

MONDAY MORNING QUARTERBACK

FORECLOSURES 101 – HOW TO BUY

AUGUST 20, 2007

With the recent downturn in the mortgage market and the risk of rising interest rates, now is the perfect time to exercise your buying power, whether as an investor or as a homeowner. One area that presents excellent opportunities for buyers is the foreclosure market, where homes often sell from 20 to 50 percent below fair market value.

In the last issue of *Monday Morning Quarterback*, we outlined the process of foreclosure; in this issue, we'll provide advice on how to *purchase* a property at each stage along the way.

When and how to buy

Typically a property in any stage of foreclosure will be discounted. However, each stage presents challenges and opportunities for you to consider.

- 1) **Pre-Foreclosure:** In pre-foreclosure, the property's current owners have defaulted on their mortgage payments and are probably attempting to come up with the money to reinstate the loan. However, many will need to resort to selling their home to pay off the loan and minimize the impact on their credit report. As you can imagine, this is a highly stressful situation for the homeowners. If you are interested in approaching the homeowners and making an offer, you'll need to be sensitive to their situation and to anticipate a potentially mentally, emotionally and physically draining process of engagement.

To be successful in this endeavor, we advise looking at the situation from the distressed homeowners' perspective. Be sure to come to them with a solid offer and the ability to act on an agreement quickly, since they will be looking to pay back their mortgage rapidly in order to avoid further negative "activity" on their credit report.

Homes in the pre-foreclosure stage typically sell for 20 to 40 percent less than fair market value.

- 2) **Trustee's Sale:** Homes for sale at public auction present even greater discounts than those at pre-foreclosure. In addition, you can avoid the unpredictability of dealing with the homeowner. However, you'll also need to pay in cash or with a cashier's check. Only the foreclosing lender will be allowed to "credit bid."

The public auction begins with the lender placing a minimum bid for

MONDAY MORNING QUARTERBACK

FORECLOSURES 101 – HOW TO BUY

AUGUST 20, 2007

the value of the debt owed, including principal, interest, late charges, advances and costs of foreclosure. Since some homeowners have mortgages that leave little equity in the home, don't assume that a property at a public auction is a steal. As in all real estate transactions, do your homework first.

- 3) **Real Estate Owned (REO):** If a property goes back to the mortgage company after an unsuccessful public auction, it is called real estate owned, or REO. The lender will usually attempt to re-sell the property to recover the unpaid loan amount. The discount for an REO home is typically less than a home in pre-foreclosure or for sale at auction.

You won't have to pay in cash in this transaction; however, you should still submit verification of your pre-approval and your access to funds along with your offer. The lender may want this documentation to ensure you have the ability to purchase the property. After all, the lender will have been "burned" by having to foreclose on the property once and won't want to repeat this experience.

The opportunity for you

Rates of foreclosure have been rising and will likely result in a \$200 billion market, according to Christopher Cagan, a researcher at First American Real Estate Solutions. To be a savvy investor or home buyer, it's important to know where the greatest "discounts" can be found and how to take advantage of them.

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

With interest rates low and threatening to climb, now is the perfect time to buy, and we can give you the guidance to navigate this more complicated yet financially rewarding segment of the real estate market.