

Buying Foreclosures in Today's Market

Foreclosures may offer a great deal, but don't expect the road to be smooth. A recent Kinglinger.com article explains some of the hassles you may encounter.

According to Realty Trac, an online listing service, foreclosures were up 60% in February of this year compared with last year. Although states like Arizona, California, Florida and Nevada have been the hardest hit from a real estate standpoint, foreclosures are on the rise pretty much everywhere. This means that buyers who are bargain-hungry have an unprecedented selection of foreclosures to check out, and they range from condos to luxury homes to modest homes.

Buyers interested in foreclosures should be warned: although a foreclosure may look like a bargain on the surface, there is no guarantee that it will save you money compared with buying in the traditional manner. For instance, discounts vary significantly depending on where you live, and in fact, many foreclosures are actually priced higher than their true value because the sellers have to pay off the mortgage and cover taxes and transaction costs. Also, buying a foreclosure involves doing your homework, staying patient and being lucky.

All in all, there are quite a few potential issues with buying a foreclosure. If you are buying at auction, you will usually need to pay cash. You might also face a long waiting period to take possession of the house and move in. Some foreclosures also require extensive repairs; owners who cannot keep up on the home mortgage payments may also not be able to maintain the home. Some homeowners facing foreclosure may even strip the house of appliances or fixtures, or vandalize it. Accurate information about foreclosures can also be hard to come by. A potential buyer usually can't look at the property before buying. Also, "there could be judgments and liens attached to the property or more than one note or deed of trust being foreclosed," says Richard Llewelyn Jones, a Seattle real estate attorney. "If you don't know what you're doing, you could lose your shirt."

In the end, many buyers get turned off by the risk and hassle involved with buying a foreclosure. If you are still interested, your first and smartest step is to find a real estate agent who deals with foreclosures. A knowledgeable agent can locate properties and accurately establish their market value, which might be very different from the asking price. You should also remember that you will have to pay for any repairs, so build in a generous margin for that. Also, you may need to have a lot of cash ready, since traditional financing may not be an option.

Before going after a foreclosed property, you should check out your state's rules governing foreclosures. Whether the transaction goes through the courts, how much you pay for taxes and how much cash you need upfront can all vary by state. Get a summary of your state's laws at ForeclosurePoint.com.

Another difficulty with foreclosures is that you cannot usually get title insurance until you take ownership of the home, and you cannot expect the title warranties that kick in during a traditional purchase. You will need to inspect the title thoroughly, which means you need to cough up several hundred dollars for a title search, which you will then need to examine carefully for all outstanding debts. Even if you do this, Jones warns, there may still be title problems that aren't of record or that appear on the record between your title search and the public sale. You should be prepared to take care of any tax liens attached to the home, and to buy title insurance as soon as you take ownership.

Wherever you live, there are usually three ways to buy a foreclosure: in a presale (before the lender forecloses), at auction or directly from the bank. A presale means that you negotiate with the homeowners directly before their home goes into foreclosure. The discount you get in this situation can be as much as 20% to 40% off the property's value, but this is also the riskiest way to buy, since deals frequently fall through and title problems are common. Pre-foreclosure buyers also have to include the cost of an inspection and pay for real estate excise tax, as do buyers who purchase directly from a bank. If you purchase at auction, you may avoid some of these costs in some states.

Purchasing a foreclosure at auction is the most common way to buy, and buyers can expect a discount of 10% to 25% compared with buying a home through traditional channels, says Dean Street, a real estate agent and 30-year veteran of foreclosure buying in the western U.S. Auctions have their own set of problems, including the fact that you can often not inspect the interior of the home. Street says that it is critical to see the property even if you cannot gain entry. "If there is 300 pounds of garbage in the front yard, there is probably 600 pounds inside," he explains. In other words, the condition of the exterior will give you some indication of the condition of the interior, but it is by no means a guarantee. You can attempt to research the interior by checking the local building department's permit records, or have your agent see if a recent listing has any information on appearance, layout, remodeling, etc.

Many foreclosures that do go to auction get post-poned, usually do to a bankruptcy or loss mitigation, when the bank tries to compromise with the borrower. Opening bids also change frequently, as home values fall further. If you are

the winning bidder in an auction, you will pay for the property and take ownership within a set period of time, which varies by state. This may not be the end of your worries, however. Some states, such as North Carolina, allow former homeowners the chance to buy back their properties. You may also have to start eviction proceedings; once the house is vacant, you will probably need to schedule repairs.

If no one buys a foreclosure at auction, the property will end up with the bank and become a real estate owned, or REO, property. Banks have a lot of these in their portfolios and are actively working with agents to sell them. Unlike buying a foreclosure at auction, if you buy an REO you can use a traditional mortgage. Your discount on an REO may not be as steep; lenders typically price these properties at or near market value to recover the outstanding loan amount, as well as legal fees, property taxes and maintenance costs.

The benefit of working with an experienced foreclosure broker is evident here, because he or she can aggressively negotiate with the bank, especially if a property has been listed for a long time. Additionally, banks offering REOs often offer highly competitive financing to buyers, including low down payments and attractive interest rates. You can also profit as a buyer if you take advantage of a "short sale," where a lender sells a property for less than the debt owed on a house. If your market is one that is harder hit, you may see a discount of as much as 25%. But if you live in a market where there is less inventory, the discount may be smaller.

Buying a foreclosure is not for the fickle or faint-of-heart, but it can pay off.
Make sure you know your stuff before embarking on the transaction, and you may get an unbeatable deal!

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