

Mastering Foreclosure Opportunities

The thought of purchasing a foreclosure, short sale or bank owned property is appealing to buyers on a number of levels, because the popular thought is that securing a great deal is guaranteed. It is true that when monitored closely and acted upon quickly, purchasing a foreclosure or bank owned property can be a very profitable opportunity. However, buyers must be careful to understand that the process (especially with short sales) differs significantly from purchasing a 'resale' home. There are multiple steps to the foreclosure process but basically there are 4 ways to purchase a pre-foreclosed or foreclosed property. Our team specializes in helping people find bank-owned homes in Austin and surrounding areas.

Pre-Foreclosure/Short Sale Stage

A pre-foreclosure and a "short sale" are basically the same stage of the pending foreclosure process. Once the homeowner has fallen behind on his/her payments for 30-60 days, reality usually sets in. Most rational owners realize that once they can no longer afford to make the payments on their house, it is time to salvage whatever equity they may still have. At this point, should they decide to sell, the owner will usually enlist the help of a REALTOR to list the house in hopes of a quick sale at or above market value.

In the event that the house does not sell at that price quickly and the owner misses another payment, a smart seller will go to the bank and attempt to negotiate an agreement for a reduced amount at sale in order to pay off delinquencies and the balance of the existing liens. This stage of the process is usually deemed *pre-foreclosure* or *short sale*. It's important to understand that *short sale* does not necessarily mean quick sale. In fact, it's usually the exact opposite. The negotiation and approval period with the bank can often be a lengthy process (sometimes up to 4-5 months).

During a short sale, the homeowner or a REALTOR acting on the owner's behalf will contact the lending institution(s), apply for short sale consideration and attempt to negotiate a price that the lender(s) is willing to agree to in order to satisfy the remaining debt. The homeowner is motivated to sell prior to foreclosure in order to avoid negative credit implications. At the same time, the lender is usually motivated to work something out to get the property off the books. The process of foreclosing on a home is a costly one for the lending institution and the bank will almost certainly lose more money than if it can come to an agreement on a discounted sale.

If the homeowner or listing REALTOR can facilitate a pre-approved short sale agreement with the lender, it can be the best time for an investor or owner/occupant to buy. The seller is motivated, the bank is motivated and the price is usually more than fair.

An offer on a short sale is submitted to the listing agent. The listing agent will then submit all offers to the lending institution for review and approval. The bank has a "net amount" or amount of money that it is willing to take to forgive the remaining debt. However, this *net number* is rarely revealed to agents or buyers until an offer has been submitted. The sellers and the bank are still holding out hope that a bidding war that will drive the price up. Because of the fact that

the bank's net price is not always public information, the highest offer still may not get accepted if it does not satisfy the bank's requirements. It's important to remember that it can also take weeks, if not months, to come to an agreement with the bank for an "approved" short sale.

Short sales can provide solid buying opportunities but the buyer must be comfortable with a longer approval process and the fact that he/she may not hear anything from the bank for weeks at a time.

Foreclosure Stage

After the homeowner has fallen behind on payments for more than 90 days and the short sale process has not been successful, the lending institution will move forward with the foreclosure proceedings. At this point, the homeowner has essentially lost any remaining negotiating power.

The house will be posted for foreclosure sale at the county courthouse steps for the first Tuesday of the following month. Not all houses that are posted for foreclosure actually make it to "the steps," as some homeowners are able to postpone the sale with some kind of temporary agreement with the bank at the final hour. Properties that do make it to the sale are sold to the highest bidder on location.

The winning bidder must pay cash for the purchase within 15 minutes of closing of sale. The bank will open the bidding at an amount usually equal to the remaining balance of unpaid liens. The majority of properties posted for foreclosure sale at the courthouse are upside down – meaning the mortgagee owes more on the property than it is worth on the open market. With that being the case, almost all properties that have little to no equity are not purchased at all and are returned to the bank for sale at a later date.

REO/Bank Owned Properties

Should the property fail to sell at the courthouse steps, the lending institution or bank retains full ownership of the property and its financial obligations. Banks try to avoid allowing a property to reach this step. At this point the lending institution selects local Real Estate Brokers to view the property and provide what is called a *Broker Price Opinion*. This "*BPO*" is an estimate by the broker of what price the house would likely sell for in next 30-60 days. The banks accumulate these price opinions from a small group of brokers and determine a price to list the property for sale.

That broker then lists the property for sale like a normal listing. The properties are sold in *as-is condition* and there is little negotiation on inspection credits/repairs etc.. The goal of the bank is to list the property at a price that will generate multiple offers, in turn creating price competition. Offers are accumulated and reviewed by the bank. Upon review, the bank grants the option to purchase to the individual with the most qualified offer.

These types of property listings, called *REO's* (REO = Real Estate Owned), can offer a decent buying opportunity. However, if the property has already passed through the short sale and courthouse auction process, it may not be as attractive an option. Still, most bank owned

properties tend to sell very quickly because they are usually priced slightly below market value and the bank is eager to sell.

The buyer assumes the property in present condition and sometimes the property will not be up to the standard where a lender is comfortable lending money for its purchase. As a result, some foreclosed properties (given poor condition) may only be able to be purchased with cash or hard money loans.

HUD Owned Homes

The United States Department of Housing and Urban Development (HUD) also holds foreclosure auctions for homes that it has acquired as a result of foreclosure action on a FHA insured mortgage. The purchase process is similar to that of other foreclosures, but the bidding is done electronically online. The house will appear on the asset manager's website (in Austin its Southwest Alliance) and will be posted for foreclosure sale. The houses are usually listed for sale 2 weeks before the actual bidding process closes.

Bidding through a HUD licensed real estate agent will take place for all interested buyers over that 2 week time-span. Bidding usually closes on a Sunday at midnight and by Monday afternoon, a winner is announced. This process is similar in that HUD has a *net number* that it must obtain during the sale of the property or else the property will remain active until an agreement is reached. For example if 10 people place bids on a property and all bids are below the bank's target *net number*, the house will then be posted again for bidding the following week.

HUD will post an initial *list price* for the house. The list price may or may not be the *net number*. Personally, I have seen houses sell for as little as 85% of list price and as much as 115% of list price, depending on the property circumstances.

Each of the four methods of purchasing a distressed property vary slightly depending upon where the property is in the foreclosure process. To be certain, purchasing one of these types of properties is quite different from a standard resale transaction. As a buyer, you, essentially trade the comfort, certainty and efficiency of a regular sale for the chance to buy a house below market value. As long as you are fully aware of the potential obstacles and hurdles that may have to be overcome during the transaction, purchasing a distressed property may be a great option for you.

Scroll down for more information . . .

Here's How You Can Take the Next Step . . .

If you are interested in purchasing a foreclosure or bank owned property as an investment or for your personal residence, you have made a wise decision to request this free report on Foreclosure Opportunities. With this information, you now have a basic understanding of the different types of foreclosure and the buying opportunities that they represent. This is a fascinating time in the real estate industry. There are tremendous opportunities for those who are eager to get involved.

Here are 3 FREE Services you may want to take advantage of right now:

First is our [Free, No-Obligation Home Finder Service](#). This service will provide you access to a list of any and all listings (foreclosures and otherwise) from the Austin Multiple Listing Service. By specifying a certain area or type of property, you can monitor all new listings that meet your requirement. These new listings will be included in your daily updated property search and sent directly to you via email. The best way to sign up for this service is to visit our website at: www.AustinPropertySearch.info and fill out the information request at the bottom of the page if you haven't already done so. Or you can email me directly at ryan@stonehavenrealty.com

Second is our **Priority Foreclosure Opportunity Email List**. Because of our connections with local banks and lending institutions, we receive regular updates from Fannie Mae and Freddie Mac about upcoming foreclosures that are scheduled to be listed. We also have access to a list of homes that failed to sell at the courthouse foreclosure sale that will soon be listed. This provides an opportunity to potentially buy before the property hits the open market.

Third - a [Free Home Loan Report](#). Did you know that choosing the wrong mortgage initially can cost you tens of thousands of dollars of extra interest over the life of the loan? Because I know that financing a home can be an intimidating task, (especially for first-time buyers) I will introduce you to one of my trusted lending partners. He or she will sit down with you and help you to evaluate the financing scenarios & options available to you. This information will help you to take advantage of the best program to suit your specific goals. Even if you are as much as six months out from purchasing, knowing up front what you can comfortably afford and/or what you may need to do to align your finances for a future purchase is invaluable.

This report is provided courtesy of:

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