



Q: Should I consider buying a foreclosed home as a way to get a better home for less money?

A: In parts of our state there are significant supplies of foreclosed and pre-foreclosed homes available for purchase. Whether or not you should make an offer on one of these homes depends on a number of factors.

First, let's make sure we understand what we mean by a foreclosed or pre-foreclosed home.

A home in pre-foreclosure is one where the current owners have defaulted on their mortgage payments and have been notified by the lender that within a relatively short period of time they must either sell the home to pay off the mortgage or get back on track with their monthly payments.

A foreclosed home is one in which the pre-foreclosure options have elapsed and the lender (often a bank) takes possession of the home.

In both instances the advantage to the buyer is that the price will be below market value. Sellers –whether the actual owner or the lender (bank) - may be willing to make concessions, such as lower mortgage rates or money to help with repairs, which will help encourage a quick sale.

Investors often look to this part of the real estate market for houses they can buy at a deep discount, repair and then sell for a quick profit – a process called “flipping.” Increasingly bargain-hunting in the foreclosure market is becoming a tool of the more typical home buyer. Faced with generally high prices for newly constructed homes and a rich supply of quality foreclosed homes in good neighborhoods, the temptation is there to make an offer on a foreclosed or pre-foreclosed property.

Buying one of these homes is a bit more complicated and may come with higher risks. People in this situation – being forced out of a home – have less incentive to maintain the property in good condition and may actually cause damage before vacating the property.

Owners of pre-foreclosed homes may not yet be aware that their home has been listed on one of the many websites where you can find out about these homes. The information comes from public records that show the owner is in default. They may be embarrassed about their circumstances and harder to approach.

If you do find an owner who is ready to sell a pre-foreclosed home, time can become a problem. In some states owners have just 30 days to complete the sale of a pre-

foreclosure before the bank takes possession. Getting a deal in place that satisfies all the parties, financing approved and the transaction “closed” before the bank takes action can be difficult.

Foreclosed homes – those already beyond the ability of the current owner to financially maintain - are frequently sold at auctions. This is an even more difficult setting for the typical homebuyer to find a bargain. Most auctions require full cash payment as financing is not allowed. You may not be able to get Title Insurance which means that if there is a lien on the house, as the new owner you would be responsible for those debts.

Foreclosed homes not sold at auction – for lack of bidders or not reaching the minimum bid – will then be sold directly by the bank, often through a REALTOR®. The good news here is that prices may still be negotiable though banks tend to want to get as close to the amount they loaned on the property as possible and the price will not be as low as at auction.

Should you decide to explore the foreclosure market working with a REALTOR® who has experience in this area would be advisable. The rewards are attractive but the risks are sufficiently high that expert help is a good idea.

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