

## Inside Bank Foreclosures: Fact and Fiction

Many new investors want to buy properties directly from the bank. You never hear anyone say, "I want to buy a property from a mortgage company, credit union or savings and loan."

The attraction to bank owned properties is understandable, as it is the bank you borrow money from to buy a home. It is natural to assume that the bank owns the property. Whether a Deed of Trust or Mortgage, the title to your property is either held by a third party or pledged as security for the loan, so in fact the bank does not own the property.

You borrow money from and give a mortgage to the bank. The mortgage is the security instrument utilized to protect the bank from loss should you default on the loan. Unless you bought a bank foreclosure directly from the bank, the bank has never owned the property at all.

### The Lenders Profits

The goal of the foreclosing lender is to gain possession of the property. The financial goal is the recovery of the principle loan balance, accrued interest, late fees, penalties, taxes paid on behalf of the property owner, court costs and attorneys' fees. In most states, the laws are written so that the lender can only attempt to recover these widely accepted standard losses.

The lender will add in every legitimate expense when foreclosing. This is what is sued for: the total the lender claims is owed by the property owner. In most states, this is the maximum amount the lender can collect. The laws are written this way to protect home owners from unfair practices.

The commonly held notion that a bank (or any other lender) must sell a repossessed property for the same amount it cost to gain possession and therefore cannot make a profit is false. If the foreclosing lender is the successful bidder at the auction, it will take possession of the property for the very first time. When this happens, all the rules change. The lender, now the legal property owner, can do anything it wants with the property, Rent it, keep it, whatever. It can also sell the property for any amount it so desires.

### Condition of Title

Often when purchasing foreclosures buyers are concerned about the quality issued by the lender. A common belief is that there may be liens or judgments clouding the title. This is a myth. The lender will bid at auction only if it wants the property. The lender, typically the senior lien holder, wipes out all junior lien holders or judgments in the process.

If the foreclosing lender does not bid at that sheriff's sale or auction, it probably doesn't want the property. This may be due to excessive superior liens, such as IRS or tax liens. (Tip: If the lender doesn't bid for the property at auction, you probably shouldn't either.)

The lender, in an effort to recoup its losses, will bid on the property, wipe out other lien holders, and then pay the balance of outstanding property taxes to secure the property's clear title. No lender will go through the time, effort and expense of foreclosing, only to lose the property for a few thousand in back taxes.

Having absorbed these costs, the lender generally adds them to the asking price and will sell the property with clear title.

If you have heard that the lender must sell the property for what they paid for it at auction, forget it.

Another myth is that all banks are bending over backwards to give away foreclosed homes. It's true that the lenders want to sell their foreclosures. Lenders, banks in particular, are corporations. These corporations are driven to make money, not to lose it. A bank has to answer to its shareholders just like other corporations do.

The business of repossessing properties is not new. Over the years, many lenders have developed effective methods of selling their REO's quickly, with minimal loss.

### Property Disposition

Lender practices and procedures vary greatly. Some widely market their inventory of REO's, while others practically hide them.

We know of some banks that advertise foreclosures in daily newspapers, while others demand that you maintain an account with them (or better yet, become a stockholder) just to get their list of properties.

Lenders are in the money business, not the real estate business. This is why most properties are marketed through recognized real estate brokers or agencies. Some agencies specialize in foreclosures and may represent several lenders' properties.

Brokers may have several investors lined up just waiting for a good property to turn up. Brokers can also assist the lender in determining market prices, suggest marketing strategies, recommend appraisers or contractors, etc.

Some lenders establish a set price for the property and will not allow the sales agent to consider offers for less. Many lenders dispose of their own properties. Depending on the size and complexity of its REO inventory, the lender may have one part-time clerk or a staff of special asset managers handling property sales.

Lenders with larger inventories often have a staff dedicated to analyzing and managing the properties, while at the same time coordinating and managing the brokers retained to market the properties. The lender determines the strategy and the broker markets the properties accordingly.

### **Investing Overview**

Purchasing directly from the bank is the most popular way to buy foreclosures. It's fairly easy and less of a headache than other investing methods because it involves less complications and risks.

Locate bank or government owned properties in the newspapers or by researching them at the county courthouse. You can also contact us at SoldInKC.com or call us direct SoldInKC Marketing Group 816.763.2600. We believe we offer the best foreclosure service on the market. Decide for yourself. Find properties that meet your investing criteria, those that are in your area, price range, size and style. Determine whether you are buying to resell or to secure a residence for yourself. Determine if the property is a bargain by deducting the lender's asking price from the average market price of very similar properties in the immediate area.

Your goal as an investor is to realize a tidy profit. You can buy property at a 15%-20% discount and earn a 35%-40% return. As a home buyer, you want to buy below market value with a low down payment, low interest rate and reduced closing costs.

Contact us at 816.763.2600 ask for Christopher, meet him at the property so you can inspect it. Record any damages and deduct the repair estimates from your price. Use a good [property inspection checklist](#).

Investors must deduct all expenses associated with buying, repairing, borrowing, holding and closing again, from the price they think they can get.

Homebuyers should negotiate around the four discount factors: price, down payment, interest rate and closing costs. The bank, being a lender, can negotiate all these items.

If you still like the numbers and the property, proceed with a written offer:

We will help you in writing this offer and in the presentation and dealing with the lender.

Depending on the property and several other variables, you may want to buy a property at 15%-25% below market value. Start your offers accordingly.

Unrealistic offers will be rejected quickly. Learn to work with the banks. You can negotiate around interest rates, price, down payment, whatever, just stay within reasonable boundaries if you want to succeed.

Some lenders sell thousands of REO's every year. Many sell their properties at or near market price. We know one lender who has sold almost 10,000 properties in the last 3 years, with average sales of 99% of market value.

Not all lenders behave the same way. Try to locate those that are more flexible in their property disposition policies.

When the bank accepts your offer, close as quickly as possible. Avoid delays and complications from competitive offers.

### **Advantages**

The advantages to this buying method are many. There are no liens or judgments to contend with, no homeowners or tenants to evict, no back taxes due, and accessing the property for evaluation or inspections is easy. The fact that the property has officially changed hands means that all that work has been done by the lender. With all the legal work done, the complications of buying and the associated risks are removed.

Lower down payments, better interest rates, reduced closing costs and a discount off the market value of the property, taken all together, make for a better than average home purchase.

While you may not be able to steal a property from the bank, a properly structured deal will make you the envy of the neighborhood because you will have a low down payment, low monthly payments, and a low total price. For those looking to save money buying their first home, this is usually the way to go.

### **Disadvantages**

In this industry the rewards follow the risks. Therefore, the payoff from this investing method is typically lower than that of buying pre-foreclosures or buying at the auction.

An REO investor should have no problems achieving 10%-20% discount from the market value of comparable properties. Savings of 25%-35% are harder to find. Savings of 40%-60% are possible, but getting rarer.

Other disadvantages include: the lender that moves at a snail's pace; a lender selling the property "as is," with no cooperation in making reparations or allowances; and the very rare, but always possible problem of evicting a tenant or homeowner.