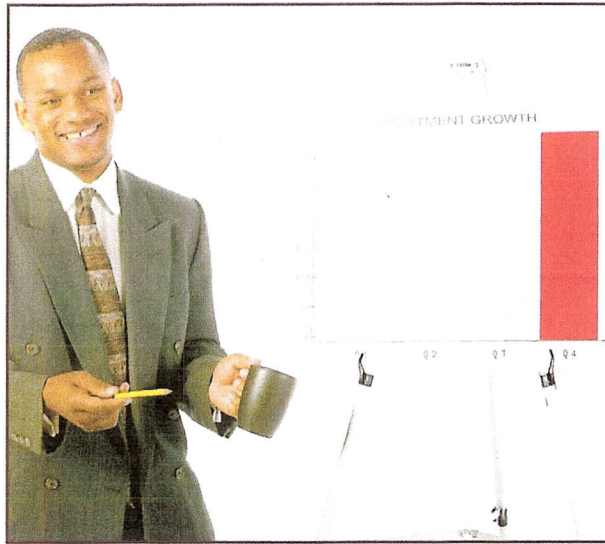


BUYING FORECLOSURES



THE BASICS YOU NEED TO KNOW
TO PROFIT FROM THIS MARKET



Real estate foreclosures have hit historic high levels in recent years, due in part (according to some experts) to the growth of the sub-prime lending market, expiring ARMs (adjustable rate mortgages) and the increase in 100% or greater LTV (loan to value) mortgages.

Regardless of how or why foreclosure properties enter the market, the simple fact is that they represent fantastic investment opportunities for many of those interested in making a return on real estate.

WHAT IS A FORECLOSURE?

If a homeowner stops making payments on the mortgage, the lender repossesses the property. The property is then resold.

HOW MUCH CAN I SAVE?

With some foreclosures you can save as much as 30-40%, and in some cases as much as 50%. However the majority run at 5% - 10% below market value.

THREE TYPES OF FORECLOSURE:

It is important to understand that buying a foreclosure property at various stages of foreclosure contains different risks and benefits. There are three types of foreclosures:

- ❖ **NOD (Notice of Default) Properties** – The homeowner has missed enough payments to warrant a formal Notice of Default from the lender. They have a period of time to bring the loan current before the bank repossess and sells the property.
- ❖ **NTS (Notice of Trustee Sale) Properties** – These properties have not been brought current on payment during the pre-foreclosure stage, so a public auction is scheduled to sell the property. The lender hopes the sale covers the amount owed on the loan.
- ❖ **REO (Real Estate Owned) Properties** – These are properties that did not sell at auction or the lender bought it themselves at auction and therefore owns the property.

PRE-FORECLOSURE (NOD) PROPERTIES - PROS & CONS

Buying pre-foreclosure involves locating a homeowner who is in default and sometimes working directly with the lender.

- ❖ **Pros:** Good prices on properties - discounts often 20-35%. Low cash out investment possible if structured properly. Sellers are usually flexible and motivated. Sufficient time to research property.
- ❖ **Cons:** Can be difficult to locate and talk with the owners. Competition can be fierce. Researching liens and working with the lien holders can be difficult.

AUCTION (NTS) PROPERTIES - PROS & CONS

Buying at the auction can be a financially rewarding way to purchase, or financially devastating, depending on the research done prior to the auction.

- ❖ **Pros:** Great prices on properties – discounts often 35-45%, however there is often a lot of competition, which can increase the cost of the properties.



- ❖ **Cons:** The most potentially dangerous way to buy foreclosure property. The process moves quickly and can be difficult for the novice. Certified checks for 10% (or even the entire amount) of the purchase price may be necessary and the balance can be due in weeks or even hours.

REAL-ESTATE-OWNED (REO) PROPERTIES - PROS & CONS

These are lender repossessed homes that the bank wants to rid themselves of.

- ❖ **Pros:** Easiest way to buy foreclosure properties. REO Properties are the best way for beginners to start investing in foreclosures. REO will always have clear title and usually has paid back due property tax as well.
- ❖ **Cons:** Less risk offers lower reward. Discounts range in the 5-15% arena, but can be as high as 25%.

ADDED BONUS BUYING REOs

If you can purchase the property from the lender who holds the defaulted mortgage, you may be able to get them to waive closing costs or points, or negotiate a lower interest rate or down payment.



TIPS FOR INVESTING IN FORECLOSURES

- ❖ **Choose a REALTOR® with foreclosure experience** – Working with an experienced professional is critical in locating and evaluating good investment properties.
- ❖ **Secure financing early** – If you have a pre-approved loan ready for the property when you locate it you'll have more leverage to bargain a great price with.
- ❖ **Inspect the property thoroughly** – Hire a professional inspector to ensure there are no structural defects, and that you know exactly what you are getting into.
- ❖ **Determine price in advance** – Research the neighborhood and similar properties. Your REALTOR® can provide “comps” for you – information on what neighboring properties have sold for in the last six months or so.
- ❖ **Check the title** - You also need to check to see if there are any liens filed against the property. A lien is most often filed when there are unpaid property taxes. Depending on the state in which you live, other unpaid debts can often be tacked onto the property as a lien as well.
- ❖ **Research the title thoroughly** – The best price in the world is too high if the title isn't clean.

Foreclosures can be great bargains to fix and flip, buy and hold, or live in yourself. However, it's always wise to check with your REALTOR® before diving into the foreclosure investment process. Their expertise can save you both time and money.

