

A BUYERS GUIDE
Common mistakes people make when buying
Bank Owned Properties on the MLS

Mistake # 1 Condition. Do not assume that the property is ready to be occupied. The property will be sold “as is” and will likely be a mess. It will not be furnished. It may not have appliances and may be missing lights and some fixtures. Given the sellers were in hardship prior to the foreclosure, they may not have done essential maintenance for a while. ***It is a must to get a good home inspection completed as part of the offer. The bank may not do any repairs but at least you know what to expect.***

Mistake # 2 Expecting the property to be a bargain. Do not expect the property to be a bargain. It may be. However, the bank will first try to re-coup their loan. If this is not possible they will drop the price steadily until the property sells. Somewhere in this price drop period, the property may become a good value opportunity.

Mistake # 3 Not finding out what has recently sold. Ask your Realtor to do a Comparative Market Analysis to determine what a fair market price would be. **DO NOT ASSUME THE LIST PRICE IS A GREAT VALUE.** I have seen people buy Bank Owned properties when there are better value properties that are not Bank Owned.

Mistake # 4 Do not assume that you have to purchase from the Bank’s listing agent. The listing agent works for the Bank. Unless you request buyer agency, the agent will only work in the Bank’s interest. Thus you may not get the best representation or the best deal.

Mistake # 5 Not having a Buyers Agent. If you ask a Real Estate Agent about a listing, they represent the seller. However, if you ask them to be your Buyer’s agent then they represent your interests. There are 3 types of Agent; a Buyer’s agent – who represents the buyer, a Seller’s agent – who represents the Seller, and a Dual Agent who represents both a Buyer and Seller. To get the best representation and deal you should carefully select a Real Estate Agent and have him/her as your Buyer’s agent.

Mistake # 6 Not asking questions. Get your Buyer’s agent to ask for any details about the property before you make an offer. For example:

- (1) Are there any inspection reports?
- (2) Are there any known problems?
- (3) What repair work has the bank agreed to?
- (4) How long does it take the bank to accept an offer?
- (5) Are there any special terms and conditions?
- (6) Is there a survey available?

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Mistake # 7 Schedule. Although the Banks will respond much faster to offers with Bank Owned listings (vs. Short Sales), do not assume that their turn around time will fast. Each bank/lender works a little differently, but they all have similar goals. They want to get the best price possible and have no interest in "dumping" real estate cheaply. After you make an offer to purchase, banks may present a "counter-offer." It may be at a higher price than you expect, but they have to demonstrate to investors, shareholders and auditors that they are trying to get the highest price possible. Your offer and counter-offer will probably have to be reviewed and approved by several individuals. Even once an offer is accepted, the bank may insert wording like "...subject to corporate approval with 5 days". Thus, the turn around time will be reasonable but often not fast.

Mistake # 8 Not getting the property's history. Get your Buyer's agent to pull up all history on the property. This can include anything about the neighborhood, listings before foreclosure, the foreclosure purchase price and the mortgage held by the prior owners. Be informed.

Mistake # 9 Not asking about prior offers. Get your Buyer's agent to ask if there have been any prior offers on the property. If yes, what happened. The agent may not always get much information – but it's free to ask.

Mistake # 10 Not being ready to purchase. Get pre-qualified by a lender of your choice before making any offers. This is good for a couple of reasons: (1) you know what you can afford, and (2) You have completed an important milestone before the Bank will accept your offer. *Note if you're not qualified and another offer comes to the bank at the same time... you may lose.*

Mistake # 11 Not looking like a serious buyer. Make your offer to be as quick to closing as you can. Let the bank set the pace. (1) Be pre-qualified, (2) Be ready to get inspections done ASAP, (3) Be ready to close ASAP. This way you look like a serious purchaser – especially if the Bank has multiple offers.

Mistake # 12 Make sure you get an Appraisal. You never know... the property may not appraise for the offer price. If so, the Bank will run into this issue if you walk and then they get another buyer. So, if the property does not appraise re-negotiate the sales price.

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What are ?

SHORT SALES, REOs, BANK-OWNED PROPERTIES AND FORECLOSURES

Some homes on the Outer Banks are being sold in non-traditional ways, and understanding those methods is important to competing sellers and interested buyers. Here's a guide to what is new:

Short Sale

When homeowners can no longer afford their mortgage, they can try to negotiate with the bank to sell the property before foreclosure occurs.

To accomplish this, the seller must qualify by completing a lender's short sale package. That package consists of paperwork which points to financial hardship.

- 1) The home's market value must have dropped. Comparable sales must substantiate that the home is worth less than the unpaid balance due.
- 2) The mortgage is in or near default status. More and more, lenders are not requiring that the mortgage be past due, but in most cases the homeowner must be at least one payment behind.
- 3) The seller must have fallen on hard times. The seller must submit a letter of hardship that explains why the seller cannot pay the difference due upon sale. Some examples are unemployment, divorce, medical emergency / sudden illness, bankruptcy, and death.
- 4) The seller has no assets. If the lender discovers assets, the lender may not grant the short sale because the lender will feel that the seller has the ability to pay the shorted difference.

If a buyer is found, and if the lender accepts their offer before foreclosure, there are still consequences to the seller in a short sale. The lender may possess the right to issue a IRS 1099 for the shorted difference. However, many situations are not eligible for debt forgiveness, according to the Mortgage Forgiveness Debt Relief Act of 2007. Short sales can also affect a seller's credit score. While not considered as bad as a foreclosure, the seller's FICO score will be negatively adjusted unless the lender agrees not to report.

From the buyer's perspective, there's nothing short about a short sale. The process can be difficult, time-consuming and frustrating. By some estimates, fewer than 10% of all short sale attempts succeed. Buyers often get frustrated and buy another property. The banks are notorious for taking weeks and sometimes months to negotiate a final price and many times at the closing table the banks *strong arm* both sides for more money.

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Foreclosures

In North Carolina, foreclosure begins with the trustee under a deed of trust filing a special proceeding. The proceeding normally takes approximately 60-90 days to complete. A Notice of Hearing is filed and served on the debtor. The hearing can be held only after a minimum ten day notice if personally served on the debtor, or posting the Notice of Hearing on the property subject to the foreclosure for a period of no less than twenty days prior to the hearing. If the foreclosure is approved at the hearing, the trustee must post a Notice of Sale at the courthouse at least twenty days immediately prior to the sale, and the trustee must publish the notice in a newspaper once a week for at least two successive weeks prior to the sale. The sale occurs at a public auction, and the high bidder must provide a cash deposit of five percent of the high bid. The high bid remains open for ten days, during which time other bidders may "upset" the high bid by making an even higher bid. Each time a raised bid is received, the ten days start over again. This can extend the process significantly. Also, the borrower can redeem the property at any time before the sale becomes final, if they pay the lender in full plus all expenses incurred in connection with the foreclosure. Unlike short-sales and Bank-owned properties, the bidder at a foreclosure sale does not get to inspect the inside of the home.

Bank-Owned (or REO)

If no one buys a foreclosure at auction, the property will end up with the bank and become a real estate owned, or REO*, property. Unlike buying a foreclosure at auction, if you buy an REO you can use a traditional mortgage. Your discount on an REO may not be as steep, as lenders typically price these properties at or near market value to recover the outstanding loan amount, but the benefits are substantial. Some examples are that the buyer gets to inspect the property inside and out, banks offering REOs offer highly competitive financing to buyers, and unlike short sales and foreclosures, the buyer can close on an REO in as little as 30 days.

Don't overlook the traditionally sold properties. If a seller has owned a property for a while, they often have more room to negotiate than a recently mortgaged property, regardless of the owner.

** A REO (Real Estate Owned) is a property that goes back to the mortgage company after an unsuccessful foreclosure auction*

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