



04/02/2007

Should You Buy a Foreclosed Home?

If you are a bargain shopper and are currently on the hunt for a home, you may have heard stories of people finding great deals by buying foreclosed homes. And in the current market, there are no shortages of houses going into foreclosure. This is especially true if you are looking to buy in Ohio, Indiana, or Michigan. Plus the National Association of Realtors predicts that there will be more than one million foreclosures across the U.S. before the end of 2008.

Regarding foreclosed houses, David Lereah, chief economist for the NAR commented, "There are some good buying opportunities, but don't repeat the mistakes of the foreclosed borrowers."

The lending standards of the mortgage industry, and particularly the subprime or "bad credit" market, became increasingly lax during the recent housing boom, allowing homebuyers to get into homes they couldn't afford with loans they didn't understand. Now that the housing market has dramatically slowed and most homeowners' equity has dried up, many have run into trouble. Those with adjustable rate loans, especially those with 'exotic' loans like pay option ARMs or interest-only mortgages, have found it difficult to make their payments after their loan interest rates adjusted higher.

So, the first step in buying a foreclosed home is to make sure that you have the credit and resources to truly afford the house, no matter how great of a deal you get on it.

Next, you need to know how to buy a foreclosed home. You can go to a state auction and try to outbid others for such a house. The risk though is that you are generally buying a house without the ability to first inspect it. There may be plenty of repairs needed that could end up costing you a hefty sum. You will also have to be prepared to pay upfront with cash or a cashier's check when you buy at an auction. With an auction you might also find yourself in the unpleasant situation of having to evict the current homeowners if they are uncooperative about moving out. Still, auctions may be the venue that will net you the greatest savings on a foreclosed property.

You can also try buying a foreclosed home that is real estate owned (REO.) This is when the bank repossesses the house and then accepts offers from other buyers. The benefit is that you get to inspect and have a title search done on the house before placing your bid. The downside is that the bank wants to get the most possible for the property in order to cover the foreclosure losses. This may mean the discount will not be as great as you might score at an auction.

It is not always necessary to wait until a property has finished the foreclosure process. You may be able to snatch a great price by researching homes that are in the pre-foreclosure stage and going straight to the owner with your offer. Pre-foreclosure homes are listed in public notices, but you might have more luck paying a fee and using the resources of an internet company that specializes in tracking such information.

In the end, a foreclosed house will probably save you some money on the cost of the home, but you may have to shell out upfront costs for listing services or for necessary home repairs, as the previous owners probably didn't have money for the home's upkeep. The nice thing



about today's market is that because of the overstocked inventory of new and existing homes on the market, you as a buyer have a lot of negotiating leverage, with the potential to net a great deal whether the home is in foreclosure or not!