



## “Lions & Tigers & Bears...Oh My!”

By Mark Shaw

**R**EO, Short Sales & Foreclosures...Oh My! Not quite the picture of Emerald City from the Wizard of Oz one would imagine. One of the hottest topics in our everyday news headlines is the term “FORECLOSURE.” Reports of eye catching stories like, “West Nile Virus Linked to Bank Foreclosures,” or “Tenants are Latest Victims in Foreclosure Epidemic” are currently more common than ever.

What exactly is a foreclosure? What does the term “short sale” mean? REO... wasn't that the Speedwagon Rock Band?

A Foreclosure Property is a home in foreclosure – when a notice of default has been filed in public records. It means the owner has stopped making mortgage payments and the lender has given notice that unless the payments are brought up to date, it will sell the property to the highest bidder. Lenders can foreclose for other reasons, but the most common is when the borrower is more than two payments in arrears. If the owner does not bring the loan current, the bank will auction the property at a public sale.

A note of caution: Contact an attorney if you are an investor purchasing a home from an owner occupied property where a Notice of Default has been filed.

A few weeks ago, 60 Minutes broadcast a segment on Stockton, the “foreclosure capital of the nation.” Brown lawns and Real Estate signs bearing the riders “Bank Owned” are pervasive in this Central Valley hub. Tour buses chocked full of investors looking for that diamond in the rough, are guided to and from one vacant home to another in neighborhoods that were once thriving.

The acronym, REO, is defined as “REAL ESTATE OWNED.” This is when a bank has taken the property back from the homeowner and now owns the home or building as part of its portfolio. A lender can either auction the property or hire a Real Estate Company to market the home on the Multiple Listing Service. It has been reported by some Real Estate agents that they have seen the same property sell for a better price on the MLS than at a local auction.

There are some superb opportunities to invest in a bank owned property. In the past, some banks have been known to “bundle” blocks of homes and sell them to cash ready investors for pennies on the dollar. But not all REOs are a deal. Many are damaged or deteriorated, often times from sitting for long periods of time with little or no maintenance. While showing a bank owned property recently, I discovered an expired possum floating in a fetid backyard swimming pool, the green/black water receding to only a few feet. Find-

ing a property with a good deal of equity and a motivated seller can be a better find. Such homes typically have been well maintained and cared for throughout the years.

This brings us to realm of the “short sale”. A short sale is a pre-foreclosure term when the encumbrances exceed the value of a property. The homeowner may have fallen behind on payments as a result of a mortgage rate reset or for a host of other reasons. The end result is that the property can no longer be successfully sold without a “shortage” of funds which are owed to the bank. Many borrowers will contact their bank to negotiate terms requesting the bank to forgive the portion of the difference on what is owed vs. selling price plus expenses and commissions. Usually, this is limited only to owner occupied homes and often times the buyer must prove hardship.

The advantages of a short sale can be a two-fold: The bank does not have to take the property back (banks are not in the business of owning single family homes) and the borrower's credit is salvaged. From the Buyer's perspective, the short sale is anything but short. Even after the Seller accepts an offer, the bank still needs to give it their rubber stamp. One agent I spoke with said, “The lender said they would respond in two weeks and they took two months! Right before close of escrow, the bank foreclosed on the property and my buyer was crushed.” Many times asset managers have 400 files on their desk. This take a number and sit down attitude can have some buyers pulling their hair out. So, in the case of purchasing a short sale instead of Buyer beware it's, “Buyer Be Patient.”

Which ever way you slice it, REOs, Foreclosures and Short Sales are all part of the overall makeup of the Real Estate equation. Real Estate and the national economy are in a marriage for better or for worse. Cumulatively, Real Estate is connected to 20% of our nation's GDP. So, when Real Estate catches a cold, a great number of other related businesses may catch pneumonia. Thus, it's patients' job to continue the practices and disciplines to heal themselves and grow strong again, and to remember that aside from all else, “there's no place like home.”



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