

REALTOR®

THE BUSINESS TOOL FOR REAL ESTATE PROFESSIONALS

6 Questions Foreclosure Buyers Should Ask

There are questions that buyers in any market should be asking before they make an offer on a property in foreclosure.



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Is now a good time to buy a foreclosure?

This is a very common question from both real estate professionals and prospective buyers. Obviously, because local market conditions vary, the answer is different from market to market. But there are questions that buyers in any market should be asking before they make an offer on a property in foreclosure.

What's the first step buyers need to take?

Require buyers you work with to be preapproved for a loan before you help them shop for a foreclosure. If they're thinking of buying a foreclosure as an investment or second home, they need to understand that financing the home will be more difficult and more expensive than financing a primary residence. Lenders typically charge higher interest rates and require a larger down payment for investment or second homes.

How can you tell a bad foreclosure from a good one?

Certainly there are great deals in many markets for both investors and buyers looking for a primary residence. But making a sound deal can be tricky. Buyers need to be wary of unpaid liens, including mortgage debt, taxes, construction loans, home equity lines of credit, and possibly a second or third mortgage. Any or all of these financial obligations could become your clients' responsibility when they purchase a property in foreclosure. Unless the property goes through a foreclosure auction and becomes a bank-owned REO, the outstanding foreclosure liens and fees could be simply transferred to the new owner—your clients. Don't let them fall into the same financial trap as the previous owner.

If I'm a qualifying borrower, can I appeal to banks for better loan terms?

Lenders are drowning in defaults—particularly in hard-hit real estate markets such as Arizona, California, Florida, Michigan, Nevada, and Ohio—so they may be motivated to cut a deal. If your clients have a good credit score, many banks will offer them a below-market-rate loan on a bank-owned home. Unlike paying down with points, this doesn't cost anything in fees, and it gives them the ability to spend more for the home.

What are the costs of buying a foreclosure?

It takes money to make money. The best opportunities are for buyers with cash. If your clients are planning to rent out the property or even resell it for a quick profit, make sure they consider the carrying costs, including sales commissions, marketing costs, vacancies, taxes, insurance, and maintenance costs. Once you've calculated all the expenses, add on another 10 percent to 15 percent. If they don't build in a "surprise fund," your clients might be the next foreclosure statistic.

How does choice of neighborhood affect foreclosure investments?

Clients looking for a good investment should generally avoid neighborhoods overrun with foreclosures, particularly newer subdivisions in overbuilt exurban areas. Investors will be tempted to buy foreclosures in these areas because they offer the steepest discounts—but they also carry the most risk of further depreciation. Look in well established neighborhoods with good schools and transportation. If you're in a market where prices are still falling, encourage your clients to factor falling prices into any offer they submit on a foreclosed property.

Source: James J. Saccacio is chief executive officer of [RealtyTrac](#), a Web site that tracks properties in foreclosure.

Tip from a Top Producer: Be Frank with Sellers

I tell clients, "Don't be emotional about the sale. You want to sell it. If you don't price it where I recommend, don't get mad at me or move the listing if it's not selling. Keep your home clean, free of debris, and staged as well as you can. Don't call me every day. I'll give you a weekly report of showings and feedback."

—Michael Weaster, Southwest Director, Century 21 Excel, Houston

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