

BUYING FORECLOSURES



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Buying a Challenged Home in Today's Market

Bank-Owned and HUD Homes

Bank-owned means exactly that- the bank (who gave the original mortgage) now has ownership of the home because the homeowners defaulted on the loan. The loan is normally a conventional conforming loan (this loan meets the guidelines of Fannie Mae or Freddie Mac, which means the loan can be re-sold to other banks on the secondary market). The homeowners did not make the required monthly payments, so the bank took possession of the home. The type of loan on a foreclosed bank-owned was a conventional/non-conforming loan. This means the loan was not an FHA loan.

A **HUD foreclosed home** was financed by an FHA loan. The Federal Housing Authority (under HUD-The US Department of Housing and Urban Development) insures the loan through an FHA approved lender. FHA provides the criteria and guidelines for FHA loans; banks that work with the FHA programs lend the money. Once a homeowner defaults on an FHA loan, HUD takes ownership and has their own process to put the home on the market.

Both of these are a long and tedious process... often a property has been sitting empty for a year or so. The previous homeowners have either left or been evicted. The bank or HUD has worked through the legal process of regaining ownership process (sometimes trying to sell it at a sheriff's sale, etc.). Once ownership has been transferred, the bank/HUD lists the home with a realtor (often a specialist in listing this type of property).

Short Sale Homes

A **Short Sale** home is basically a pre-foreclosure sale. The owners have financial issues, have missed or been late on mortgage payments, and are looking at a likely future home foreclosure and/or bankruptcy. They may have already tried to sell their home, but the price at which *they need to sell is higher than the market value*, and there have been no offers. At this stage, a realtor becomes involved (who often has experience in proposing a short sale to the lender). The owners will present a hardship letter along with information for the bank to consider, asking for time to get the property sold.

On an **approved short sale** the lender has agreed it will consider a price that is **lower** than the payoff amount of the loan. The advantage to the lender is that this loss will be *less than the loss the lender will incur with a foreclosure*.

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***Buyer Beware:** There are many short sales listed on the market where the realtor has not completed the paperwork to get an approved short sale. *Without an agreement in place*, the odds of a successful sale are remote.

Once an offer has been made on a short sale home, things get tricky. First of all, the bank has said they will *think* about the offer- *there are no guarantees they will accept an offer.* In the past, banks were also **notoriously slow** and would take **weeks (often MONTHS)** to come to a decision. There is no regard for your offer contract timelines- even if you give them several days to respond. Remember, it's the bank making the final decision, not the homeowners. **The biggest hurdle is** many of these properties have **two** mortgages- the primary mortgage and a second mortgage. Having **two lenders** involved in this situation means you have **two groups of people** deciding if the offer will be accepted.

Short Sale Facts

- The National Association of Realtors (NAR) states that 1 in 10 home sales was a short sale in 2009
- 23% of US homeowners with a mortgage had a negative equity in their home as of September 2009
- Credit Suisse estimates that 4.2 million homes in the US will reach the brink of foreclosure in 2010
- Fannie May reported that in 2008, for every one short sale home that sold, eight homes went into foreclosure.

Bank-Owned/HUD/Short Sale- Which is Easier to Buy?

Until late 2009, the preference for a buyer was to buy a foreclosed home versus a short sale home. The typical time frame for a bank to respond for a foreclosed home offer was 2 weeks; a bank response for a short sale could take four to eight months.

There is hope this will change in 2010. President Obama enacted the Making Home Affordable plan beginning last February. The first part of the plan gave homeowners the opportunity to refinance or modify their home loan to avoid foreclosure. Last May the administration announced the second part called the Foreclosure Alternatives program to streamline the short sale and foreclosure process for a quicker sale. These federal guidelines will take effect April 2010. Once enacted, a lender will have to respond to short sale offers within 10 days.

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There will be financial incentives to the lender to complete the short sale process quickly. Some lenders, like Bank of America, have already developed pilot programs to speed up the short sale process.

Five Fast Tips to Finish the Sale on that Foreclosed Home....

1. Be **pre-approved** by your lender. The bank owning the home will not consider an offer without a loan pre-approval. Better yet, be **approved** by your lender. Your offer will be first in line for consideration.
2. Understand your closing costs may be higher than a conventionally-purchased home. Your **type** of financing will also impact the check you write at closing- choose an experienced lender who can compare all types of loans and assist you with your best choice.
3. Your dream home is being sold 'as-is': what you see is what you get. And if you don't see it- it's still your problem. **Get all appropriate home inspections done**- it will be your money being spent to complete repairs.
4. Work with a realtor who is a buyer's agent and is **representing your rights**. Find an **experienced** agent- they will write an offer for you that allows you to back out of your contract if #3 above if the repairs are higher than you expected.
5. Find your experienced realtor with **the Columbus team** to guide you through the process.

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