



Toledo  
Community  
Foundation

Inspiring and Connecting Thoughtful Giving

# "Giving" Advice

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## About Your Foundation

Since 1973, the Toledo Community Foundation has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, Toledo Community Foundation helps donors transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

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## Foreclosures: Proceed Carefully

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### The New York Times

So you're looking to buy a new home, and you think a foreclosed house may be the best deal. You've probably noticed, then, that many of the big banks' Web sites are beginning to look a bit like real estate brokerages, showcasing the many properties that they've repossessed.

These houses often sell for about 15 to 20 percent less than comparable homes in the same neighborhood, according to the National Association of Realtors. And while the banks have been careful not to flood the market with all their properties at once, there are hundreds of thousands of listings now, and half a million more expected in the coming year.

Despite the seemingly high inventory, though, anyone considering buying a distressed property should heed the classic warning: *Caveat emptor*, or let the buyer beware.

Closing a deal in a desirable neighborhood can be hard to do. Many aspiring homeowners have lost out to all-cash bidders. Buyers also need to search more aggressively than usual, which means figuring out which brokers have the best foreclosure listings, religiously checking for new ones and visiting the properties shortly thereafter. Buyers also need to ensure that the home is truly a good deal and not a money pit -- most of these homes are sold as is.

Still, as Rick Sharga, senior vice president of RealtyTrac, a foreclosure listing service, put it, "The best discounts

have been on bank-owned property."

If you are still interested in buying a distressed property, you have several options. You can buy it through a preforeclosure sale, at a public auction or through a bank or other entity that has taken ownership of the home -- these properties are known as real estate owned, or R.E.O.'s.

Below is a more detailed description of the potential risks and benefits of buying R.E.O.'s and preforeclosure transactions known as short sales, where the bank agrees to sell a home for less than is owed on the mortgage. Through October, foreclosures and short sales accounted for nearly 37 percent of all home sales, on average, according to the Realtors' association.

### R.E.O.'s

Traditional homebuyers are generally discouraged from buying homes at auction because there are too many risks -- you can't tour the inside of the home, which increases your chances of buying a house that will drain your bank account. Equally important, the home won't necessarily have a clear title, which means there may be tax liens or other debts against the property. And when you buy the home, you buy those issues, too.

One of the benefits of R.E.O.'s is that the bank typically clears any title issues before it puts the house on the market. "It's easiest because there is a price already, there is access, you can do your estimate for repairs, and you can write your offer and go," said Alexis McGee, president of Foreclosures.com, which lists foreclosures and offers classes for foreclosure investors.

But you need to do your share of preparatory work. Start by getting acquainted with the listings in your target area. All R.E.O.'s are sold through an agent. You can find their listings directly on the big banks' Web sites, like Bank of America and Wells Fargo, as well as regional banks like SunTrust. Fannie Mae offers its listings through the HomePath Web site and Freddie Mac through HomeSteps.

You can also find free listings through independent brokerages like Redfin.com, which has a forum where you can compare notes with other buyers. If you pay a monthly fee, you can access sites that track distressed homes from the moment of default through foreclosure. These sites include RealtyTrac (\$49.95 a month), Foreclosures.com (\$49.95), and Foreclosure.com (\$39.80), all of which provide a free weeklong trial.

One of your first steps would be getting preapproved by a mortgage lender so that once you find a property you are interested in, you can move quickly. Call the listing agent, or hire a buyer's agent to do it for you. (You should hire a buyer's agent with experience in these types of sales anyway. In some states, the listing agents may refer you to someone else in their office to represent your interests, said Frank Verna, an R.E.O. broker in Jupiter, Fla.). Arrange to see the home as soon as possible. The bank selling the property may want you to be preapproved with their own lending arm, though you can always use another lender in the end, experts said.

Most R.E.O.'s are sold as is, so buyers should make their offers contingent on a home inspection. It's best to find inspectors who are also licensed contractors (with references), so they can estimate repair costs. Putting

too many contingencies in your offer, however, is likely to derail your bid.

Buyers also need to be prepared to lose to buyers with all cash. That's what happened to Jason and Elise Hope, who have been searching for a small starter home in San Diego County for six months. The couple has made more than two dozen offers on bank-owned properties, and a couple of short sales, priced from \$300,000 to \$400,000.

"For the most part, we never heard back from the listing agent," said Mr. Hope, 28, who works as an equity research associate for a forensic accounting firm. "When we did hear back, we often heard the same story -- that the listing had 10 to 20 offers on it, along with ours, within the first weekend of it being available for showing."

As Mr. Verna, the broker, explained: "In the R.E.O. world, cash is still king because there is no appraisal, last-minute quality checks or potential problems to kill the deal."

You may be able to increase your chances by making your best offer from the start. But to ensure you don't overpay, research comparable sales on sites like Zillow.com or have your agent prepare a "comparative market analysis" for you. "You are negotiating with a calculator, and if the numbers don't work for the seller, they just say no and move on," Mr. Verna said.

Fannie Mae does give prospective homebuyers a leg up. Last month, it introduced a program that shuts out investor buyers for the first 15 days a home is on the market. Moreover, Fannie also has a financing program, which allows buyers to put down as little as 3 percent and doesn't require them to carry mortgage insurance. It also provides loans that allow borrowers to wrap in costs for home renovations.

Freddie is testing a program that also initially shuts out investor buyers, and it is currently offering consumers who buy one of its properties up to 3.5 percent of a home's purchase price, which can be used for closing costs, moving or even furnishings. The program was recently extended to buyers who submit a purchase offer by Jan. 31 and close by March 26. Primary homebuyers are also eligible for a two-year warranty on certain home repairs.

### Short Sales

Short sales tend to be more problematic than R.E.O.'s. If you make an offer on an R.E.O., you can expect to get a response within a few days. With a short sale, experts say, it can take months. You also can't necessarily trust the listing price.

"It may easily be a teaser price just to get offers in," said Carolyn Warren, author of a new book "Homebuyers Beware: Who's Ripping You Off Now?" (FT Press). "It's kind of like posting something on eBay. They are going to list it at a dollar, but they might only sell it for \$1,000."

There are other potential problems as well. While the seller may be motivated, the bank has to be convinced of

two things: "One is that the homeowner in question deserves a hardship exception," Mr. Sharga of RealtyTrac said. "The second thing is that you have to convince it that it is market value, even though it is below the mortgage amount."

Complicating matters further, the homeowner may have more than one loan on the property, adding to the number of parties involved in the negotiations.

All this lengthens the time to close a deal.

You can get lucky, too. Michelle and Mark Gordon are happily living in a three-bedroom ranch that they bought through a short sale in San Juan Capistrano, Calif., in February. It took only three months to close -- record time in the world of short sales. But Mrs. Gordon, a librarian who now stays home with her young daughter, did her homework and was aggressive in her search. She checked the listings religiously on Redfin.com, and saw the property the day after she found it.

The Gordons paid \$500,000 for the home, and the bank paid the \$12,000 in closing costs. The property was recently valued at \$537,500 on Zillow.com. "We painted two rooms," Mrs. Gordon said. "That was it."

Joe Nocera, whose Talking Business column normally appears on this page, is on book leave.

PHOTOS: Michelle and Mark Gordon, with their daughter, Taylor, bought a short-sale house. (B1); The Gordons are happily living in the three-bedroom ranch in San Juan Capistrano, Calif., that they bought for \$500,000 through a short sale in February. (PHOTOGRAPHS BY JAMIE RECTOR FOR THE NEW YORK TIMES) (B4)

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