

MONDAY MORNING QUARTERBACK

FORECLOSURES 101

AUGUST 6, 2007

Many real estate investors and first-time home buyers ask us about foreclosures and the opportunities foreclosures present to those looking to buy a piece of property at lower-than-market value.

In this and the next issue of *Monday Morning Quarterback*, we'll de-mystify the topic of foreclosures, first introducing you to the process and later outlining how to purchase property that is in the process of foreclosure.

Elements of a foreclosure

A foreclosure is a process in which a lender, such as a bank, repossesses a piece of property due to the borrower defaulting on a loan and sells the property in order to satisfy the debt. The process involves a few phases, outlined below.

- 1) **Pre-Foreclosure:** The foreclosure process *begins* when a borrower defaults on a loan and the lender issues a formal notice of default. After that time, there is a grace period of approximately three months between the initial record of default and the point at which the lender may sell or take possession of the property. This grace period is known as pre-foreclosure.

During this period, many home-buyers or their agents directly approach distressed homeowners, since they are often looking to sell their homes quickly in order to pay back the defaulted amount on their loan and prevent it from impacting their credit history.

- 2) **Trustee's Sale:** At the end of the pre-foreclosure period, if a borrower has not re-instated a loan by making payments, the property will typically go up for sale at public auction. At this point, the proceeds of the sale will first go to satisfy the mortgage, then to other lien holders and finally to the mortgagor if there are remaining proceeds.
- 3) **Judicial Foreclosure:** Much rarer in California is the judicial foreclosure, which is used primarily when there is a problem with loan documents, or if the lender is seeking a personal money judgment against the borrower.

This process is far more complicated *and* lengthy since it gives the borrower one year in which to come back and pay off the entire debt and demand title to the property. If the borrower does not do so within

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one year, the lender may put the property up for sale. Like a trustee's sale, the proceeds go first to satisfy the mortgage, then to other lien holders and finally to the mortgagor.

The opportunity for you

How can this information help you to make smart purchases in the real estate market? In the next issue of *MMQ*, we'll show you which stages of a foreclosure are best for buying homes at sub-market prices and provide tips on how to buy "right" at each point in the process.

If you're interested in purchasing a property in the process of foreclosure or simply contemplating the idea, please give us a call at (858) 759-5238 or visit our web site (www.shea-realestate.com)!

We'll work with you to examine your unique situation and needs to identify the best opportunities the foreclosure market may present to you.