

## Decoding the Real Estate Market

### Foreclosure

Provided by TCAOR P.R. Committee Chair-Sandra Hayes

Used to be, homes were for sale by owner or through a real estate broker. Occasionally, a foreclosure or probate sale was announced. With home loan rates at historic lows and many homes on the market at the lowest prices in many years, this is a good time for buyers. The conditions that have led to this buyer's market have also made the process more complicated. Here is a definition of Foreclosure how it affects the home buying process:

Foreclosure – Although home loans are commonly referred to as “mortgages”, in California most home loans are secured by a deed of trust. Under a deed of trust, when homeowners fail to make full payments to their lenders for 90 days, they will receive a Notice of Default on their loans with a timeline to make repayment or face the sale of their property. After the proper notices are filed and recorded and the timeline expires for the property owner to reinstate the loan (pay all past due amounts), the property may be sold at a public sale. At these sales, the buyer must pay by cash or cashier's check and there are no warranties on the property. Buyers who bid on such properties must *do their homework* and find out as much about the property that they can before bidding. Often times, there is no way to gain access to the house for inspections prior to obtaining title to the property. Therefore, *buying from the courthouse* steps carries great risks and is not recommended for inexperienced buyers.

Real estate owned (REO) is property owned by a lender after an unsuccessful sale at a foreclosure sale. These days, many properties in foreclosure sales have more owed on them than their current market value and do not sell. Most lenders are institutions rather than individuals and list the properties with real estate brokers. Buying a foreclosed home is not much different than buying a home from a regular owner but the differences are noteworthy:

#### Conventional Sale

Sellers and Real Estate Agents are required by law to disclose any known defects in the property. All parties must thoroughly and truthfully complete a Transfer Disclosure Statement (TDS).

Sellers consider making or paying for repairs and paying of closing costs, etc in negotiations based on their personal needs and desires regarding that one property.

Sellers may consider carrying a second loan based on their financial position in the property and the Buyer's credit.

#### REO

Institutional Sellers are released from the TDS responsibility. However, all Real Estate Agents involved in the transaction are still liable to Buyers to disclose any defects known to them.

Institutional Sellers less inclined to making repairs and paying closing costs. Decisions are made from internal guidelines, as sales of many other properties are taking place.

Institutional Sellers less inclined to carry the loan on an REO. Although some do within strict guidelines.

Buying an REO can net you more-house-for-the-money. Being aware of the important differences between a conventional sale and an REO will help you avoid problems closing the deal and surprises with defects of the property after you get the keys. Work closely with your real estate agent and lender to insure the best outcome for you.

The next installment of **Decoding the Real Estate Market** will discuss **Short Sale**.