# Default Dot-Com

## With mortgage delinquency rising, Web listings provide easy access to foreclosure investors

By Juliette Fairley

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Maynard Munroe made $125,000 profit earlier this year on a foreclosed home in Woodside that he found listed on a Web site . He bought the house for $325,000, and immediately resold it for $450,000.

A loan officer at City Capital Mortgage Bank in Floral Park, Munroe has been investing privately in foreclosed properties for 17 years. For the last two years, the Queens Village resident has been relying on the Foreclosures.com Web site for listings of pre-foreclosed properties to choose from.

In most cases, Munroe spends between $15,000 and $25,000 to fix up a house after purchasing it.

"Generally, it's mostly cosmetic like painting and scraping," Munroe said. "It may include carpeting or cleaning the hardwood floors or replacing windows."

Munroe, 45, said he prefers the online listings "because when I do a mailing I can just merge their listings with my word processor and print out mailing labels [to homeowners of foreclosed properties]. When I did use a paper newsletter listing, I had to type up or write out the mailing labels. Using an online foreclosure service saves me time and labor."

At a time when foreclosure rates have reached record levels nationwide, more homebuyers are searching for such properties amid the slowing, but still tight, housing market. And increasingly, as with other real estate sales, buyers are looking for leads on the Internet.

In the second quarter, the percentage of all homes in foreclosure increased to 1.23 percent, the Mortgage Bankers Association of America, a trade group, reported last month. That surpassed the previous record of 1.14 percent in the first quarter of 1999 and was the highest level since the organization started tracking mortgage defaults in 1972.

"Lenders have made it very easy for people to qualify for loans, and as a result, there are a lot of defaults," said Bill Bronchick, a Denver-based real estate attorney and author of "Flipping Properties: Generate Instant Cash Profits in Real Estate" (Dearborn Trade, 2001).

Others point to a particular surge in foreclosures in the New York City metropolitan area, citing a combination of economic and social issues.

"People have lost their income due to layoffs and many have lost their cash reserves as a result of dramatic drops in their investments through the market downturn," said Terri Hall-Jackson, loan officer with Your Approved Funding, a mortgage brokerage firm based in New City, N.Y. "As long as the economy is down, I think the increase in foreclosures will continue."

Alexis McGee, president of Sacramento, Calif.-based Foreclosures.com, says that low- and moderate-income homeowners in southeastern Queens and central Brooklyn have shown the highest default rates. McGee cited the city's unemployment rate of 7.9 percent (25 percent higher than the national average), continuing economic fallout from Sept. 11, and predatory lending in minority neighborhoods as contributing factors.

Whether buyers look for foreclosures in print or Web sites, Bronchick says they don't have to pay for such listings.

"Those lists come out every week for FHA and VA-owned properties. They offer the properties on a bid basis," Bronchick said.

Call your local bank or realty company, he said, to request a free list of the Veteran Administration's and Federal Housing Authority's foreclosed property or visit www.hud.gov/homes/homesfor sale.cfm.

Some major banks even list the foreclosed properties they own - known as real-estate-owned properties, or REOs, on their Web sites.

"A lot of these foreclosure Web sites are actually local services," Bronchick said. "They are information companies that go down to the counties and pull information from public records. They are listed in the Yellow Pages under information services."

Most foreclosure Web sites can cost anywhere from $400 to $1,000 for a year's worth of listings, but experts say they are worth it for some buyers and investors.

In the Queens and Long Island area, buyers may get a foreclosed house for as much as 30 percent to 40 percent off market value if purchased directly from the defaulting homeowner, according to Bronchick. If the property is in a hot neighborhood, however, it may be difficult to buy it at such discounts off market value, especially if the property is mortgaged for 90 percent of value, Bronchick said.

"The trick is to get the bank holding the mortgage to take a discount on what they are owed - this is called a 'short sale,'" he said.

For example, if the property is worth $300,000 and the foreclosing lender is owed $260,000, plus interest and late fees, the investor would have to convince the lender to take $210,000 in lieu of the total amount owed.

"Some banks are willing to do this because they realize the expense and further loss of continuing with the legal process of foreclosure, which could take six months to a year in New York or even longer if the homeowner files for bankruptcy or contests the foreclosure action," Bronchick said.

There are two phases of foreclosure. One is called pre-foreclosure, which is before the sale of the home. Buyers have an opportunity to purchase at a discount from the homeowner. The homeowner's advantage of selling directly to an investor is getting cash up front and saving their credit histories.

The second phase of the foreclosure is the sale, which is an auction on the courthouse steps where people bid for the property. If nobody bids, the bank owns it and it is considered a REO by a lending institution, according to Bronchick.

Although neither paper listings nor e-mail listings can guarantee their listings aren't yet sold, paper foreclosure listings claim they provide more information about particular properties.

"You have to be wary of the accuracy of information of these online foreclosure listings before subscribing to them because often by the time the listing gets to you, it's already old or sold," Bronchick said.

Foreclosure Update mails via the postal service a list of foreclosed properties that are going to auction in Queens, Nassau and Suffolk counties.

"We give you more than the average Internet subscription because we research the property, providing descriptions of the property, lot size and section block, which helps investors decide whether to want to buy without seeing the property," said Nancy Henigson, publisher of Foreclosure Update, based in Great Neck. The company's lowest subscription rate is $105 for 12 weeks.

The rate for a subscription to www.foreclosures .com is $30 for one month's online listing in one county, whether Queens, Nassau or Suffolk. The company added Long Island to its database in July.

"Web listings from Foreclosures.com have links to a map so that investors can locate the house and a market valuation link so investors can see the approximate market value of the home on the list," said McGee.

The company offers pre-foreclosure listings, which experts say can big make a difference in what price buyers pay for the property. Buying homes in pre-foreclosure, instead of from a bank, can mean savings of 50 percent to 75 percent, Muroe said.

Buyers of REO properties can expect to pay more because the bank already may have fixed up the house. It can also be more difficult to get the defaulted homeowner to move out of an REO house.

When the homeowner is selling the property, it is considered pre-foreclosure. Investors are more likely to get a better deal and can require the defaulted homeowner to move out before giving all of the money to acquire the property.

"I'm doing pre-foreclosure so these are not bank-owned properties," Munroe said. "These are people who have just defaulted on their loans. They are in a pre-foreclosure stage."

Unlike some investors, Munroe contacts homeowners in foreclosure through regular mail rather than approaching them by going to door to door. Although Munroe says he makes a yearly profit of between $60,000 and $100,000, he acknowledges he has had some bad experiences.

Seven years ago, Munroe bought a property in Harlem from a bank for $100,000. But subsequently, he had problems getting the defaulted homeowner to move out.

"I bought the property from the bank with her in the house. She didn't want to get out," Munroe said. "It was my responsibility to evict her and it took a year to go through the courts to get her out of the house."

To overcome this obstacle, Bruce Bergman, a partner who heads the foreclosures department at an East Meadow-based law firm, Certilman Balin, advises investors buying directly from the defaulted homeowner to enter into a possession agreement, taking money in escrow.

"It would be a very severe financial penalty for the seller not to move out. In that way you can typically constrain them to leave because you've got a nice chunk of their money. It becomes more expensive for them to stay than to depart," Bergman said.

Buying a foreclosed property at auction is more precarious.

"Then you are acquiring the property with whoever might live there and even though the tenants have a legal obligation to get out, they will often simply remain," Bergman said. "This requires the investor to pursue legal rights for enforcement, which can be time consuming depending on where the property is."

Another pitfall can be the emotional state of the defaulted homeowner.

"The homeowner feels like either that you're stealing the house from them or they feel embarrassed about the fact that they are in this situation," Bronchick said.

Munroe avoids such situations by only dealing with homeowners who have already decided to sell.

"I'm not talking them into selling. They have made a decision that they want to sell," Munroe said.

Foreclosure investors also must be wary of inadvertently acquiring tax liens on the foreclosed property they are purchasing. "If a homeowner has suffered judgments or liens, any investor who buys the property must know the encumbrances on the property because they will be responsible for the liens and the judgments," Bergman said.

Munroe pays a title company $150 to run a lien search on the homeowner to find out if there are outstanding liens or judgments against the property before he shells out any cash.

For investors like Munroe and others, buying such information can be worth it.

"Buying foreclosure information saves you the time of having to run around, get on the phone and call up banks to find out what they have available," Bronchick said. "When you make $25,000 on one house, paying for foreclosure listings can be well worth it."

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