrower did call me one Saturday evening while my wife Beth and I were on vacation. She told me that she was anxiously awaiting the bailout promised by the George W. Bush administration. That also never happened.

This would be my fourth such experience on the courthouse steps. The first three borrowers had used the same tactics as my Russian friends. They didn't pay and promised a payment that never came. I started foreclosure, and then they went bankrupt. When the foreclosure sales finally happened, no bid came close to the loan amounts, so I became the property owner.

The good news was that this painful process happened so often I had developed a blueprint for dealing with the situation. I told myself this was how I would survive the onslaught of foreclosures I knew in my gut was coming.

At 10:15 a.m., my buddy Angel walked up to me in his usual khakis and Cubavera shirt.

"Did I miss anything?" he asked.

"Nope. There's been a delay, and we are on hold waiting for the clerk's assistants to come out with the files."

"Are you nervous?"

"Not really. I'm bracing myself for what follows."

Angel just looked at me and then sent his wife a text telling her that we'd both be home for dinner.

That's when it happened.

The two clerk employees walked out, and I realized why they were late.

"Are those the foreclosure cases that the Pinellas Clerk is handling today?" Angel asked.

The files were piled high on a cart being wheeled out. The stacks were so high that three adults could have hidden behind them!

“It doesn’t look that bad, only a few hundred or so,” I commented. A few files dropped on the floor. No one seemed to care. I knew all these foreclosures would be read regardless of the order. I was numb. Angel was agitated.

“Joe, they needed two people to wheel it out,” he observed.

“That’s normal. You have one person reading out the case number, that’s usually the one pushing the cart, and the other person is there to make sure there is a semblance of order in the room.”

Angel looked totally shocked.

In Fort Lauderdale, they need four people to wheel out docket carts. Two help the lenders’ attorneys situate themselves without falling over tables. The other two cart people run the proceedings. Case by case, they read each one, minimal bidding occurs, and just like that, the bank becomes the new owner of a house.

It happens with hundreds and hundreds of cases each day. The bidders for these properties go as high as twenty-five cents on the dollar, and banks either accept the low bids and lose hundreds of thousands of dollars, or they don’t budge lower than a certain amount and end up owning the house. It’s that simple.

“You see the people milling around with laptops and briefcases?” I asked.

“Who are they?” Angel murmured.

“Those are the bottom feeders, as we like to call them in South Florida. They huddle in packs, each with a head bottom feeder. The lawyers representing the bank are the ones that look anxious. They’ve got files stacked up to their eyebrows. The head bottom feeder of each pack sets up shop with his laptop and cell phone while his subordinates carefully review the docket list. They have already determined which properties they will bid on and will patiently wait for those to be read. If they win the bid and gain possession, they will renovate the property

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and flip it for a sizable gain. If there isn't at least fifty grand to be made, they wait for the next case. On this particular morning, the lawyers outnumber the bidders by a large margin. Plenty of supply and not much demand equals lower prices for the properties. Unfortunately, it will not be a good day for the lenders, including me. I fully expect to lose money here. It's only a matter of how much."

We waited until my case was called and the house I used as collateral for the \$162,000 loan I advanced three years ago came up for bid. After the case was introduced, the bidding began. I placed the first bid of \$1,000. Angel looked sick.

"Relax," I told him. "As the owner of the note, I can raise the bid as high as I want. I just want to attract more people to the bidding."

"What if nobody bids over \$1,000?" he asked.

"Then, I own property for \$1,000. If I start the bidding too high, I will lose buyers, and since there aren't that many buyers to begin with, I prefer to get some action."

After ten minutes, the bidding reached \$80,000, with me as the highest bidder. Then everything went quiet except for the clerk going, "Once, twice...sold to the lender for \$80,000." Now I was the one about to puke.

"What does that mean?" Angel asked.

"Well, it means that I'm the new owner of this property in Kenneth City."

"What happens to the \$162,000 that you lent to the borrower?"

"The debt is gone. These particular borrowers filed for bankruptcy, so the promise to pay me \$162,000 disappears. I just lost \$82,000, plus non-collected interest and lawyers' fees."

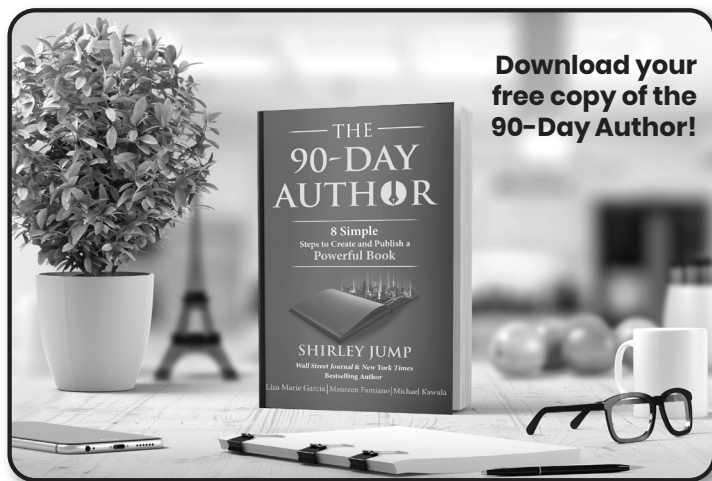
All Angel could do was shake his head and mumble, "Brutal."

That's a funny word - brutal. Just when you think it's totally accurate, something else comes along and makes you think, "That wasn't brutal, this is!" That morning at the courthouse had been devastating. *Brutal* was what I walked into when I opened the door of the Kenneth City House.

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About the Author

Joseph A. Sutton is a serial entrepreneur with more than 35 years of banking and real estate experience. He started his career in lending in 1987. By 1991 he had controlling interest of the company and by 2003 was the sole business owner. That same year, Sutton started his second business, Wall Street Servicing – an asset management company with annual revenues in excess of \$1 Million.

The transformation from successful businessman to debtor in the millions was fast and furious. In 2008, the collapse of sub-prime mortgage loans, the real estate market crash and the banking collapse delivered devastating blows to his business, his life and his sanity. At rock bottom, his worst enemy was himself. The word “panic” on a post-it note was the spark to what happened next.

Today, this survivor is running his fourth business venture and does public speaking at universities, colleges and professional associations. With his trademark authenticity and humor, Sutton shares insightful lessons on business, entrepreneurship and banking. He’s also a subject expert on the changing industries of real estate and community banking, as well as property insurance, credit analysis and risk management.

He and wife Beth have three adult children and call South Florida home. For public speaking engagements, visit www.TheZeroSumGameBook.com

