

## Foreclosure Overview

Foreclosure is a process that allows a lender to recover the amount owed on a defaulted loan by selling or taking ownership (repossession) of the property securing the loan. The foreclosure process begins when a borrower/owner defaults on loan payments (usually mortgage payments) and the lender files a public default notice, called a Notice of Default or Lis Pendens. The foreclosure process can end one of four ways:

- The borrower/owner reinstates the loan by paying off the default amount during a grace period determined by state law. This grace period is also known as pre-foreclosure.
- The borrower/owner sells the property to a third party during the pre-foreclosure period. The sale allows the borrower/owner to pay off the loan and avoid having a foreclosure on his or her credit history.
- A third party buys the property at a public auction at the end of the pre-foreclosure period.
- The lender takes ownership of the property, usually with the intent to re-sell it on the open market. The lender can take ownership either through an agreement with the borrower/owner during pre-foreclosure or by buying back the property at the public auction. These properties are also known as bank-owned or REO properties (Real Estate Owned by the lender).

# **Foreclosure Terminology**

## **Pre-Foreclosure**

Buying a property in pre-foreclosure involves approaching the borrower/owner and offering to buy the property outright. The borrower/owner can walk away with the equity in the property and avoid a bad mark on his or her credit history. The buyer has time to research the title and condition of the property and can realize discounts of 20-40 percent below market value.

## **Short Sales**

A short sale happens when, first the owners are in pre-foreclosure because of non-payment of their mortgage, second they want to sell their house and third, are unable financially to keep up with their payments, and finally, they owe more on their mortgage, (or mortgages) than what the house is presently worth. Short sales offer buyers another great opportunity to purchase a house for considerably less than current market value. (CMV) However, short sales are complicated transactions and can take 6-8 weeks, or longer, to get approved by the owner's lender.

## **Public Auction**

If the owner's loan is not reinstated (paid and made current) by the end of the pre-foreclosure period, the bank schedules a public auction and potential buyers can bid on the property at this auction. These auctions are held at the County Offices. Buyers often are required to pay in cash at the auction and may not have

much time to research the title and condition of the property beforehand; however, a public auction often offers some of the best bargains and avoids the unpredictability of dealing directly with the borrower/owner. (Public Auction Link)

A different kind of public auction are the ones commonly advertised on TV and in the newspapers these days. They promise a minimum opening bid of \$149,000 on a property previously valued at \$600,000. (Or some other really high figure) These are not always auctions on bank owned properties, but rather they are reserve auctions on properties owned by sellers, builders, and developers. A reserve auction is an auction where the seller has a secret, unpublished, minimum price that they will accept for the property. The opening, or minimum, bid has nothing to do with the secret reserve price set by the seller.

## **Bank-Owned Properties (Real Estate Owned)**

If the lender takes ownership of the property, either through an agreement with the owner during pre-foreclosure or at the public auction, the lender will usually re-sell the property to recover the unpaid loan amount. The lender will typically clear the title and perform needed maintenance and repairs.

For 2010, bank owned properties offer potential buyers an opportunity to purchase houses for .60 to .70 cents on the dollar. Banks are not in the business of owning and maintaining houses; once a lender takes ownership of a house they typically put it on the market for sale at a very attractive price to buyers. *In our opinion, buying a bank owned property is a great way to purchase a home at greatly discounted prices. Low home prices, plus attractive interest rates, makes this a wonderful option for first time homebuyers and real estate investors.*

In order to submit an offer, to a bank, for a bank owned property, the potential buyer needs to be pre-approved for the home loan.