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The Foreclosure Pickings Are Plentiful but Not Easy

Your Money

By HILLARY CHURA SEPT. 29, 2007

WITH home foreclosures on the rise, buying a property in default may seem a sure route to profit or, at least, a cheap way to get a home. It can be. But it is not an endeavor for the shallow of checkbook or faint of heart.

Even though the number of foreclosures is at the highest since the Mortgage Bankers Association began keeping records in 1979, they are concentrated in a few states and still represent fewer than 2 percent of all mortgages. And while foreclosures can be deals, not all are bargains.

Pitfalls vary. There are buyers who bid too much in an auction frenzy. There are buyers who cannot inspect the property beforehand and find out later that it is missing items like copper wiring, toilets and cabinets. Or, a property may have a cloudy title, which may leave the buyers responsible for thousands of dollars in unexpected debts, say real estate agents, foreclosure investors, mortgage bankers and lawyers. “There is danger in today’s market because people who are thinking they are going to steal a foreclosure property and flip it for a profit are making the same error that caused half of the foreclosures taking place in the country,” said Wayne Palmer, who owns National Note of Utah, a money management firm in Salt Lake City.

The likelihood of making money on foreclosures has not necessarily increased with the rise in foreclosures. Certainly bargains exist, and the occasional unsophisticated buyer has gotten a great deal in the past, fixed the house up, lived in it and sold it several years later for great profit. But making money can be trickier now that the market has soured because prices have not yet bottomed out in some regions.

“Before, even if you didn’t know what you were doing, you were safe because the general market was on the upside,” said Joseph Tammaro of Brooklyn, a real estate agent and investor. “Now, when you buy foreclosures in today’s market with property values in decline in certain areas, you have to be careful because you might be catching a falling knife.”

Brad Rozansky, a real estate agent in Bethesda, Md., cautioned against thinking that buying and selling foreclosures is an easy way to make a living. “I have plenty of customers who have lost \$20,000, \$30,000 or \$40,000 on a house,” he said.

Many investors have a real estate or construction background. Others sign up for classes. After taking a seminar in buying foreclosures, Todd Vela, a salesman for a nutritional supplement wholesaler, bought two houses nearing foreclosure last fall not far from his home in Grand Rapids, Mich. He said he paid about \$20,000 for a dilapidated four-bedroom house in a neighborhood where other properties are worth triple that. He said the house needs \$25,000 in repairs, including a new roof and new kitchen, and he hopes a contractor will buy it as-is for about \$40,000, though he would take less. On the second home — an 1,800-square-foot four-bedroom — he paid about \$60,000 and made \$5,000 in cosmetic improvements. He hopes to sell it for about \$90,000. Even though Mr. Vela has not been able to sell either house, he remains upbeat about buying foreclosed properties and intends to resume shopping once he sells one of his investments.

“I’ve been good on picking up properties, but I haven’t been good on an exit strategy,” said Mr. Vela, who paid cash. “I’ve had to hold them longer than I originally liked. That’s O.K. That’s part of the game. It’s affected my holding times but not my profit.”

Foreclosures are being fueled by falling property prices in some areas, people who can no longer afford their mortgages and a liquidity squeeze that makes refinancing impossible for some homeowners. Already this year, lenders have foreclosed on 355,624 homes, according to Foreclosures.com. Preforeclosure filings — including notices of default and notices of foreclosure auction — continue to increase. In the first eight months of this year, 731,244 preforeclosures were filed nationwide, at a monthly rate double that of a year earlier, according to the president of Foreclosures.com, Alexis McGee.

According to Foreclosures.com, foreclosures have been concentrated in a handful of states this year: California, Florida, Illinois, Texas and New Jersey. Specialists say that by the time prices start rising again, two million to four million homes may have been subject to foreclosure.

In the second quarter of this year, an estimated 620,000 mortgages, or 1.4 percent of 44.3 million mortgages, were at some stage of the foreclosure process, according to the Mortgage Bankers Association, though only a fraction of that number will actually go into foreclosure. As a percentage of all mortgages, the record was 1.51 percent in the first quarter of 2002. While stark, the recent figures are not so surprising considering that homeownership is at a record high.

Buyers learn about foreclosures in different ways — some through relationships with banks or in-the-know lawyers. Since lenders want to maximize their return, they often outsource listings to an agent or hire an auction company. If they cannot get rid of the houses that way, they would prefer to sell to professional buyers rather than someone just looking for a place to live.

Lane Houk, an investor and mortgage banker in Fort Myers, Fla., said he sometimes gets discounts of up to 50 percent when he buys pools of 30 to 100 properties. He said he sells the properties to wholesalers and occasionally to individuals at prices below market yet still high enough for him to profit.

Others use real estate agents and troll the multiple listing service. Many longtime buyers, however, say that by the time a property has reached the multiple listing service, at least 10 potential buyers have passed on it, so it will not be a great deal. A few monitor lenders' default notices filed at local courthouses and then

contact homeowners facing default. Contacting people in preforeclosure, however, can require hundreds of calls for just one deal since few people at the other end of the line want to chat about their financial woes, and most are suspicious of scams.

Other seasoned buyers look at newspaper ads or buy online lists. Some will opt for auctions. Prices at bank auctions can be higher than those at county sales, but bidders at bank auctions can usually inspect a property ahead of time, expect a clear title and may not have to pay cash, Ms. McGee said.

Jesse Kaye, a real estate agent who works with developers and investors in the Washington, D.C., area, took a training seminar in foreclosure buying but said he decided it was not a practical part-time job.

“Obviously making \$30,000 to \$50,000 is an opportunity everyone would like to get in on, but if it were that easy, everyone would be doing it,” he said. “If you’re looking to get into foreclosure, make it a long-term deal and adapt. If not, just look for a good property, take 10 percent off the asking price and make a few offers.”

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