

DISTRESSED PROPERTY BUYING MADE SIMPLE

**101 Things You Need to Know to Purchase
REO, Short Sales or other Distressed Properties**



By Bill Fields

Distressed Property Buying Made Simple: 101 Things You Need to Know to Purchase REO, Short Sales or other Distressed Properties

Eleven Reasons Why it Makes Sense to Buy Now

- 1. It's more affordable than ever.** Housing affordability conditions have reached the highest level since recordkeeping began in 1970. This is the first time the typical family has roughly double the income needed to purchase a median-priced home. Now is a very good time to become a homeowner.
- 2. Government helps pay your mortgage.** As a homeowner you are allowed to deduct the interest on your mortgage, property taxes, and some of the costs involved in buying and maintaining your home. And when you sell, the law allows you to show up to a \$250,000 (\$500,000 for a married couple) gain without owing any federal income tax.
- 3. It's like money in the bank.** Building equity in your home is a ready-made savings plan. Money paid for rent is money that the landlord uses to build his equity, but mortgage payments let you build equity ownership interest in your own home, that's like money in the bank.
- 4. Real estate appreciates.** Real estate has always demonstrated long-term, stable growth in value. Median existing-home sale prices have increased 88.5 percent over the last 10 years and the number of U.S. households is expected to rise another 15 percent over the next decade.
- 5. Provides financial predictability.** Unlike rent, your fixed-mortgage payments don't increase so your basic housing costs remain the same year after year. Do you think your landlord would allow you to pay the same rent for 30 years? (Property taxes and insurance costs may increase.)
- 6. Freedom of choice.** The home is yours. You can choose how you want to decorate, how the landscaping should look or where to put the appliances. It's yours to decide.
- 7. Offers stability to your family.** Remaining in one neighborhood for several years gives you and your family an opportunity to feel a sense of community, establish lasting friendships, and offers your children the benefit of educational continuity.
- 8. Peace of mind.** You won't have to worry about a landlord selling the property and forcing you to relocate or falling behind on his payments and losing the property and forcing you and your family to move.
- 9. Privacy.** When you own your own home nobody has the right to inspect the property or involve themselves in your personal business because the property belongs to you.
- 10. Sense of pride.** Your home can become a reflection of who you are and what your life is about. Owning your own home gives you a feeling of pride and accomplishment every time
- 11. Motivated sellers.** You'll be dealing with a highly motivated seller – either a bank in the case of a foreclosure, or in a short sale, sellers who are in financial trouble and very interested in getting out of a mortgage they can no longer afford.

12 Steps to Take BEFORE You Start Your Search

- 1. Make 2 lists.** Make one list of what features you **MUST HAVE** in your new home, and a second list of what you would **LIKE** to have in your new home. Now, prioritize your lists.
- 2. Select where you want to live.** Compile a list of three or four neighborhoods where you'd like to live, taking into account items such as convenience, schools, shopping, recreational facilities, and other personal considerations.
- 3. Get your credit in order.** Obtain a copy of your credit report to make sure it is accurate and to correct any errors immediately. A credit report provides a history of your credit, bad debts, and any late payments.
- 4. Decide what you can comfortably invest.** Generally, you can afford a home equal in value to between two and three times your gross income. Factor maintenance and repair costs into your post-home buying budget.
- 5. Investigate other sources of help with a down payment.** Do you qualify for any special mortgage or down payment assistance programs? Check with your state and local government on down payment assistance programs for first-time buyers. National programs include the Nehemiah program, www.getdownpayment.com, and the American Dream Down Payment Fund from the Department of Housing and Urban Development, www.hud.gov.
- 6. Explore different loan options** Are you more comfortable with a fixed rate or an adjustable rate mortgage? Would you like to pay your loan off sooner with a 15 year amortization instead of a 30 year?
- 7. Determine your estimated closing costs.** You'll likely be responsible for a variety of fees and expenses that you will have to pay at the time of closing. Your lender must provide a good-faith estimate of all settlement costs.
- 8. Get preapproved for a mortgage.** Being pre-approved not just prequalified means the lender has already approved you and this allows you to make a firm commitment to buy and makes your offer more desirable to the seller.
- 9. Seek homeowner insurance** coverage as soon as your offer is approved. You must obtain insurance to buy. And you don't want to be told at closing that the insurer has denied your coverage.
- 10. Don't go it alone!** Find an REO specialist to help you. Conditions change quickly with distressed properties and to capitalize you need to have the agent who is "dialed in" to make sure you are at the right time (This is frequently the listing agent of the of the property)
- 11. Make yourself available.** If you are interested in taking advantage of distressed opportunities you have to make yourself available to see properties as soon as they become available or you will lose out to other buyers who get to the properties first.
- 12. Communicate any changes.** Stay in touch with your professional and notify them of any changes in your plans, finances, etc.



11 Reasons Why You Need a Good Real Estate Professional to Help

1. **A professional will help you navigate the process.** From locating the best property and submitting an offer to handling the inspections and getting the deal closed a knowledgeable expert will help you avoid delays or costly mistakes.

2. **A professional will guide you through the paperwork process.** Buying a distressed property... requires detailed paperwork including disclosure forms, inspection reports, mortgage documents, insurance policies, deeds, and multi-page settlement statements.

3. **A professional will translate everything.** Real estate has its own language full of terms and phrases. It's important to work with a professional who is immersed in the industry, knows the real estate language and can translate everything into easy to understand layman terms.

4. **A professional will find the best property for you.** Looking at houses is not the same as finding the right distressed property. Finding the right distressed property requires extensive research and investigation by a knowledgeable professional who knows the market not just the properties listed in MLS.

5. **A professional will give you objective information and opinions.** A qualified real estate professional can provide helpful information about individual properties and areas including property values, utilities, zoning, schools, future development plans and more.

6. **A professional will negotiate the best deal possible.** Having an expert negotiator on your side is critical. There are many items that have to be negotiated in a home purchase, including but not limited to price, financing, terms, date of possession, repairs and inclusion or exclusions.

7. **A professional will protect your interests.** Your agent can advise you as to which inspections are recommended or required and insure the purchase agreement provides a period of time for you to complete appropriate inspections and investigations.

8. **A professional offers invaluable experience.** Most people buy and sell only a few homes in a lifetime, usually with quite a few years in between each purchase. A qualified real estate professional will handle hundreds of real estate transactions over the course of their career.

9. **A professional will provide emotional support.** Having a concerned, but objective, third party helps you stay focused on your goals and objectives and not let the emotional issues distract you from what is most important to you.

10. **A professional handles the problems.** Buying a new home is a complex transaction with lots of areas for potential problems. A trained professional will handle any problems so you will be free to focus on completing a successful move into your new home.

11. **Will help you buy HUD properties.** FHA-insured homes that go into foreclosure are acquired by the U.S. Department of Housing and Urban Development (HUD). Only real estate agents who register with HUD can submit offers on behalf of their clients.



Twelve Suggestions for Stress Free Buying

1. **Decide NOW is the right time to buy.** If you find a good property now, don't try to second-guess interest rates or the housing market by waiting longer, you risk missing out on the great opportunity worrying about all of the "what if's".
2. **Accept that there is no such thing as the "perfect" house.** Be prepared to compromise. If it's in the right location, the home may be a little smaller than you had hoped. The layout may be perfect, but the house needs to be painted. Focus on satisfying as many needs and wants as possible.
3. **Don't ask for too many opinions.** It's natural to want reassurance for such a big decision, but too many ideas from too many people make it much harder for you to make a decision. Focus on the wants and needs of the people who will be living in the home.
4. **Develop a realistic timeline.** Do you have to sell before you can buy? Do you have to save money for down payment or closing costs? Are you renting now? When is your lease up? All of these factors will help you determine a realistic time frame.
5. **Don't try to find champagne on a beer budget.** It's OK to be picky, but don't be unrealistic with your expectations. Use your list of priorities as a guide to evaluate each property.
6. **Understand "buyer's remorse" is normal.** Buying a home is a big financial commitment. Stay focused on why you wanted to buy a home and makes this a good investment for you.
7. **Don't lose your mind in a bidding war.** Just because someone else wants the same property you do doesn't mean you should just pay anything to get it. And even though you always want to make your offer attractive, don't neglect market realities.
8. **Buy a home not just an investment.** While U.S. homes have appreciated an average of 5.4 percent annually since 1998, a home's most important role is to serve as a comfortable, safe place for you and your family to live.
9. **Insist on a home inspection.** This is the one contingency you should not remove. If you are buying a distressed property it is always a good idea to have the property inspected by a licensed home inspector.
10. **Get a home warranty** is a service contract, normally for one year, which helps protect home owners against the cost of unexpected covered repairs or replacement on their major systems and appliances that break down due to normal wear and tear.
11. **Get the property DE winterized.** This will help you discover any problems that might exist with a property's plumbing systems.
12. **Do your homework.** Be diligent about researching back taxes, past due water or sewer bills or any outstanding liens that might become a problem for you.

Five Things to Help You Buy the Most House You Can Afford

- 1. Reduce your debt.** Lenders generally look for a total debt load of no more than 36 percent of income. You need to get monthly payments on your installment debt down to between 8 and 10 percent of your net monthly income.
- 2. Look for ways to save.** You probably know how much you spend on major expenditures like rent and utilities, but little expenses add up, too. Try writing down *everything* you spend for one month and look for areas you can cut back or be more economical.
- 3. Increase your income.** Now's the time to ask your boss for a raise. If that's not an option, you may want to consider taking on a second job to get your income at a level high enough to qualify for the home you want.
- 4. Stick to a budget.** Create a budget that reflects your actual spending habits over the last several months. This approach will factor in unexpected expenses, such as car repairs, as well as predictable costs such as rent, utility bills, and groceries.
- 5. Save for a down payment.** Designate a certain amount of money each month to put away in your savings account. You can usually get a better mortgage rate if you put down a larger percentage of the total purchase.



Five things You Can Do to Improve Your Credit

1. Check for and correct any errors in your credit report. Mistakes happen, and you could be paying for someone else's poor financial management.
2. Don't charge your credit cards to the maximum limit instead pay down credit card bills. If possible, pay off the entire balance every month. Transferring credit card debt from one card to another could lower your score.
3. Don't open new credit card accounts before applying for a mortgage. Too much available credit can lower your score.
4. Don't order items for your new home on credit — such as appliances and furniture — until after the loan is approved. The amounts will add to your debt.
5. Shop for mortgage rates all at once. Too many credit applications can lower your score, but multiple inquiries from the same type of lender are counted as one inquiry if submitted over a short period of time. Wait 12 months after credit difficulties to apply for a mortgage. You're penalized less for problems after a year.



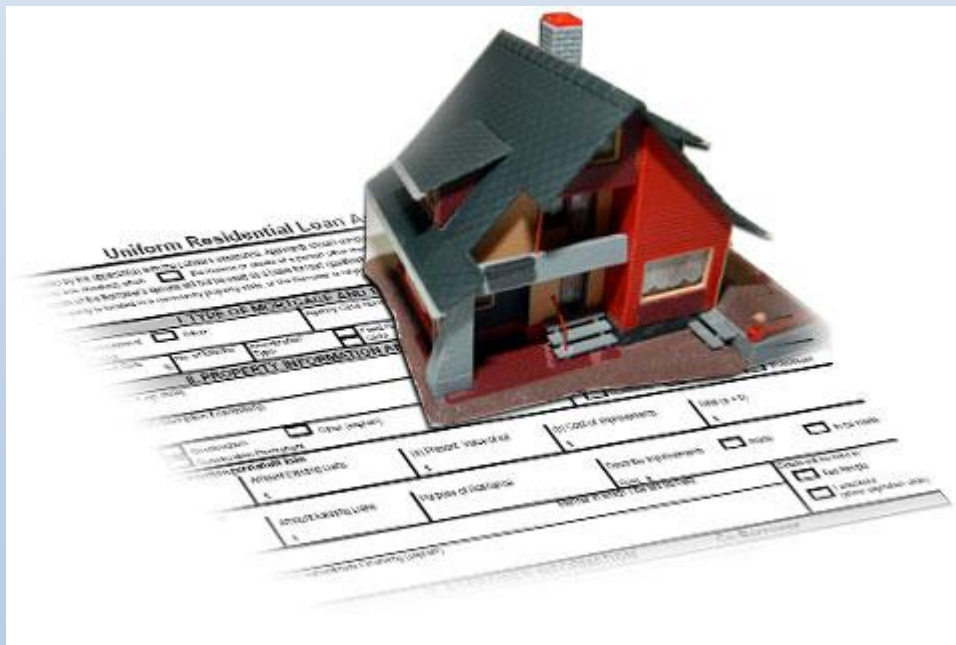
Five Important Questions to Ask Your Lender

1. Can you explain the many different types of mortgages that are available for me to utilize to purchase my new house?
2. Which type of mortgage plan do you think would be best for me? Why? Are there any charges or penalties for prepaying this type of loan?
3. What are your rates, terms, fees, and closing costs and are they negotiable?
4. Will you “lock” my rate and terms and if so, for how long? Will I be able to obtain a lower rate if rates drop during this period?
5. How long will it take to approve the loan and how long will it take to close the loan?



Five Types of Mortgages

- 1. Interest-only mortgage:** Your monthly mortgage payment only covers the interest you owe on the loan, and you pay nothing to reduce the total principal. After a specified interest-only period, you might be required to start paying higher monthly payments that cover both the interest and principal or you may have a balloon payment.
- 2. Negative amortization mortgage:** Your monthly payment is less than the amount of interest you owe on the loan. The unpaid interest gets added to the loan's principal amount, causing the total amount you owe to increase each month instead of getting smaller.
- 3. Fixed interest rate mortgage:** This is the most popular mortgage. A fixed rate mortgage allows you to lock in a specified interest rate that does not change as long as you hold the mortgage.
- 4. Adjustable interest rate mortgage:** An adjustable-rate mortgage is designed so that your loan's interest rate will adjust as market conditions change. ARMs offer a lower rate in the first years of the mortgage and then adjust based on predetermined indexes. ARMs usually have a limit as to how much the interest rate can be increased and how frequently they can be raised.
- 5. Option payment ARM mortgage:** You have the option to make different types of monthly payments with this mortgage. For example, you may make a minimum payment that is less than the amount needed to cover the interest and increases the total amount of your loan.



10 Tips for Previewing a Potential Home the Right Way

1. **Have an open mind.** Don't focus on what a property is now but what it could be. Many of the best opportunities are really "diamonds in the rough" that just need the right buyer to make them shine.
2. **Preview small to big.** Start your preview in the least important areas of the property and finish in the areas where you'll spend the most time.
3. **Size does matter.** Take a tape measure and know the measurements of any furniture you will be moving into the house.
4. **Pretend each house is yours.** Take your time and make yourself comfortable in each room of the property. Take time to determine if you like the view out the living room window.
5. **Who cares what the seller likes?** Don't be distracted by the previous seller's decorating style, furnishings, or choice of paint colors, floor coverings and appliances.
6. **Don't sweat the small stuff.** Don't be distracted by minor repairs that can easily be fixed and don't take away from the structural integrity of the property.
7. **Make sure you're going to fit.** Look in the closets, pantries, basements, attics and garages. Is there enough storage to meet your needs?
8. **Spend time outside in the yard.** Are you prepared to maintain a property with extensive landscaping? Does the yard have enough room for the pool you're thinking you might like to add as your kids get older?
9. **Drive the neighborhood.** You are buying more than a home-you are buying location. Measure the distance from the property to any locations that are important to you. Shopping. Schools. Transportation routes. Talk to any neighbors you may see. How do they feel about the neighborhood?
10. **Find out what happens after sundown?** Visit the property at different times of the day and view the property, measure traffic noise and consider other factors that might affect your ability to enjoy the property.

Five Dangerous Hazards in a Home to Look Out for

1. Radon: a colorless, odorless gas that can seep into the home from the ground. Radon has been called the second most common cause of lung cancer.

What to look for: Basements or anything with protrusion into the ground offer entry points for radon. The Environmental Protection Agency publishes a map of high prevalence areas for radon. A radon test can determine if high levels of radon are present.



2. Asbestos: a fibrous material once popular in building materials because it provides heat insulation and fire resistance. But asbestos was banned in 1985. It may still be found in older home's insulation materials, floor tiles, roof coverings, and siding. If disturbed or damaged, it can enter the air and cause severe illness.

What to look for: Homes built prior to 1985 are at risk of having asbestos within construction materials. Home owners should especially be careful when remodeling because disturbing insulation may cause the asbestos to become airborne.

3. Lead: a toxic metal used in home products for many years that can contribute to several health problems, especially among children. Exposure can occur from deteriorating lead-based paint, pipes, or lead-contaminated dust or soil.

What to look for: Homes built prior to 1978 may have lead present. Look for peeling paint and check old pipes. To get a HUD-insured loan, buyers must show a certificate that homes built prior to 1978 are lead-safe.

4. Mold. Molds reproduce by means of tiny spores; the spores are invisible to the naked eye and float through outdoor and indoor air. Mold may begin growing indoors when mold spores land on surfaces that are wet. There are many types of mold, and none of them will grow without water or moisture.

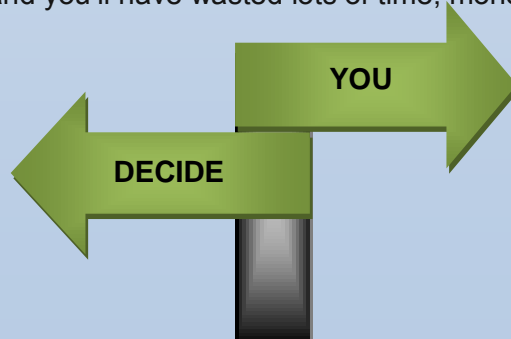
What to look for: You may suspect hidden mold if a building smells moldy, but you cannot see the source, or if you know there has been water damage and residents are reporting health problems. Mold may be hidden in places such as the back side of dry wall, wallpaper, or paneling, the top side of ceiling tiles, the underside of carpets and pads, etc.

5. Groundwater contamination: the result of hazardous chemicals that are illegally disposed of and then seep through the soil and enter water supplies. A leaking underground oil tank or faulty septic system can contribute to this.

What to look for: Look for any conditions that may be conducive to leakage. Homes near light industrial areas or facilities may be at risk. Also a concern: areas once used for industry that are now residential.

Ten Tips for Buying a Distressed Property in Tight Market

1. **Stay in close contact with your real estate agent to find out about the newest listings.** Be ready to see a house as soon as it goes on the market — if it's a great home, it will go fast.
2. **Be ready to make a decision.** Spend a lot of time in advance deciding what you must have in a home so you won't be unsure when you have the chance to make an offer.
3. **Remove any obstacles.** Is there anything that could keep you from making an offer to purchase when you find the right property? Do you need to get a parent's approval on the property? Do you have to borrow some of the down payment? Remove all of your obstacles.
4. **Bid competitively.** Do not assume a bank will take less than asking price. You may not want to start out offering the absolute highest price you can afford, but don't go too low to get a deal. In a tight market, you'll lose out.
5. **Don't try to be a killer negotiator.** Negotiation is definitely a part of the real estate process, but trying to "win" by getting a bargain basement price or by refusing to make compromises may cost you the home you want.
6. **Keep contingencies to a minimum.** Restrictions such as needing to sell your home before you move or wanting to delay the closing until a certain date can make your offer unappealing.
7. **Get preapproved not just prequalified.** Most banks will not accept an offer from a buyer that has not been preapproved. (Bank of America usually requires a buyer be preapproved with them.)
8. **Be prepared to react quickly.** Once an asset manager is working on an offer they like to finish up quickly. This is not always a long process, so be ready!
9. **Be patient.** If you are purchasing a short sale or other distressed property that requires multiple approvals or negotiations it can take time to complete.
10. **Be prepared for rejection.** Lenders want to minimize their losses as much as possible. If you make an offer that is too low or with too many contingencies, chances are that your offer will be rejected and you'll have wasted lots of time, money and effort.



Ten Tips for Making Moving Day Easier

Moving to a new home can be stressful, to say the least. Make it easy on yourself by planning far in advance and making sure you've covered all the bases.

1. **Plan ahead by organizing and budgeting.** Develop a master "to do" list so you won't forget something critical on moving day, and create an estimate of moving costs.
2. **Decide what, if anything, you plan to move on your own.** Precious items such as family photos, valuable breakables, or must-haves during the move should probably stay with you. Don't forget to keep a "necessities" bag with tissues, snacks, and other items you'll need that day.
3. **Sort and get rid of things you no longer want or need.** Have a garage sale, donate to a charity, or recycle. But don't throw out everything. Ask yourself how frequently you use an item and how you'd feel if you no longer had it. That will eliminate regrets after the move.
4. **Pack similar items together.** Put toys with toys, kitchen utensils with kitchen utensils. It will make your life easier when it's time to unpack. Use color-coded labels to indicate which room each item should go in. Color-code a floor plan for your new house to help movers.
5. **Use the right box for the item.** Wrap every fragile item separately and pad bottom and sides of boxes. Loose items are prone to breakage. Put heavy items in small boxes so they're easier to lift. Keep the weight of each box under 50 pounds, if possible.
6. **Print out a map and directions for movers.** Make several copies, and highlight the route. Include your cell phone number on the map. You don't want movers to get lost! Also make copies for friends or family who are lending a hand on moving day.
7. **Make arrangements for small children and pets.** Moving can be stressful and emotional. Get your kids involved by having them organize their things and pack boxes ahead of time. Update your pet's tag and keep medications and food on hand.
8. **Back up your computer files before moving your computer.** Keep the backup in a safe place, preferably at an off-site location.
9. **Keep your moving documents together in a file.** Include important phone numbers, driver's name, and moving van number. Also keep your address book handy.
10. **Inspect each box and all furniture for damage as soon as it arrives.**