



Want to Buy a Foreclosure?

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As the real estate market continues to soften, the foreclosure market becomes an interesting prospect. What most buyers are looking at are REO properties (bank-owned foreclosures). This means that the property has already gone through the foreclosure process, it wasn't bought at auction (where the general public can buy--on the court house steps--but keep in mind it is a cash transaction at that point, which is obviously a little tougher to do than financing and much more risky), and now the bank where the loan was made originally becomes the owner/seller.

Foreclosures can be great. There is lots of potential to pick up a property, whether it is for residence, an investment or even a second home, at a drastically reduced price. Sometimes though, what seems great on paper might not always be so great in reality!

We thought we would point out a few things to be aware of if you are considering entering this foreclosure market. If you can enter a transaction with the correct information and know the pitfalls to watch out for, it only can help you come out ahead in any investment opportunity!

1. A bank owned property is a "business transaction". Don't expect any of the warm fuzzies that you might have gotten at your last closing when you bought your house from a nice couple that raised their children there and are now downsizing. The bank simply does not care what day you want to move in or your schedule. You are on their clock and closing in many cases get delayed--sometimes by weeks or months even! As long as you know this going into the transaction, don't plan movers on a particular day or go to the closing in your moving truck, you will be fine. Plan on a flexible schedule for closing!

2. The bank usually will not be doing any repair work for you. Your inspector might point out a number of things that need repair and the bank will most likely not entertain doing any maintenance to the house. If you are not handy, do not like to do worry about repairs or do not have good contacts for repair work, a foreclosure might not be a good idea for you--especially, if you are a first time homebuyer. Buying your first home can be daunting to begin with and you'll find that there can be many unexpected costs (buying a lawnmower if you are moving from an apartment for example!). A foreclosure can present even more costs as many of the houses aren't in great shape. Just be prepared: the bank won't repair much if anything.

3. Because of the condition of foreclosure properties (they range from being in very good shape, even new construction, to basically gutted and non-inhabitable), the bank you are going to for financing (of course, we hope Silverton would be the first choice) might not be able to obtain a loan. When buying a home, you have to qualify, but essentially the house also has to qualify. If you are looking to get an FHA loan or a conventional loan with low down payments, a foreclosure can be tough because those types of

financing require that the properties are in especially good condition. If the condition is poor, it's not always a deal killer, but the bank might just ask for more money down.

4. Even after you have closed, you are not always allowed to take possession. Believe it or not, you might have to close in escrow, meaning the funds are being held by the closing attorney and you can't take possession of the house. This usually relates to the seller having to give a final approval, and in a foreclosure, a bank representative isn't at the closing. We've seen these take weeks in the worst case scenarios, but usually no more than a day or so. Again, just plan on being flexible when it comes to moving in or renting out the property.

5. The purchase contract can also be a little different on a foreclosure. In most cases, it's the bank's contract that is being used vs. the state-based realtor contract. The biggest thing to watch for in these contracts is the clause that will address extending the contract. We've seen as high as a \$100 a day charge back to the buyer for closing after the written date. In most cases, the closing date can be met. If it's the bank that is causing the delay, they will usually waive that charge, but it can be a fight. We suggest that you just be prepared when analyzing the investment that there could be some extension cost. As long as you are prepared for these added costs, you are protected from the unexpected.

6. We highly recommend using a realtor for these types of transactions (and of course, we have lots of good ones we can recommend)! Banks are pros at these transactions and they will be looking out for their best interest for sure. In most cases, they are losing money, so they are going to try to tilt the scales in their favor. You need a trained professional who has worked in this arena before representing you!!

Of course, there are many, many different scenarios and things that can come up when considering a foreclosure buy. These are just a few of the things we have encountered and thought would help our customers make the proper decisions.

With all that said, these types of transactions can be a great long-term investment. In most cases, you are able to purchase the property at a discount and hopefully build some instant equity!

Remember the old saying, "There are really only three ways to become wealthy...stock market, inheritance and real estate." We can't help with the first two, but hopefully we can help with any of your real estate and financing needs!