

UNDERSTANDING FORECLOSURE

It is an unfortunate commentary, but when economic activity declines and housing activity decreases more real property enters the foreclosure process. High interest rates and creative financing arrangements also are contributing factors.

As some homeowners get squeezed by higher mortgage interest rates and a cooling real-estate market, many house bargain-hunters are turning their attention to foreclosures. They hope to get good deals by buying from homeowners who are falling behind on their mortgages or by buying after the lenders have seized such properties.



Confirming the trend, online Web sites, which list foreclosed properties and charge subscription fees, all report an increase in listings. Many buyers think foreclosures are an excellent opportunity to buy a house at a lower than market-value price.

Needless to say, buying foreclosure properties is more complicated -- entails more risk -- than going the regular home-buying route. Here are a few things you need to know:

BUYING PRE-FORECLOSURES

Buying property in a pre-foreclosure stage -- the period between when the owner receives a Notice of Default from the lender and the day the lender puts the property up for an auction -- may offer the best bargains, but it's also the most difficult. **"Pre-foreclosures tend to be more for the seasoned investors".**

For starters, you have to deal directly with the owner of the house, who may not even be aware that the house was made public in a foreclosure listing.

Even if you come to an agreement with the owner, you may have very little time to complete the transaction.

AUCTION RISKS

If buying pre-foreclosures is tough for the regular home buyer, buying at an auction can be downright impossible. For starters, you have to pay cash, since financing auctioned properties isn't allowed. You're also expected to buy the house sight unseen.

FORECLOSED DEALS

If no one shows up on the courthouse steps or there are no bids high enough to cover the outstanding loan, the bank will take ownership of the property and put it up for sale. This is the easiest way to buy foreclosed properties, but you are also least likely to get a discount, as the bank will typically put houses up for sale at or close to market value.

Bank-owned properties, also known as REO or "real estate owned" properties, are usually sold through real-estate brokers. To find an REO broker in your area, try REONetwork.com.

GOVERNMENT HOMES

When homes that were bought with loans guaranteed by the Federal Housing Administration or Department of Veterans Affairs go into foreclosure, they're put up for sale by the government itself.



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