Winning with Foreclosures

Buying Bank-Owned Foreclosures (REO) and Short Sales

Courtesy of

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Terms you should know:

1. **Distressed Property:** This term refers to all pre-foreclosure and foreclosed property.

2. **Notice of Default:** The homeowner has missed one or more payments and gets this letter saying the lender will foreclose. The time period from notice of default to foreclosure is called pre-foreclosure.

3. **Short Sale:** The lender agrees to settle for less than the full amount due on the homeowner's mortgage. This may happen any time during the pre-foreclosure.

4. **Foreclosure:** The process by which the lender takes property from the owner for failure to pay; also the term to describe the foreclosed property itself (a foreclosure).

5. **Auction:** Foreclosed property is normally offered at auction first—auctions are run either by local government (city or county) or by an auction vendor.

6. **Bank Owned or REO (real estate owned—a banking term):** Foreclosed property that is not sold at auction returns to the lender (bank). The lender usually hires an asset manager who lists the property with an agent.

Why buy a bank-owned foreclosure (REO) or a pre-foreclosure (short sale) now?

1) Prices are low.

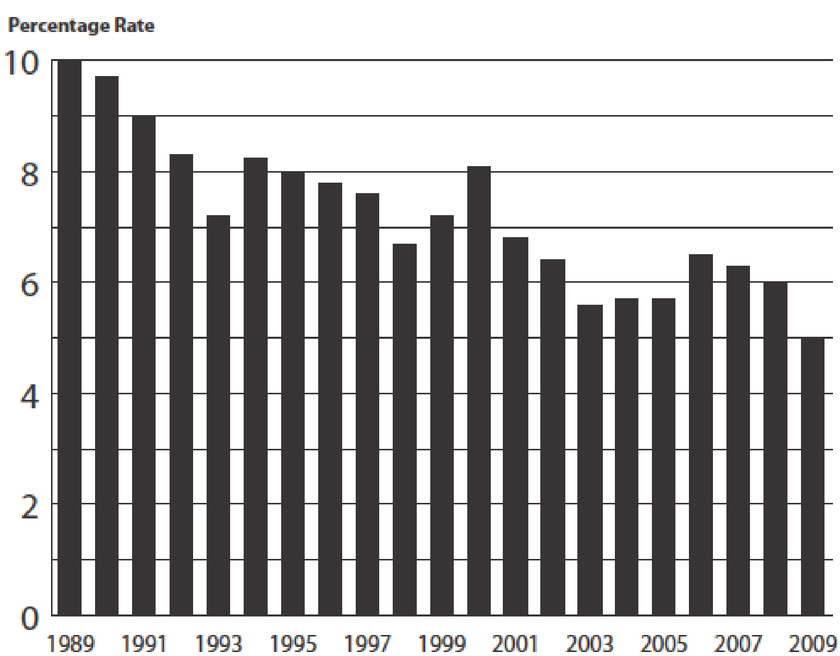
If you buy a foreclosed bank-owned property or a short sale, research shows you can save 10–40% over the price of similar properties in a normal sale.

Your expert agent can give you specifics about your local situation.

2) Mortgage costs are low.

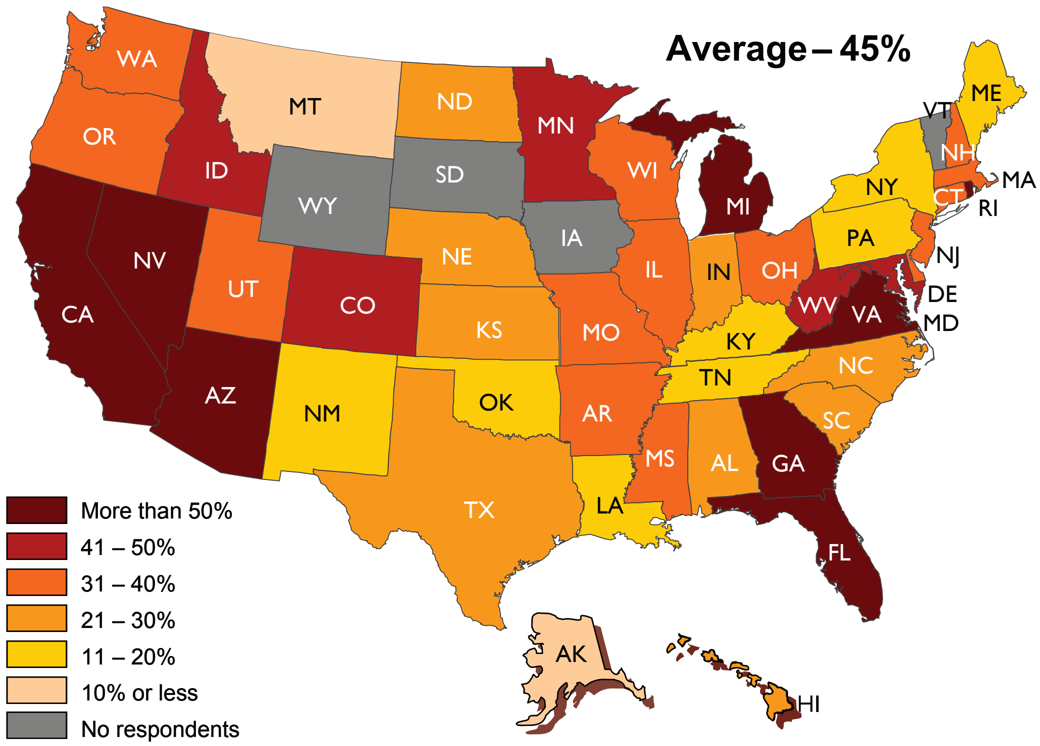
Rates remain near historic lows, keeping the cost to buy down for now.

Special all-in-one loan programs are now available that combine home loan with a rehab loan.



3) *You have choices.*

Lots of deals are available. Most markets have these properties in a wide range of prices, and neighborhoods and foreclosures make up a substantial percentage of the homes for sale.



4) *Sellers and lenders are very motivated.*

Traditional sellers base the price on what they believe or feel their home is worth—an emotional decision. They often hold out to get their price. Distressed property owners are very different.

Distressed homeowners who can't make payments, and typically have other financial problems, have little trouble setting lower prices. They need to sell and their lender will settle for a lower price.

Banks that have repossessed properties don't want to keep them. They price foreclosures to sell fast.

What's the urgency?

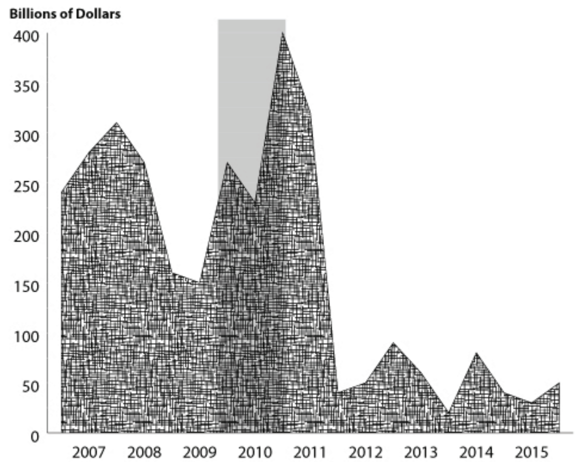
These buying opportunities won't last.

1) *Banks and the U.S. government are trying to slow the rate of foreclosures.*

Mortgage modification programs and bank policies are intended to slow the flow of foreclosures to market.

2) *Adjustable mortgage rate hikes have been increasing homeowner payments, and therefore foreclosures. That's ending soon.*

The number of these resetting adjustable mortgages is very high right now. That number will fall sharply starting in 2011.



Source: Credit Suisse

3) *Current mortgage rates for buyers are among the best ever.*

Rates for qualified buyers are some of the lowest in years. How much longer will they last? Expert observers say the U.S. government will be under global pressure to let rates rise sometime in 2010.

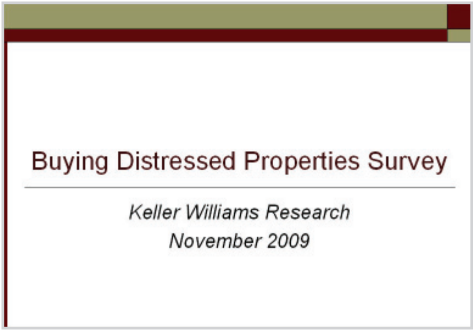
4) *The number of buyers is increasing—the opportunity to buy is getting more and more attention.*

Buyer interest in distressed property opportunities is climbing. Media attention is growing. People are bidding to buy the best values in some markets.

Who's buying now?

1) *First-time home buyers—getting a first home that's more affordable than ever.*

According to a November 2009 Keller Williams Research Buying Distressed Properties Survey, 40% of all buyers for bank-owned foreclosures (REOs) were first-time buyers in 2009. 50% of all short sale buyers were first-time buyers.



2) *Move-up buyers—getting more home sooner, and for less money, than they thought possible.*

You may sell your current home for less than you planned, but you can more than make up for it with a great move-up buy.

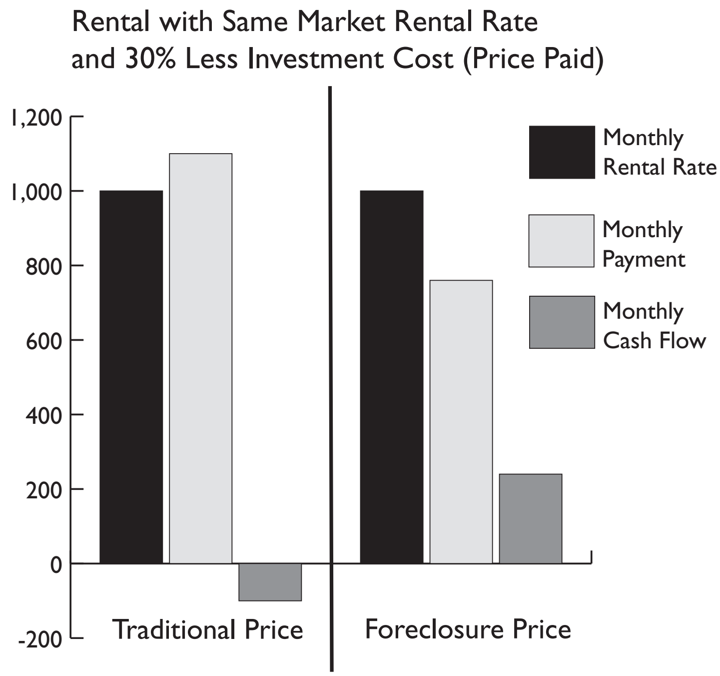
13% of all buyers for bank-owned foreclosures (REOs) were move-ups in 2009. 15% of all short sale buyers were move-ups.

See The Move-Up Story example in "What's Possible" at the back of this handout.

Questions for my agent:

3) *Investors wanting a rental at a great price—for better cash flow.*

27% of all buyers for bank-owned foreclosures (REOs) were investors in 2009. 15% of all short sale buyers were investors.



This chart compares an investor who buys a rental home for $200K with 20% down to an investor who buys the same property (with the same rental rate after not more than 3% of purchase price in repairs) at a 30% distressed discount. The first investor has negative cash flow of around $100 a month, while the second has more than $200 a month positive cash flow. Why? They have lower payments for a home which rents for the same amount as the higher priced sale. Also, distressed markets tend to include strong rental markets.

See The Investor Story in "What's Possible" at the back of this handout.

Questions for my agent:

Ignore the myths …

Foreclosures are a hot topic, and rumors like these are flying!

Myth

Foreclosures are low end, in poor condition, and in bad locations.

Truth

Foreclosure has affected everyone—all price ranges and neighborhoods. There is a wide range of property choices.

Myth

Foreclosures have lots of repair problems and are costly to fix.

Truth

The KW Distressed Property Buying Survey reports an average fix-up cost of just $5,000.

Myth

The best foreclosures get sold in bidding wars.

Truth

The most distressed markets do see some bidding wars—mainly in the lowest price ranges. But, it's a local thing and it depends where you are. Your local expert agent knows the details.

Myth

Loans are hard to get for foreclosures.

Truth

Loans are no harder to get for foreclosures than for any other property. In fact, the Federal Housing Administration (FHA) has a special "203(k)" program to help you buy and rehab a home.

Myth

Foreclosures are slow to close—it's not worth the wait.

Truth

Foreclosures (REO) and short sales are closing faster all the time as lenders and title companies improve their processes and lenders staff up to handle the volume. REO average closing time is 2 months; short sale average is 4 months per the KW Distressed Property Buying Survey results from 2,000 agents. At the end of the day, if you can get a great deal, isn't it worth the wait?

Myth

The best foreclosures are already gone.

Truth

Foreclosures are continuing at a high rate. The U.S. government is trying to slow them down through mortgage modification programs—with limited success. Unfortunately, a high percentage of mortgage modifications end up in default again.

Successful buyers in this market are financially able, very motivated, and clear about the buying process. They are armed with solid buying criteria and the very best advice—from an expert agent.

What you need to know and do …

- Find an expert agent to be on your side. It's essential.
- Prepare financially and get preapproved.
- Establish your property criteria.
- Play by the rules in offers and paperwork.
- Make a reasonably low offer without lowballing.
- Go for it and have patience.

Questions for my agent:

The 203(k) Opportunity

FHA-Backed Home Purchase and Renovation Program

- The purchase price and documented repair/rehab costs are bundled in one loan.
- There is one set of closing costs.
- Up to 3.5% down may be gifted.
- Qualification standards are eased.
- The loan limit range is $271K–$730K.
- There is an energy efficiency add-on possibility.

Questions for my agent:

What's Possible?
The Move-Up Story

Knolly Williams, a top agent in Austin, Texas, worked with a buyer named Chris who was considering moving up to a larger home closer to his job.

Chris got motivated and got help from his expert agent, who recommended a short sale property in a neighborhood near Chris's job—where he had thought he could not afford to live.

It turned out he could. He bought a short sale for a price that was 15% lower than he expected, based on comparable properties. His fears about not being able to negotiate on property condition were groundless. He told his agent, "Repairs were minimal and my family and I are thrilled to be here. Plus, the buying process was not as tough as I had heard because your team kept me in the loop every step of the way."

The 15% price discount meant Chris's down payment gave him more initial equity in his new home than he would have had with the same money at a higher price. His payments were almost $300 a month less than they would have been. And, he will make the same percentage return on his investment in five years as he would have at the higher traditional sale price.

HOW YOU WIN!

1) *PAY LESS*

Pay what you can afford to get what you want.

2) *BUILD EQUITY FASTER*

Initial equity is almost 20% greater with the same amount of cash down at the lower price.

3) *MAKE AS GOOD A RETURN WITH A SMALLER OUTLAY*

With repairs done up front, the appreciation for the short sale over time will be at a similar rate to the higher-priced purchase, and the homeowner's monthly cash flow will be a lot better.

What's Possible?
The Investor Story

Kevin Kauffman, a top agent in Tempe, Arizona, worked with a buyer, Ken, and his wife, Sara, who were considering becoming first-time investors in rental property.

Working with their expert agent, the couple searched and eventually purchased a bank-owned foreclosure in their Arizona community for $62,000. Prices have fallen dramatically there. The home was last sold in 2004 for $121,000.

The home is occupied by a long-term tenant willing to sign a 3-year lease extension for $1,100 a month. Ken and Sara have good credit. They put 5% down ($3,100) and financed the balance. Their monthly mortgage payments are $460 a month, but their rental income is $1,100 per month—a $640 monthly net to them. Their costs to repair items the tenant requested as a condition of signing the lease were a onetime additional $1,500—less than 3% of their purchase price.

Purchase Price	Down Payment	Amount Financed	Rate	Monthly Payment	Income from Rental
$62,000	$3,100	$58,900	5.5%	$460	$1,100

How It Worked for Ken and Sara—Strong Monthly Cash Flow and the Ability to Invest Again

Ken and Sara's positive cash flow should be in excess of $500 per month for the next 3 years. Their position is so good that they're considering starting biweekly payments soon, which will:

HOW YOU WIN!

1) SAVE MONEY

Reduce interest paid by 20% over the life of their loan!

2) BUILD EQUITY

If they hold on to the property, they'll pay off the mortgage 5 years ahead of time!

3) HELP THEM KEEP ON INVESTING

If they save their net positive cash flow toward a down payment on their next comparable investment property, they'd be ready to buy in 6–7 months!

You will win if you're

qualified.

well-informed.

goal oriented, but patient.

armed with the best advice.

Go ahead, get what you want!

Courtesy of

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