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Introduction

This book will guide you step by step on how to find and utilize different situations to your advantage. This book will also guide first time investors as well as current homeowners with valuable information, while reviewing general procedures.

Chapter 1

GETTING A HOME FOR A BARGAIN

To this day, home ownership is still very much part of the American dream, one that requires a great deal of research and dedication on your behalf to ensure that the learning experience goes as smoothly as possible. The home of your dreams may well be within your reach. In this chapter, you will find tips and guidelines for finding a great bargain on a home that suits both what you're looking for and your budget.

Buying a home may well be one of the most important decisions you will ever make in your life. There is an enormous amount of information you should know before buying a new home. Questions such as; where is a good location to purchase property? What resources are the easiest to work with? What is foreclosure? These are just some questions that may present themselves when new home seekers should consider before buying a home. In this book, we will address these questions and help make your home purchasing experience a memorable one!

Foreclosure can get you valuable property that can accomplish your goals and save you money in the process. A term that will often come up when purchasing a new home is a bargain. A bargain is known as a property acquired or services rendered as a result of an agreement. It can also be something offered or acquired at a price that is to the advantage of the buyer. Bargaining within the foreclosure world can be very confusing because the information about the market is very unpredictable and at times may seem incomplete. The lack of information brings many opportunities to buyers, and can get you homes at a price lower than the market value.

Bargain within the foreclosure world can occur in many instances. For example, a bargain can occur because of the seller's lack of knowledge. They may sell the property at a low price because they underestimate the value of what they are selling or simply because they are in a rush to sell it. Bargain also creates many downfalls for buyers. A seller usually knows what he is selling, including the problems the property has. The more you know about the market, the better the chances you have of finding your dream home.

Contrary to what is commonly believed, a property is always negotiable. Whether the property is new or used, the property can be negotiable before a price is set. However, before agreeing on a price, there are many things that should be considered. Questions such as; who is paying for the closing costs? Does the property need repairs? If so, how much will the repairs come out in total? Either you or the seller may agree to pay all the legal fees at closing within the set price or out of the set price.

Understanding how the market works will help you identify valuable property and can help you become a better negotiator. You should be well informed of the property and the seller's motivation before bargaining. Knowing and understand which party is more anxious to sell or even to buy will be beneficial to you. You can ask the homeowners about their reasons for selling their home, or ask your agent to find out for you. Determine how the homeowners' motives for selling can benefit you during the selling transaction, such as a reduced sales price in exchange for a quick closing.

The market conditions can affect the sale or purchase of a property. There are two types of markets. The first is a seller's market, which is when there are more buyers than sellers. The seller may have the privilege to wait for a good offer that suits him and not necessarily suit you. The second type of market is known the buyer's market, which is when there are more sellers than buyers. In this instance, the buyer has the opportunity to bargain and gain a good price. When the seller is under pressure to sell the property, it's known as a "distress sale." Finding a seller under pressure can be beneficial for the buyer because the buyer can save money on a new property.

In most cases, sellers are under pressure because they are facing financial difficulties and are in a rush to sell their property. Most of these homes become foreclosed. Further into this book, we will explain what foreclosure is and the process of foreclosure. Many foreclosed properties are sold at auctions, inventories and other places where property can be obtained. A section of this book describes the types of foreclosed homes available in the market.

Research all of your options within this book and choose a property that best correlates with your lifestyle and helps you accomplish your goals. Whether you are buying the house that you thought you would never buy, or if you are just looking for a good income-producing property, foreclosure is the way to go. Take under consideration that the market contains many foreclosure properties that may interest you, but do not hesitate to purchase property! The foreclosure market grows everyday and becomes more popular to consumers like you and me. If you have not taken any risks, now is the perfect time to do so. It's never too late to gain knowledge and great rewards by learning more about foreclosure. Take your time and be patient, your quest has just begun.

Chapter 2

THE HOME BUYING PROCESS

If you've never bought a house or any sort of property, you may not know some of the requirements needed to make such a purchase; the terms commonly used, or even how to get started! With our help and our resources, we can help you gain more knowledge of foreclosure and how to become a good investor. Buying foreclosed homes can be quite different from buying other types of purchases. Many procedures are needed in order to make a legal and smooth foreclosure purchase. Buying a home can be an adventure and an extraordinary experience. Most persons purchase home when they are no longer satisfied with their current home or an increase in family size.

Searching for a new home in the growing market can be done in many ways. Foreclosure listing is a directory of houses that are for sale by its owner, bank, or the government. Many foreclosure listings are made through realtors in what is known as the Multiple Listings Service ("MLS"), this is a directory of homes and houses for sale in a particular geographical area except FSBO properties. You can obtain foreclosure listings from your local bank, broker, or subscribe to a website dedicated to foreclosure listings.

If you want to save some time and money, or you'd rather not look for homes under the watchful eyes of a real estate agent, then the World Wide Web is your answer to house hunting. Online real estate listings can make it easier for you to locate a perfect home in an area that you desire. This book provides you with the most popular website that has listings available. A website subscription is the easiest to work with, since access to it can be reached right from the comfort of your own home. Most importantly, it is available for your use twenty-four hours a day and seven days a week.

After deciding what method of search you want to use, begin to form ideas. While forming these ideas, keep questions such as these in mind; where would you like the property to be located, how much money are you willing to spend and the purpose of purchasing the property. When purchasing property, always spend within your available limits. When determining your decisions, consult with a broker or your bank to determine your borrowing limits. Loans are determined by your credit history, income, and any long-term debts you might've accrued.

While searching for property, if you come across something that catches your attention, make sure to gather information about the property. Know how many days the property has been on the market, the property's actual age and if it's accessible. Another aspect you should know about the property is if it has a clear title. Usually the property is sold in what is known as an "as-is" condition. Check to see if the property has a defect or is in a teardown condition. Keep in mind, you have to be a motivated buyer and know that the seller is a motivated seller. Normally, the negotiation begins when you make an offer that

you think it's appropriate for the property to the seller. Always make a lowball offer. Most sellers will tell you the asking price, after you make a lowball offer.

Offers should be done in writing not oral agreement. If you are serious about the property, make a brief agreement, which includes a deposit. You may also send the seller a letter of intent. The deposit money is known as the earnest money. This shows the owner your intentions that will eventually follow with a formal contract. This process is known as a binder or sales contract. If the seller is interested, he will make a counter-offer in return. The seller may even have multiple offers. This will go on until the seller has accepted an offer. After the seller has accepted your offer, then you may start the contract to purchase. The contract should describe everything the property has and the rights of both the buyer and the seller. Make sure that everything you demand is stated within this contract, including the closing date. The closing date is the day in which the transferring of the property will occur. This day is the most important day when purchasing a home, so make sure you include this.

In the contract you should include a mortgage contingency. A mortgage contingency is a part of the contract that implies that if the financing you need cannot be arranged, the sale is called off and you can retrieve your money. Before signing the purchase agreement, you must check the property for any material defect. Your next step is to arrange financing. Financing is done after the signing of the contract. The endorsement normally takes anywhere from two to eight weeks, according to the type of financing you get. After you have a signed contract, you can conduct a formal application for a loan to your bank. Some banks may require an application fee. The lender, which is the mortgage banker, will determine the value of the property before approving the loan. The mortgage banker will determine the value of the property by hiring a real estate appraiser. After the mortgage lender has approved the loan, the lender forwards the required money to the closing. At the closing date, everything is exchanged. The money is exchanged for the title of the property. After the transfer of ownership, the property becomes yours. Make sure that a title insurance agent is present at the closing date. A title insurance agent is necessary to make sure that you are receiving a secure legal title and to present the back title letter. After this the agent will perform a title examination to make sure that the title is clear of any liens. Finally, this marks the end of the buying home process.

Chapter 3

WHAT IS FAIR VALUE?

A market value is an idea or a concept created by economist. A market value is the price that a buyer is willing to pay for certain property that would satisfy the seller's needs. This is a theory in which a buyer and a seller come to an agreement. Both the seller and

buyer have to be aware of the situation and be knowledgeable of the fair value of the property.

A fair value is defined as the estimated value of all properties and liabilities of an acquired property used to consolidate the financial statements of both buyer and seller. As a buyer, you may think of the fair value as the amount of money you are willing to pay for the property. As the seller, you can think about fair value as the money you are willing to receive for the property that you are selling. A fair value also implies that both seller and buyer are not under any sort of pressure and are willing to do business.

Keep in mind, the market is everywhere around you, but not in one specific location, unlike the stock market, which has different locations and is easier to find. The foreclosure market is constantly and may take months or even years of search to find a property. Time and patience are required because every property is different and is used for different purposes. Whether you are looking for a home for your family or a home to gain financial prosperity, the property should be in good conditions before it hits the market value.

Chapter 4

CAN YOU GET A BARGAIN HOME?

Bargaining is known as a property acquired or services rendered as a result of an agreement or something offered or acquired at a price beneficial to the buyer. Bargaining is basically negotiating with others. Negotiating is a skill that you must develop in order to come to a beneficial agreement. The act of negotiating is to talk with another person or others in order to come to terms or reach an agreement. Negotiating is present at all times, whether is simply deciding on a restaurant or what food to eat, it's a skill that we use everyday.

The foreclosure business is not only about houses, building or commercial property; it's also about people. Even though you may encounter people on a daily basis, in the bargain world it's very important that you know how to deal with people. Trying to negotiate with a seller could be rough if you don't know how to communicate with them. You may have a lot of experience in the foreclosure business or be the best investor but if sellers don't like your approach, it'll be very hard to get a good bargain. A basic tip to negotiating and to obtain a good bargain is to set limits. Set a limit on how much money you're willing to spend and how important acquiring the property is for you. Remember that if you don't put a limit on yourself, you might end up paying more for the property than what it's actually worth. With all of this in mind, now may be the best time for you to start your search. Having time and being committed is necessary while conducting your search. If you rush the process, you will end up with properties that have many problems or lose money in the process. Another tip in bargaining is to fully understand what you are buying as well as the actual value of the property in the market.

After you conduct your research, make a list of properties that might've caught your attention. We suggest that you attend a couple of open house, and inspect the Properties you've researched. An advantage of bargain homes is that you have the opportunity to actually inspect the property. Inspecting a property is important because on the day of the bargain, you are in fact buying the property "as is." If there is a property you feel strongly about, make sure to hire a professional inspector. An inspector is going to provide you with a detailed report, which will tell you valuable information about the property. Also make sure you inspect the surroundings of the property and if it affects the value of the property. Examples of things to look for in the surroundings of the property are as follow: vacant buildings, violence control and condition of nearby neighborhoods.

A reservation price in the bargaining world is the highest amount of money you are willing to pay for a property. You should commit to this number and never exceed this amount on a property. Remember not putting a limit on yourself may lead you into acting impulsively and you might just end up overpaying for the property. Having a reservation price is very important because this is a way of determining if in fact you did get a good bargain or not. The way to determine if you got a good bargain is if the amount you spent n the property is less than what you listed as your reservation price. If you're really fixed on a certain property, have an appraisal conducted on that property. An appraisal is an expert or official evaluation of a property. The cost of the appraisal usually ranges from \$300 to \$400. This may sound like a lot of money but it will help you save money in the long run. Keep in mind; an appraisal can save you money by preventing you from overpaying for a property.

Chapter 5

BUYING HOMEOWNERSHIP VERSUS INVESTMENT

Property is one of the most important purchases you will ever make. The purpose of property is very important when conducting a search. Whether you're looking for property to rent out, or if you wish to obtain property to live in, always aim for a profit. You can buy real estate at wholesale price. Buying wholesale property is when pay considerably below the market value and make a profit. Most of the properties found in wholesale generally are fixer-uppers, which means most of the properties have minor damages that can be fixed. Other properties have terminal defects that may be useless to fix or may require a lot of money to fix up. Usually these types of real estate foreclosure properties sell at 40 to 60 percent of its current value. These properties usually demand repairs, probably because the owners were unable to properly take care of the property. Banks do not want to finance these properties and real estate agencies wish not to list them. All of these reasons create the perfect opportunity for you to buy the property. This is the best opportunity for you to buy a property to invest in.

When considering a property to be your home, there are many things you should consider before buying the property. You should look for blue-ribbon condition homes, which is the condition of the property that surrounds the property and the type of neighborhood that surrounds it. You should watch out for wrecked areas. A factor that you must consider is infrastructure. Does the location correlate with your lifestyle and your needs? As you can see, there are many factors that should be thought well and analyze before purchasing a property to be your new home.

As an investor you have to perform many tasks before purchasing a property. An important aspect you should know before buying the property is whether it will create a cash flow or not. A cash flow is a term used in the foreclosure world that means the net operating income of a property minus its debt service. In other words, the profit you gain after all the expenses of the house are paid. You may create a cash flow projection plan to evaluate the property. This is a very important step that you must complete before buying the property. This will determine if the property is worth buying or not.

i.e.:

A Cash Flow Projection

Anticipated Monthly Rental Income \$1,500

Monthly Mortgage Payment \$1,200

Monthly Property Taxes \$2,400/Yr + \$200

Monthly Property Insurance + \$50

Total Carrying Charges \$1,450

Monthly Cash Flow Projection \$50

This cash flow projection example can help you create your own table and help you understand how property cash flow works. If the property creates a negative cash flow, then you know the property is not worth buying to rent it out. A property is not useful for rent if it does not create a positive cash flow because each month you will have to add money from your bank account to maintain the property. If this occurs, it means you did not make a good investment. Basically you just got yourself into another debt.

Chapter 6

A WORD ABOUT RISK

Risk is something we encounter in our every day life. We may be at risk by crossing the street, driving a car or as simple as eating. Risk means to expose yourself or others to a chance of losing that involves uncertain danger. We encounter risk at all times during our lives the same way we encounter risks in the foreclosure world. In the foreclosure world, risk means taking the chance on an event that could cause a loss. When purchasing a property for investment, you are taking many risks, such as problematic tenants, the property's physical condition, and the future value of the property. Nonetheless, you

should not let these risks stop you from purchasing your dream house or your new investment.

Out of all possible risks, a problematic tenant is the least common problem when renting a home. It's been statistically known that about 80 percent of tenants are fine, 10 percent are great, and 10 percent have the potential to be problems. The property's physical condition is something that you must know before buying the property. You have the right to know every problem the property is currently facing before purchasing the property. The property may face severe problems or it may have minor problems you can fix without investing a lot of money.

This risk can be prevented or minimized by obtaining an appraisal report. The future value of the property is something you should keep in mind as well. If you do good research, there is a lesser risk that the property value declining can be diminished. Make sure you obtain the comparative market analysis to determine the value of the property.

Chapter 7

BUYING OUT OF SEASON

Home Prices Tend to Change According to Season

115.5												
114												
115.72												
116.52												
118.02												
122.72												
122.02												
122.66												
119.7												
118.48												
119.28	119.64											
108												
110												
112												
114												
116												
118												
120												
122												
124												
Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	
Month												
\$ Thousands												
Average home												

A good way to increase your chances in buying a good foreclosure property and getting a good deal is knowing when to purchase, timing is everything. Another factor that also

affects a property value is the season in which to buy property. It has been proven that most people buy properties during the summer than during the winter. According to the National Association of Realtors, prices tend to peak in the summer and are lowest in the winter. The graph above indicates the seasonal variation. As you can see on the chart, the peak months are June, July, and August. This tends to occur because of the climate and relocation of companies is more frequent. Most people prefer to move in the summer than in the winter. Weather conditions are more comfortable in the summer than in the winter, therefore it makes it more pleasant for moving or house hunting.

Another factor that affects this chart is that most employers rather relocate their offices during the summer and providing relocation benefits. Families with children also try to move at the end of the school year, in order not to disrupt the child's education during the school year.

The seasonal variation creates a window of opportunity for an ambitious investor, much like you. The best time to get a good bargain is within the first few months of the year. The disadvantage of buying during these first few months is that the number of available properties also decreases. Another disadvantage of buying in the winter is that you may not find the same property as you might later in the year. During the last four years, sales of houses have increased. Sales of existing homes rose in April for the last four years. U.S. sales of previously owned homes, including single family, townhouse, and condominium rose 4.5 percent to an annual rate of 7.18 million units last month, after adjusting for seasonal variation, according to the National Association of Realtors.

Home investing keeps increasing as the years go by. Take under consideration that the market contains many foreclosure properties that may seem interesting, but do not hesitate to buy the first one. Remember that there are many properties that enter the market everyday. Take your time and be patient because your quest has just begun. Real estate foreclosure becomes more popular to consumers much like you. If you have not taken any risks, now is the perfect time to do so. It's never too late to gain valuable knowledge and great rewards by learning more about real estate foreclosure properties.

Chapter 8

FOR SALE BY OWNER

FSBO is shorthand for "For Sale By Owner." The term is used to identify properties, usually homes, which are sold by the owner without the help from a real estate agent. Typically, owners advertise their properties by means of websites, classified ads, word of mouth, and other means. Properties for sale by owners create a window of opportunity to get a good bargain. In this scenario, you are dealing with the owner himself and not a real estate broker or a "middleman." The real estate brokerage commissions ranges from 5 to 7 percent. The homeowner is trying to save that commission by dealing with the buyer

himself. The homeowner may save you some money by giving you a discount on the property.

Another advantage in buying a property from a homeowner is that the owner may underestimate the value of the property. Homeowners usually publish their homes in foreclosure listing web sites. Online listing is the easiest and fastest way to sell and provides buyers with information about the property. According to the National Association of Realtors, over 70% of all homebuyers now use the Internet to search for homes. If the homeowners list their properties with real estate agents, they will inflate the price to cover the cost of their commission. When agents inflate the prices, it makes it more difficult for homeowners to sell the property. After a couple of months, homeowners come to the painful realization that no one is buying their home at that price set by the real estate agents. The homeowner will end up reducing the prices or accepting an offer lower than the one asked for.

Some homeowners are intimidated by the simple thought of selling their homes or the process of selling their homes. The advantage in dealing with the owner himself is that you have direct contact with the seller. Here is where your negotiation skills are necessary. Remember that you have direct access with the homeowner and there is no middleman to interpret or misinterpret a statement. Make sure you go out of your way not to have any tension with the homeowner if you really want to buy the property.

Chapter 9

WHY THE LOW PRICE? SELLER, HOUSE, OR NEIGHBORHOOD

When we see an attractive price, we have to ask ourselves “Why are they selling the property for such a low price?” There are many reasons why a person might sell their property at a low price. The three most common reasons why a homeowner sells the property for a low price is because the seller is unaware of the value of the property, the property is in poor conditions, or the neighborhood where the property is located is facing too many problems.

Identifying the reason of why the price is so low is very important. You do not want to end up with a property that is in bad physical conditions. Recognizing why the seller is selling for such a low price can help you save money. A seller might be anxious to sell the property for many reasons, but it's up to you to identify the reason. One of the reasons why homeowners sell their properties for a low price is because they are facing financial difficulties. The seller may be naive about the foreclosure world or about the property value. Another possibility is that the owner may have been relocated by his/her company and needs to sell as quickly as possible. There are endless reasons why the seller wants to sell his/her property, but it's your duty to identify his/her reason.

Another possibility is that the property could be facing poor physical conditions or is a stigmatized property. The seller could be trading up or trading down and that's why the homeowner needs to sell the property. The property may need major repairs that the homeowner is not willing to fix or is not worth fixing. The property may need minor repairs like painting, floor work, or roof replacement. After you know the conditions of the property, you can calculate what needs to be repaired and estimate how much it will cost you to fix the property. You may determine whether the property is worth buying after you estimate how much it will cost to fix. Another option that you have is to subtract the amount that is going to take to repair the property from the original price. Both you and the owner have to achieve a win-win scenario in order for both of you to be satisfied, you with a good property and the owner with a good price.

A factor that affects the value of the property is its surroundings. If the property is located in a bad neighborhood, you should stay away from that property. What determines a bad neighborhood and how can you obtain this information? We can determine a bad neighborhood by its crime rate, unemployment rate, low-income levels, population living in public houses, or low-scoring schools. You may get this information online by obtaining its statistical reviews or police stations. Remember that you have no control over the neighborhood and because of this; you should reconsidered before purchasing the property.

Chapter 10

INSPECTING THE PROPERTY

Some houses may not be valued because the property may be in poor conditions or has corner influence. Try to identify the reasons why the property has not sold and whether it is undervalued or price correctly. You should always inspect the property before making an offer because the conditions of the property will affect how much you are willing to offer. First, you should inspect the neighborhood. You can do so by visiting at night with a friend to get a feel for the neighborhood. Check to see if front and rear entrances of the property are well lit at night. You can also talk to the neighbors and ask them questions about the neighborhood. See how far the police station is from the property and other facilities that you might need in case of an emergency. Check out how far you have to commute to reach the closest public transportation.

When inspecting the property, make sure you check both the inside and outside of the property. When checking the inside, see if the door has a deadbolt lock and if windows are secured with locks. All sliding glass doors should have a bar or a stick of wood in the inside door path to prevent them from being opened from outside. Check for safety measures in case of fire. Is there a functional fire escape? Does the place have working smoke detectors in/near every bedroom, hallway and basement? Are there two forms of way out in case of an emergency?

If you're renting the property, check the basement thoroughly. Notice the heating/air conditioning units and the size of the hot water tank. Check the location of the thermostat, so you can have total control. Check the plumbing by flushing the toilet and running water in the sinks and tubs to observe the water flow and drainage of the water. Notice any faucet drips and/or leaking pipes, especially if you are responsible for the water bill. Inspect around the property for signs of infestation or other factors. Check if the radiators and heaters are in good condition or need to be replaced. Examine the condition of the walls like the paint, plaster, etc. Ask if they will be repainted before you move in. If the property is going to be painted before you move in, make sure you get an addendum in writing before you sign the contract. Last but not least, observe the electrical fixtures for any ragged wiring. Turn on the lights and check to see if there are sufficient overhead lights or if you will need to supplement the lighting with lamps. Make sure you also check if there are any bugs or rodent infestations? Check the cabinet under the kitchen and bathroom sinks for any type of insects.

For the outside of the property, make sure you check the fences and gates for stability. If there are any large trees near the property, check for any possible root damage to the property. Check the line of the roof to make sure it is straight and does not have any broken tiles. If it does, make sure you make the owner aware of the damages. All of these procedures have to be done in order to prevent future damages to the property. Take your time and inspect the property carefully for any damages mentioned in this chapter.

Chapter 11

BANKS DON'T WANT TO OWN REAL ESTATE

If you're still thinking of buying real estate foreclosure properties, the best and most effective way, is to buy real estate bank foreclosure properties. A bank foreclosure property is the best opportunity to buy real estate properties because of the way they acquire the properties. Banks do not want these properties, because they are trained to deal with money and paper work, not managing properties. Ownership, managing, and resale of real estate foreclosure properties are qualities that bank staff lack of. This of course, is to your advantage and why banks want to sell the real estate foreclosure property as soon as possible.

Banks are anxious to sell the properties and therefore, they will sell the property at a lower price. If the bank does not offer a reasonable price that calls your attention, you can always bargain the price. Real estate agents may drop the price until you reach an offer that you cannot resist. When this point is reached, you are now an owner of a bank foreclosure property. Real estate bank foreclosure properties can allow you to save money. You can save up to 40% of the regular market price. You may get information by

requesting the latest real estate bank foreclosure properties listings from web sites. This list will introduce you to available bank foreclosure properties near your desired location.

Bank foreclosure properties can be a good source for finding the right home. There are several options for locating bank foreclosure property, but three of them are the fastest and easiest way. The first one is at the county tax office. Trustees who represent the bank usually auction off properties on the courthouse steps. The second is by becoming familiar with the banks near you and waiting for the banks to acquire properties. You may have to open up accounts with the banks because some banks may not allow you to buy the property and finance the house with the same bank. Some banks have policies similar to this one that may prevent you from getting the property. The third option is to subscribe to web sites dedicated to bank foreclosure property listings. Real estate foreclosure property listing is a directory of properties that are for sale by its owner, bank, or the government. Real estate foreclosure property listing is the easiest and fastest way to obtain the best listings of available properties in an area you desire.

Chapter 12

WHY HOMES ARE REPOSSESSED

Many lenders lend large amounts of money to new homeowners for a low rate of interest because your home becomes the collateral security. Collateral is a property that the lender accepts as security for the loan in case a breach of contract occurs. Most lenders reconsider giving you such a large loan without your home as collateral. When you obtain a loan, the two most important papers you sign are the description of your obligation to pay fully the loan and the other one is the mortgage contract. The mortgage contract gives the lender the legal rights to the property; in case you breach of covenant

There are many reasons why some homeowners stop paying their mortgages. The final result is that their owners due to foreclosure lose thousands of properties. The primary causes of residential foreclosures include divorce, unemployment, death or serious illness in the family, drug and alcohol addictions, mental problems and local economic conditions. Many mortgages contracts give you a grace period. A grace period is time given to a debtor in which the creditor will not take legal action when payment is late. Usually, grace periods are 10 to 15 days after the payment is due without adding a penalty. When payments are three or more months late, the loan is considered to be in default and the homeowner receives a notice of default. If you fail to make the payments, then foreclosure occurs. This is the legal means that your lender can use to repossess (take over) your home. When this happens, you must move out of your house. If your property is worth less than the total amount you owe on your mortgage loan, a deficiency judgment could be pursued. If this occurs, then you lose your property and you also owe HUD an additional amount.

Chapter 13

HOW AN AUCTION WORKS

“Sold to the highest bidder!” One of the most exciting and potentially profitable ways to buy real estate is at an auction. An auction is the process of buying and selling property by offering them up for bid, taking bids, and then selling the property to the highest bidder. Buying a home through an auction can mean getting incredible deals on properties. In most cases, the seller is either the government, which has taken possession of the property due to unpaid taxes, or the lender, which is when the former owner stopped paying the mortgage. The auction process usually attracts many sellers as well as buyers.

Many people believe that auctions are for professionals who are knowledgeable of the auction world. This is true to a certain extent; you should be knowledgeable about what you are doing, but it does not take a professional to do so. There are a couple of steps you should take before bidding at an auction. Get pre-approved for a mortgage and have your financial package ready to go before the bidding begins. Get a list of the properties up for auction that day so you may inspect the properties before hand. Get as much information as possible from the auctioneer to get a feel for which properties may interest you. Visit the properties that are listed and see which property catches your eye. Auctioneers generally have a preview date during which tours of the house will be given, although this is not guaranteed.

Make sure you get an appraisal on any property in which you are interested as well as getting it inspected by a professional inspector. The appraisal fee can cost several hundred dollars but it will identify any significant problems that the property may have and will provide you with an appraised value. Some of these problems may include pest damage, faulty foundations or leaks. You may get an approval to have the property inspected as a contingency, but bear in mind that contingencies of any kind reduce the probability of the bid being accepted at the lowest price. Other auctioneers only sell properties as-is. Check with the auction company to make sure the property has a free and clear title. You do not want to buy a property that is going to bring you problems down the road. If you do not check this before hand, you may find out yourself liable for unpaid taxes or other bills attached to the property after the property is yours. These are things that you should always do before bidding on a property.

After the property is yours, you cannot return it to the auctioneer for any problems. At an auction, sometimes the seller might set a minimum price for bidders. In this particular case, the property may not be sold if no one places a bet on it, not even the minimum. A seller may do this if he is unsure of the market and will be willing to hold onto the property. A seller like this one shows that he is not completely sure of the auction process. He may not trust the system or may not be familiar with the auction process.

An important thing that you should decide on is how much you are willing to spend. Setting a maximum bid can stop you from spending more money and losing a deposit. In case a bidding war occurs, you should have a backup offer ready. At auctions, your adrenaline may rise and sometimes it causes your feelings to get involved. Self-control is something you must have in order to participate in auctions without making a mistake. In some cases, you cannot withdraw a winning bid from an auction; even if you are not able to secure financing later. Penalties can apply if you back out of a winning bid. In some cases you are obligated to pay as high as 25 percent of the bid amount or whatever the bid deposit may have been.

Chapter 14

HOW MUCH SHOULD YOU BID AND WHERE DO YOU GET THE MONEY?

Where can you get the money? This is a question that many Americans ask themselves before considering buying properties at auctions. There are numerous ways to get your hands on money for an investment. Some people have money saved to buy small properties, but if you are not one of them, do not worry. One thing you can do is to find investors. You can find investors that are willing to lend out money to someone who knows what they are doing. You can also create an investment group. An investment group can include your family members, your husband/spouse or even your friends. Do not let this stop you from improving your life and enjoying the benefits of auctions.

There are many myths and rules about how much money you should bid at an auction. The most well known rule is the 40-60-80. A minimum of 40 percent of the market value is good to start of. If you are buying the property for yourself, do not exceed more than 80 percent. This is too high for an auction; in fact 70 percent of the total value is high for a property. This is one of the reasons why one rule is no more correct than other. People have different opinions towards bidding and this is why you should put a limit on yourself. Never exceed your personal limit because if you do, most likely you are paying too much for the property.

If you think the starting bid is a bit too high, and no one jumps on the opportunity immediately, wait a few seconds. Often, an auctioneer is allowed to lower the price if one wants the property right off the bat. Many of the properties are overpriced to start with, but you have to be patient. Have fun. A live auction is mostly entertainment, from fast-talking auctioneers to fast-spending collectors. Auctions are free and open to the public, and you do not have to bid if you do not want to. In fact, attend a few auctions without bidding, to pick up on the rules of the game.

Chapter 15

TIPS FOR BIDDING AT AN AUCTION

Auctions can be a great way to get deals on many types of goods, from computers and electronics to antiques and collectibles. You can also get that dream house you always wanted to offer your family. Unlike the fictional auctions you see in movies, real auctions offer simple and well-organized bidding processes. Before you attend one, familiarize yourself with these basics. A home typically goes up for auction when the owner, who may be an individual or a builder, is unable to sell the property and the lender in foreclosure has taken the property back. Once the lender owns the property, he can choose to sell it with the help of a real estate broker or through an auction company.

Get a catalog from the auction house that lists the properties available at the auctions. The catalog will include digital images, brief descriptions and estimated presale values. Write down the lot number of the property that caught your eye. Inspect the property you are interested in before the auction. Many auction houses host presale viewings that are open to the public. Go to the auction house and fill out a registration form. Registration usually requires at least one form of identification and a credit card or a bank reference.

Identifying the property's condition before making a bid is important. There are four different types of conditions a property might be in. The first condition is what is known as vacant and accessible. Vacant and accessible implies that no one lives in the property and that you can visit the property. You can go inside and inspect the property if you like. The second condition is known as occupied and accessible, here the property is occupied but it is still accessible. The third condition is known as vacant and inaccessible, here no one is occupying the property, but you may not enter the house. The last condition is what is known as occupied and inaccessible, the people living in the property are not allowing anyone inside the home for any given reason.

If the property is vacant and accessible, take the following steps and prepare a bid sheet. Inspect the property thoroughly and write down what needs to be fixed to calculate the capital expenditure. You need to hire a home inspector to give you a written estimate that includes the price of the repairs. You may also want to know how much time it will require the contractor to fix the problems in the property. After this is done, you need to determine the value of the property in a repaired condition. If this property is not for personal use, but for renting, remember to estimate how much would be your rental income, in order to calculate your cash flow. Calculate your bidding limits to prevent you from overpaying for the property. You also have to know when the best time to purchase property is. Sometimes the market favors buyers more than sellers or vice versa. It's said that a market favors the buyers, when the market has more sellers than buyers. This may be due to the fact that people sell their homes for lots of reasons. Here is an example of a bid-calculating worksheet that can help you develop an offer on an auction property.

BID-CALCULATING WORKSHEET

Opening Bid Amount: \$60,000

Estimated Market Value Repaired: \$100,000

Anticipated Monthly Rental Income: \$800

EXPENSES

Estimated Insurance: \$1,000

Estimated Mortgage Cost:

Estimated Closing Cost:

Utility Expenses:

Repair Costs: \$10,000

Eviction Costs:

Unpaid Taxes: \$200 (\$2,400/year for 30 days)

Anticipated Rent Loss: \$800 (For 1 month during repairs)

Other Expenses:

Total Expenses: \$12,000

Estimated Market Value: \$100,000

Deduct Expenses: - \$ 12,000

Amount to Bid for a Break-Even Purchase: \$ 88,000

Chapter 16

SHOULD YOU WORK WITH AN AGENT?

Buying a home without the representation of a real estate agent may save you money, but be sure you know your way around a real estate transaction, or you could get yourself into trouble. The real estate market is a growing market that expands daily. The real estate market is so enormous, that sometimes is hard to keep up if you have a full-time job. Every property is different and distinctive in its own way. Location, value, and the type of property may change daily. If you are not involved in the real estate market everyday, you may not have all the information you need to purchase a property. Without gathering all the information necessary to help you become a better buyer, you may end paying too much for a property.

A real estate agent is an individual who is licensed to negotiate and arrange real estate sales on your behalf. Real estate agents are involve in the real estate market regularly and are aware of the changes you may not be aware of. A real estate agent can help you find a good home for your family or an investment property. They can also help you find the best deals in the market for you to invest in. Remember that these agents work in the real estate market as a living so they are aware of the changes that you may not see.

Real estate agents help people like you and me buy and sell property. They must be able to tell you approximately how much money the property is worth and the material costs.

They also know the current value, the infill development and the infill housing. They are also knowledgeable of the laws that have to do with buying or selling of properties. They also assist you by telling you where to get a bridge loan in case you need more time. Real estate agents work for real estate brokers. Real estate brokers manage real estate offices.

Selling agents are skillful at what they do. They know where, when, and how to get the best deals in town. Many foreclosed or bargain properties are sold like any other property, through exclusive listing and the Multiple Listing Service. Multiple Listing Services are ways by which real estate agents are informed of the properties offered for sale in a given geographical area. Listing agents work with the market as well as themselves. Listing agents have the listing inventories, which makes it easier for them to help you locate a property.

Real estate agents share information with each other and have open listings to make business better and faster to find properties. Real estate agents are not the only ones that have access to these listings. The listings may also be access by any investor or yourself in the Internet. The Internet offers investors like you and me, many opportunities by providing listings. Foreclosure listings web sites provide detailed information about properties that are for sale to its members. Real estate agents can also help you in auctions. They know where auctions are taking place and what days. They may guide you step by step on how to make a bid and when is the best time to buy on auctions. Some real estate agents may even accompany you to an auction. Real estate agents can help you work an offer. They basically do all the work for you. If you are a person with limited time, than hiring a real estate agent is the answer.

Chapter 17

SALES CONTRACTS

Once you have located the perfect home or the perfect property to invest in, its time for you to take the step that makes people tremble with fear: the sales contract. To take some of the mystery out of the house sales contract, this book will discuss what the contract involves and the components of most sales contracts.

First, remember that which you are signing is a legal contract. No matter what anyone says, you are not just making an "offer" you are signing a legal document. Most sales contracts will have a paraphrase of the following: "This is a legally binding contract. If not understood, seek competent advice before signing." To put it in simple words, if what is written on the contract about the selling price and the seller accepts requirements, you have bought a home. Unlike other negotiable businesses, such as the automobile business, "would you take?" is defined in real estate by a legally binding contract backed with a monetary deposit.

A sales contract is an agreement between a buyer and seller that states all terms and conditions of a sale. The sales contract should explain in detail, exactly what the purchase includes, if there are any warranties, when the buyer can move in, what the closing costs are. It should also state what options the parties have if the contract is not fulfilled or if the buyer cannot obtain a mortgage commitment. A sales contract makes the negotiation process between buyer and seller official. This is also known as contract of sale, agreement of sale, or earnest money contract. It all depends on what part of the United States you are in.

The contract of sale states many components. Although there will be some variance based on your location, most real estate contracts contain most or all of the following items: A legal description of the property that you are buying and the street address as well. It states exactly the selling price of the property. A mortgage contingency is a provision in the home purchase contract that says that if as the buyer can not get a mortgage within a fixed period of time; s/he can call the whole deal off. In other words, the agreement is conditional on the buyer being able to obtain a mortgage on the property.

The contract of sale should say how much money accompanies the contract and who will hold it. The closing statement, which tells you when and where the closing will take place. It should state the inclusions and exclusions. The inclusion is what is included in the sale of the property and the exclusion is what is not included in the sale of the property. It also includes when the home inspection should be done and in how many days. Any warranty included with the house and description of the warranty should be stated in the contract of sale. Whose insurance will cover the property up until the closing date. All of this and more must be included in the contract of sale. Read through it slowly and make sure that everything is correct before you sign the papers.

Chapter 18

NEGOTIATION

Many people hate negotiating, but with a few simple tactics, it can be rewarding and fun. The best way to buy a good property and get a good bargain is to negotiate. Negotiation is the process of discussing an issue between a buyer and a seller who are working towards an agreement. In real estate, negotiation is the key to success. Successful negotiation usually leads to a contract and then a sale of a property. The following steps can help you become a better negotiator.

You must research the market. Researching ahead of time will help you find the best deals on a property you are looking for. If you are looking for real estate property, the Internet is a great place to look at prices and features. Know what the property is worth and set a limit on how much you are willing to spend. It is easy during negotiations for the game to shift. Keep your needs and your wants well defined and stick to your

spending limit. Remain indifferent when making purchases. Hardball price negotiation requires the seller to believe that you are willing to walk away. To be convincing at this, you must indeed be willing to walk away. Remember that most properties are not one of a kind, rare, or hard to find, so do not be persuaded by such claims. You have to make the seller want to say yes. You have to understand that most people want to be dealmakers and problem solvers, but salespeople want to sell.

Chapter 19

CONDOMINIUM CONSIDERATIONS

If your dream does not include mowing the lawn or working your whole life to buy a home, then think about buying a condominium. This is a good option for both first-time homebuyers and older folks who are ready to downsize. Condominiums are typically smaller and less expensive than a single family home. It can include attractive amenities as part of a homeowners association (HOA), such as pools and fitness facilities. Think about how long you are going to stay in one place. Buying a condominium is no different than buying a single-family home. You need to live there at least a couple of years to recoup closing costs, assuming the property will appreciate.

Buying a condominium or cooperative apartment is a lot like buying a single-family home, but there are things to consider that are unique to this type of property. The cost of the condominium is less expensive than a single-family home because condominiums require less land and is inexpensive to build. It is inexpensive to build because condominiums share common structural components and other design features. The low cost of the property also makes it easier for you to qualify for a mortgage. Location is a major factor that you should take under consideration before buying a condominium. Since condominiums take less land to build, they are usually built on high-cost within major cities. Condominiums usually attract people that like to be close to entertainment centers or downtown cities. It all depends on your lifestyle and whether it correlates with it. Condominiums can also be expensive when placed in boroughs or boulevards such as, Park Avenue in New York City. Location can also determine the price of the condominium.

Low maintenance is something that also attracts people. Residents of condominiums share the freedom from many house tasks. Many house tasks like maintaining land, outside repairs, and other daily tasks. The association or the board generally does these responsibilities. These tasks are paid by you in your monthly fees as the maintenance fee, but are less expensive than hiring others to conduct your household tasks.

An advantage of buying a condominium is that there are no neighbors above or below the home like in an apartment and because the homes are attached, they may offer a greater sense of security. These are advantages that condominium residents have that single-family homeowners do not have.

In a condominium, you have to investigate a couple of things. You have to check the design and layout of the floor plan for energy and efficiency. Does the condominium face sun or wind? Will it overheat in the summer or get too cool in the winter? You also have to pay close attention to listen for noise, both inside and outside. Talk to neighbors about the noise level, and visit the unit you are considering at different times of the day, as well as during the evening and on a weekend. Make sure that the condominium you are considering has enough privacy. Look at details, like can anyone see through the windows from outside and how private is the deck or patio. Consider the security that the condominium offers. Is the unit or building easily accessible for criminals to enter your apartment? Is there a security system connected to the local police or fire station and weather the building is properly lit at night. Look into facilities available to residents, such as a pool, hot tub and community room. Ask if there are additional costs to access these facilities and decide whether they are convenient and worth the cost for your budget. Ask about charges to be shared with other tenants, such as electricity for hallways and pool maintenance fees and other charges that they may have. Ask about the parking lot fees and look for adequate parking. Make sure that the parking lot is well lit and protected from fumes, fires and robbery. Look for a backup power generator for garage doors, elevators and common lighting in case of a building power outage or an emergency. Study the condominium rules to see if the rules correlate with your lifestyle. Are pets allowed? Are there rules about outdoor decorations and things that may affect your living? Consider hiring an independent building inspector. You may be able to use the inspector's report to negotiate a better deal on the condominium you have chosen.

Give some thought to what you want. Visit various condominiums or townhouse communities and multiunit buildings so you know what is available where you live. Get a sense of prevailing prices. Request a market analysis from a real estate agent regarding the selling prices of condominiums and comparables in the building or area. Check the price appreciation on the market analysis to evaluate how quickly the capital improvements of condominiums are increasing.

Chapter 20

FINANCING FORECLOSURE

Unless you have a lot of moneys saved up, you will need to get a mortgage to buy a home. As of this writing, interest rates are at a historical low, putting home ownership within the grasp of many more people. Searching for a loan is easy and fast with Internet access or by hiring a mortgage broker to shop around for you. A mortgage is a legal document by which real property is pledged as security for the repayment of a loan. The hardest part is to convince a lender to give you the loan to purchase a real estate property. A lenders first step is to ask you for the document needs list. You should get your credit report before you fill out a loan application. You may obtain your credit report from major credit reporting agencies. A lender may use your credit report in order to review

your mortgage application. Make sure that all defaults, mistakes, or missing or outdated information are fixed before you start shopping for a mortgage.

In order to apply for the loan, first you have to show the lender that your income is sufficient to repay the loan. Second, you have to show that the security is worth the loan in case you default on the payment. The whole mortgage concept is about defining and proving these two premises in order to get approved for a loan. Selecting the loan type and the loan term is the hardest part of the mortgage process. Choose your annual percentage rate (APR) and fixed installments according to how long you are planning to own the property. A fixed-rate mortgage program keeps the same interest throughout the years in which you promise to repay the loan. An adjustable rate mortgage (ARM) usually starts out with an initial interest rate but can change throughout the years, which generally means that the interest rate cap could not maximize that rate, but it can change depending on the structure of the mortgage. Another option that you have is well known as the balloon loan. The balloon payment is where early monthly mortgage payments are often lower, but then a large payment is required after a certain number of years. People who know that they will move within five years or intend to sell the house within five years generally choose this option.

Another big part of the mortgage decision is how many years you want the mortgage to last before it is paid off? This is a question that many people like you ask themselves before engaging in a mortgage loan. The length of the loan also affects the loan's interest rates, the borrowers' equity and the monthly payments. Equity is the difference between the value of your property and the amount you owed on it. How much you can afford to pay every month and choosing your terms can be calculated. Some terms may be for 15, 20, 25 or 30 years. Evidently, a 15-year program lets you buy the entire property in half the time, but the monthly payments are higher. A 15-year mortgage has a quicker equity build-up and has a lower add-on interest that can save you tens of thousands of dollars in interest rate. The bad part about choosing a 15-year loan is that the monthly payments are higher than other mortgage loans and may be unaffordable for most people. The traditional 30-year fixed mortgage is the most popular because of the lower monthly payment. With a 30-year mortgage, you as the mortgagor can get low monthly payments, but pay more interest over the life of the loan. Choosing a 30-year mortgage can allow you to buy larger houses or keep the payments on smaller homes affordable as a result. The following example illustrates the outcome when the same amount of money's is borrowed for a 15-year term compared to a 30-year term.

A 15-YEAR MORTGAGE VERSUS A 30-YEAR MORTGAGE

Borrower A's 30-year mortgage after 5 years

Original mortgage amount \$50,000.00

Interest rate paid 12%

Monthly payment (principal + interest) \$514.31

Total amount paid over 5 years \$30,858.60

Total interest paid over 5 years \$29,689.90

Total principal paid over 5 years \$ 1,168.70

Mortgage balance after 5 years \$48,831.30

Borrower B's 15-year mortgage after 5 years

Original mortgage amount \$50,000.00

Interest rate paid 11 1/2 %

Monthly payment (principal + interest) \$584.09

Total amount paid over 5 years \$35,045.40

Total interest paid over 5 years \$26,690.21

Total principal paid over 5 years \$ 8,455.19

Mortgage balance after 5 years \$41,544.81

As you can see a home loan is the biggest ongoing debt most people will ever face. One of the easiest and most powerful money strategies you can employ is to pay off your mortgage early. It's a painless way to save thousands of dollars. After deciding how many years you want the debt for, there are several things you can do to save time and money. First, observe the breakdown of your mortgage payment. Your monthly mortgage statement shows two important elements. The two elements are the principal payment, which is the portion of your debt that you are actually paying, and the second is the interest paid over life of loan. You may pay off your mortgage early just by adding more to your monthly payment. Calculate whatever you can afford, and simply add that each month. Indicate on your mortgage payment slip that you are paying additional principal payment. For example, by paying an extra \$50 a month on a 30-year, \$100,000 mortgage at 6 percent interest, you slice six years off the life of the mortgage, and you save almost \$25,000 in interest. Every extra dollar you add goes directly toward reducing the principal that you owe on your home. You may request an annual mortgagor statement to make sure everything is correct. Other mortgagees have other alternative mortgages that can help you get a loan commitment.

Chapter 21

CREDIT

Understanding how credit works and how to maintain a strong credit rating is important information that you should know. Good credit will make buying a home easier and faster. Poor credit will make buying a home more difficult, but not impossible. No matter how bad your credit history is, you can always fix it. Living with debts or bad credit can be very stressful, but help is closer than you realize. Improving your credit rating means that you have to take positive actions and changing your attitude toward money. Building a good credit history is essential to anyone who expects to make major purchases like buying a home. Building good credit is actually easy to do, if you pay attention to your expenses. There are many things that you can do to maintain a good credit history. You have to make sure which accounts are shown on your credit report. You should request a copy of your credit report at least once a year. Make sure that the information shown on your credit report is accurate and has no mistakes in it.

These are a couple of tips to maintain a good credit. If your debts are overwhelming, you can contact the consumer credit counseling service (CCCS) to work out a debt-consolidation plan. A counselor will help you consolidate your debts and will contact your creditor on your behalf to reduce or eliminate finance charges. They can reduce your monthly payments by up to 40 percent. Close your credit card accounts and cut up the cards, that way you can avoid any temptations to use them. Every application you make for a credit card shows up on your credit report, and multiple applications can hurt your credit rating. Be aware of how many times you apply to credit cards and avoid applying if possible.

Chapter 22

MAKING REPAIRS TO YOUR PROPERTY

It just needs a little repair, right? If you are willing to put some time to it, buying and selling a foreclosed property can be a profitable. There is a level of risk involved, not to mention a substantial commitment of time and effort from your part. If you're still up for the challenge, a handyman's special can be a rewarding experience.

After buying the foreclosed property, you have to take the last step. The last step is to make improvement to the property. Most of the foreclosed properties need some sort of repair before you can sell it, rent it, or move in to it. Most people use this as an excuse for not investing in real estate, but if you focus on the benefits, you won't let this stop you. When you are a first time investor, you might make some mistakes that first timers usually make. A common mistake that inexperienced investors make, is that they let their feelings get in the way.

Whether it's by over paying, over bidding at an auction or in this case, treating the property as they would treat their own. In most cases, first time investors treat the property as their own and these feelings eventually become a problem. It becomes a problem because you start doing things that you would normally do to your own home and not on an income property. Of course all repairs should be done with care and quality but they need to be done with detached attitude.

When you purchase the property keep an eye out for properties that need only cosmetic improvements or are move-in condition and do not have latent defects. Houses that could use new paint, carpeting or flooring are the least expensive and offer the fastest potential turnaround. Larger problems such as bad roofs or faulty foundations are often expensive to repair. A good property depends on how much net cash flow you can produce or how much you think you can sell it for. You want a property that gives you a break-even point not a property that is obsolescence or a property that will face depreciation. Make whatever repairs and renovations necessary and make sure you don't over improve the property. You can also make betterment improvements on the property, which will eventually get you capital gains.

Chapter 23

TAX LIEN

Want to take advantage of a business that can bring you wealth? Tax lien certificates investment is a business that 99% of people do not even know exists. Tax lien is a claim against a property for due and unpaid taxes. Basically hundreds of counties throughout the United States have millions of dollars in unpaid property tax. Without this money, the government cannot function properly and according to statistics; some counties in the US rely on property taxes to produce 65% of their income. The government is basically imploring people to take these tax liens and properties off of their hands. Not only that, but they are absolutely guaranteeing a return on the investment you make by buying the tax lien certificates. The best part about this system is that you are not actually buying real estate property. What you are actually buying is the lien on the property that the government has put on it. This means that you will never have to deal with tenants, property owners or bankers.

A lien is a claim against an item by another party, which utilizes that item as security for repayment of a loan or other claim. A lien can affect the ability to transfer the conveyance of the property. Once you have acquired one of these tax liens, there are only two things that can happen. One, you will get an enormous 20% to 50% interest on the money you invested. Two, you may have just bought a property at 10% of its market value. Purchasing tax lien certificates can only bring you prosperity. Buying tax lien certificates is probably the least risky and highest return guaranteed investment that you can engage in.

After investing in a tax lien certificate you may end up with more money or a property. If the property holder pays the government the outstanding taxes due before the certificate reaches the due date, the government will send you your original investment money along with all the interest you gain on that money. If the property holder does not pay the taxes due, you have just won the lottery. In this case, the government will give you the deed to the underlying property, free and clear. In the event the delinquent property holder does not redeem within the time provided for redemption, the holder of the tax lien can obtain the title to the property. The following is a partial listing of states that offer you the opportunity to invest in government issued guaranteed tax lien certificates and the current rate of interest or penalty.

ALABAMA - 12% interest rate and a redemption period of 3 years

ARIZONA - 16% interest rate and a redemption period of 3 years

ARKANSAS - Limited Warranty Deed and a redemption period of 3 years

CALIFORNIA 18% interest rate and a redemption period of 2 years

COLORADO - 9% interest rate and a redemption period of 3 years

CONNECTICUT - 18% interest rate and a redemption period of 2 years
FLORIDA - 18% per annum and a redemption period of 2 years
GEORGIA - 20% Penalty and a redemption period of 1 year
ILLINOIS - 36% for full year and 24% on farmland and 2 year redemption period
INDIANA - 10% penalty if redeemed during first six months - 15% penalty if redeemed during second six months - up to 25% after one year.
IOWA - 24% interest rate and a redemption period of 1.75 years.
KENTUCKY - 12% interest rate and a redemption period of 3 years
LOUISIANA - 12% plus a 5% penalty for total of 17% interest rate and redemption period of 3 years
MARYLAND - 10% to 24%, counties handle sales different and a redemption period from 6 months up to 2 years
MASSACHUSETTS - 16% interest rate and a redemption period up to 6 months
MICHIGAN - 15% interest rate within the 1st year of the redemption period and 50% interest rate within the 2nd year of the redemption period
MINNESOTA - 12% interest rate and redemption period 1 year
MISSISSIPPI - 17% interest rate and redemption period 2 years
MISSOURI - 10% + penalties owed + extra 8% redemption period 2 years
MONTANA - 10% interest rate and a redemption period of 2-3 years
NEBRASKA - 14% interest rate and a redemption period of 3 years
NEVADA - 12% interest rate and a redemption period of 120 days for vacant land and 2 years for developed land
NEW HAMPSHIRE - 18% interest rate and a redemption period of 2 years varies in municipality
NEW JERSEY - 18 % interest rate or more depending on penalties and redemption period of 2 years
NEW YORK - 14% interest rate for counties that have sales and a redemption Period of about 1-year sales in April or August
NORTH DAKOTA - 9% to 12% interest rate and a redemption period 3 years
OHIO - 18% interest rate and a redemption period as short as 1 Year (ONLY for counties with 200,000 and up)
OKLAHOMA - 8 % interest rate and a redemption period of 2 years
PUERTO RICO - 20% interest rate regardless of when redeemed.
RHODE ISLAND - 16% interest rate and a redemption period of 1 year varies on the municipality -
SOUTH CAROLINA - 7-8 % plus 4% added 2nd year - redemption period 1 year- 18 months
SOUTH DAKOTA - 12% interest rate and a redemption period of 4 years
U.S. VIRGIN ISLANDS - 12% interest rate and a redemption period of 1 year
VERMONT - 12% interest rate and a redemption period of 1 year
WEST VIRGINIA - 12% interest rate and a redemption period of 18 months
WISCONSIN - 18 % interest rate and a redemption period of 2 years
WYOMING - 18% interest rate and a redemption period of 4 years
WASHINGTON D.C. - 12% or 1% per month interest rate and a redemption period of 6 months
DELAWARE - 15% interest rate and a redemption period of 1 year

Chapter 24

PROPERTY MANAGEMENT

You may prosper by managing your property or others. If you plan to manage your property, you will need organizational and management skills. You also need good working knowledge about real estate matters. Managing property can also bring you headaches like any other job. Managing property has its advantages and disadvantages but you can do a couple of things to make the process go easier.

Here are the major things you will have to take care of while managing your property. Advertise your property for rent. You may do so by advertising the property in the local newspapers, posting notices, internet, and many other options that you have. After you have shown the property for rent, your next step is to interview prospective tenants. Many people ask themselves where they can find good tenants and how to interview them. This is a simple process that may require time and patience. Screen the best candidates for your rental property by requesting written applications with credit and employment references. Evaluate prospective tenants by investigating their backgrounds, credit histories, personal references and employment histories. When screening tenants, you may find out about their financial responsibility and history of the prospective tenants by running credit checks on rental applicants. Require prospective tenants to complete written rental applications with their credit history, employment status and names of former landlords so you can check. Later in the chapter we will provide an example of an application for rental. Consider charging rental application fees to cover the costs of running credit checks on prospective tenants. Running a credit check can cost anywhere from \$20 to \$35. You will also have to verify the applicant's employment status and bank information by contacting employers and financial institutions to make sure that all the information provided is correct. Contact former landlords to check on the prospective tenant payment record as a tenant. Order their credit reports on applicants from a major credit reporting company such as Equifax or Trans Union to verify their credit history and possible evictions or convictions. You do not want a tenant that can be problematic in the future.

Find the best tenants for your rental property by thoroughly evaluating each applicant. You should interview prospective tenants by asking why they want to rent your property. How long they have lived at their current residences, and why they are leaving their current residences. You can determine if the applicants plan to live in the property for an extended period or if they are likely to be temporary based on their rental history in previous locations. One question that you can add to the application involves rating the prospect's housekeeping skills. The answer has to be written in multiple choices: Excellent, Good, Above Average, Average, Fair, Needs Improvement, and Non-Existent. Since this is an applicant, it's your job to investigate and verify the information given on the application. You can then do an inspection of their current residence without giving

notice. You can legally reject applicants on the basis of credit history or background, but not because of housing discrimination or other discriminatory reasons.

Application for Rental

Address Rent \$

Name, SSN .

Spouse, SSN .

Present address, How long.

Employer, How long.

Position, Supervisor, Phone.

Address, Salary .

Other income (source and amount).

Spouse's employer How long.

Position, Supervisor, Phone.

Address, Salary.

Other income (source and amount).

Current Landlord.

Address, Phone.

Previous Landlord.

Address, Phone.

List children that will be occupying property:

Name, Age.

Name, Age.

Name, Age.

List anyone else who will be occupying property:

Name, Relationship, Age.

Name, Relationship, Age.

Name, Relationship, Age.

Nearest relative not living with you

Name, Relationship.

Address, Phone.

References

Name, Address, Phone.

Name, Address, Phone.

I/We, the undersigned, acknowledge that all information given above is true and complete, and authorize [insert your name] to verify any or all of the above statements.

..

(Signature) (Date)

..

(Signature) (Date)

Chapter 25

BUYING IN "AS-IS" CONDITION

Whether you are looking for your next home or seeking for a good investment, homes in foreclosure can provide great opportunities. Homeowners that are going through foreclosure do not waste time trying to make the house “perfect” to attract buyers. They do not want to deal with handymen who never show up when they say they will. When you buy foreclosed homes, you are cashing in on a home someone was no longer able to pay for.

Foreclosures are easy both to locate and to execute the transactions, but the potential to turn them over for a tidy profit are there. You cannot expect the foreclosed home to be in perfect shape, due to the distressed situation. This is why the foreclosed property is sold “as is.” Before you buy the property “as is”, the homeowner is obligated to inform you of the damages of the property. If the property requires costly fix up and does not meet requirements expected for a mortgage loan you have to think weather to buy the property or not.

Chapter 26

DEED IN LIEU OF FORECLOSURE

Deed-In-Lieu of foreclosure (DIL) is a disposition option in which a mortgagor voluntarily deeds collateral property to HUD in exchange for a release from all obligations under the mortgage. Most people ask themselves if a home seller sells a home for less than its mortgage. The answer is yes, in some cases you can sell your home for less than what you still owe on the mortgage. It is complicated and depends on the home loan lender. In the foreclosure world this situation is known as a "short sale." Sometimes a lender is willing to divide the difference between the sale price and loan amount. Even though you must still pay the difference at the agree time. A short sale may be more complicated if the loan has been sold to the secondary market because the lender then will have to get permission from Freddie Mac, the two major secondary market players. If the loan was a low down payment mortgage with private mortgage insurance, then the lender also must involve the mortgage insurance company that insured the low-down loan.

Deed in lieu of foreclosure is rarely used because the lender and borrower often cannot meet on the exact terms. It is when the borrower just turns the legal documents of the property over to the lender instead the loan foreclosing. This will save the bank time and legal fees and will save the borrowers credit from being ruin. When a loan forecloses, the deed will eventually be turned over to the bank. This process can be time consuming and can get very expensive for the bank as well. When the borrower and bank decide to do a deed in lieu of foreclosure, the timing is more direct and the legal fees are by far less.

This process has its downfalls for both the bank and the borrower as well. On the other hand the benefits can be much greater. An advantage is that the borrower does not have a foreclosure on their credit report. Another advantage of deed of lieu is that bank can get

the property and flip it immediately. Banks are in the business of loaning out money not dealing with property. In a case where the lender would not agree to accept the property, the homeowner can prepare a quitclaim deed that will transfer the homeowner's property rights to the lender. If you are a homeowner and thought you do not have a way out, well now you do. If you are in a situation in which you purchase a home with the intention to sell, but you could not sell the property. Suddenly you see yourself in a situation in which you are unable to continue to pay the interest on the construction loan and it goes into default. Rather than you allowing the property to foreclose, the lender may ask you for the deed. Your solution is deed in lieu.

Chapter 27

FINAL THOUGHTS

Education is the key to success! Foreclosurebooks.com is the only foreclosure investment advisory web site that offers specialized training in foreclosure investing. Today, in the United States, tens of thousands of properties are facing foreclosure. About 1% of all residential properties in the United States are already in or facing foreclosure. Over 1 million homes are being foreclosed; opportunities for investing in real estate foreclosures are excellent. Finally, remember, if you generate around 4 deals a month with a net profit margin of \$20,000 per deal, that's around one million dollars a year in income for you. Good Luck!

A popular web site for foreclosure listings is www.foreclosurelistings.com

GLOSSARY

A

Acceptance The seller's written approval of a buyer's offer.

Access Any means by which a person can enter property.

Accessibility The degree to which a building or site allows access to people with disabilities.

Acknowledgment A written declaration affirming that a person acted voluntarily.

Actual age The number of years a structure has been standing.

Add-on interest The interest a borrower pays on the principal for the duration of the loan.

Addendum An addition or change to a contract.

Additional principal payment Extra money included in the monthly payment to help reduce the principal and shorten the term of the loan.

Adjustable rate mortgage (ARM) A loan with an interest rate that is

periodically adjusted to reflect changes in a specified financial index.

Adjusted cost basis The cost of any improvements the seller makes to the property. Deducting the cost from the original sales price provides the profit or loss of a home when it is sold.

Adverse possession The acquisition of title to property through possession without the owner's consent for a certain period of time.

Adverse use The access and use of property without the owner's consent.

Agency The relationship of trust that exists between sellers and buyers and their agents. The agency is formed through a written contract.

Agency closing The process by which a lender uses a title company or other firm as an agent to complete a loan.

Agreed boundary A compromise boundary to which property owners agree in order to resolve a dispute.

Agreement of sale A document the buyer initiates and the seller approves that details the price and terms of the transaction.

Alienation clause A provision that requires the borrower to pay the balance of the loan in a lump sum after the property is sold or transferred.

Alternative mortgage Any home loan that does not conform to a standard fixed rate mortgage.

Amenities Parks, swimming pools, health-club facilities, party rooms, bike paths, community centers, and other enticements offered by builders of planned developments.

American Society of Home Inspectors (ASHI) Professional association of independent home inspectors whose members must meet the group's education and performance requirements. Call (800) 743-2744 for list of ASHI-certified inspectors in your area.

Americans with Disabilities Act (ADA) A law passed in 1990 that outlaws discrimination against a person with a disability in housing, public accommodations, employment, government services, transportation and telecommunications.

Annual mortgagor statement A yearly statement to borrowers that details the remaining principal and amounts paid for taxes and interest.

Annual percentage rate (APR) A measure of interest rate that expresses the cost of a mortgage as a yearly rate on the loan balance. The APR assumes the loan is held for its full term. For adjustable-rate loans, the APR assumes the loan's index doesn't change from its initial value.

Anticipatory breach A communication that informs a party that the obligations of the original contract will not be fulfilled.

Application A document that details a potential borrower's income, debt, and other obligations to determine credit worthiness.

Application fee Includes any fees that are paid upon application. An application fee may include charges for property appraisal and a credit report, if those fees are not reported separately.

Appraisal An opinion of the value of a property at a given point in time.

Appraisal fee The fee that a professional real estate appraiser charges to appraise, or estimate the market value of, a property.

Appraisal report A detailed written report on the value of a property based on recent sales of comparable sites in the area.

Appraised value An opinion of the current market value of a property.

Appreciation An increase in the value of a home or other property.

Approval A thorough assessment made by a lender of a borrower's ability to pay for a home, and a confirmation of the amount the borrower may obtain.

APR (annual percentage rate) A measure of interest that expresses the cost of a mortgage as a yearly rate on the loan balance. The APR assumes the loan is held for its full term. For adjustable-rate loans, the APR assumes the loan's index doesn't change from its initial value.

Arbitration A method of resolving a dispute in which a third party renders a decision.

Architect A licensed professional who designs homes, buildings, and other structures.

Architectural fees The fee an architect charges for services. In general, architects charge for their services by the hour, by the square foot, or by a percentage of the project budget.

ARM (adjustable rate mortgage) A loan with an interest rate that is periodically adjusted to reflect changes in a specified financial index.

ARM index A publicly published number used to adjust the interest rate for an adjustable rate loan (ARM). An index (such as Treasury bills or the prime rate) reflects the lender's cost of credit, and is not controlled by individual lenders.

As-is condition The purchase or sale of a property in its existing condition.

Asking price A seller's initial price for a property.

Assessed value A tax assessor's determination of the value of a home in order to calculate a tax base.

Assumable mortgage A mortgage that can be transferred to another borrower.

Assumption clause A provision that allows a buyer to take responsibility for the mortgage from a seller.

Assumption fee A fee the lender charges to process new records for a buyer who assumes an existing loan.

Average price The price of a home determined by totaling the sales prices of all houses sold in an area and dividing that number by the number of homes.

B

Back title letter A letter that a title insurance company gives to an attorney who then examines the title for insurance purposes.

Backup offer A secondary bid for a property that the seller will accept if the first offer fails.

Balloon loan A mortgage in which monthly installments are not large enough to repay the loan by the end of the term. As a result, the final payment due is the lump sum of the remaining principal.

Balloon payment The final lump-sum payment due at the end of a balloon mortgage.

Bargain sale The sale of a piece of property for less than market value.

Base loan amount The amount upon which loan payments are based. If the borrower finances his or her closing costs, those costs will be added to the base loan amount.

Before-tax income Total income before taxes are deducted.

Beneficiary The lender who makes a loan, also called a mortgagee. The person borrowing money is the mortgagor.

Bequest Personal property given to a person through a will.

Betterment An improvement that increases a property's value as opposed to repairs that maintain the value.

Bidding war Offers from multiple buyers for a piece of property. Agents also sometimes compete to list a house for sale.

Bill of sale A document that transfers ownership of personal property.

Binder A preliminary agreement between buyer and seller.

Blighted area A neighborhood that has deteriorated.

Blockbusting The illegal practice of inducing homeowners to sell their properties by making representations regarding the entry of a particular race into the neighborhood.

Blue-ribbon condition A house maintained close to its original condition. Also called mint condition.

Blueprint The plan for a home or other structure.

Bond An agreement that insures one party against loss by acts or defaults of another party.

Book value The value of a property as a capital asset based on its cost plus any additions, minus depreciation.

Borough A section of a city that has authority over local matters.

Boulevard A street lined with trees or constructed with a landscaped median.

Breach of contract The failure to perform provisions of a contract without a legal excuse.

Breach of covenant The failure to obey a legal agreement.

Breach of warranty A seller's inability to pass clear title to a buyer.

Break-even point The point in which the owner's rental income matches expenses and debt.

Bridge loan A short-term loan for borrowers who need more time to find permanent financing.

Broker Anyone who acts as a go-between. A real estate broker is licensed to handle property transactions and operate a brokerage firm. A mortgage broker is an individual or firm that matches borrowers to lenders and loan programs for a fee.

Brokerage The act of bringing together two or more parties in exchange for a fee or commission. Real estate brokerages are firms or companies that are licensed to conduct real estate transactions.

Buyer's agent An agent representing a buyer in a home purchase, either as a single agent or as an exclusive buyer's broker.

Buyer's broker A real estate broker who exclusively represents the buyer's interests in a transaction and whose commission is paid either by the buyer or through the seller or listing broker at closing.

Buyer's market A slow real estate market in which buyers have the advantage.

Buyer's remorse An emotion felt by first-time homebuyers after signing a sales contract or closing the purchase of a house.

C

Cap A limit on the amount the interest rate or monthly payment can increase in

an adjustable rate mortgage.

Capital Money used to create income, such as funds invested in rental property.

Capital expenditure The cost of making improvements on a property.

Capital gain Profit an investor makes from the sale of real estate or investments.

Capital gains tax A tax placed on profits from the sale of real estate or investments.

Capital improvement Any improvement that extends the life or increases the value of a piece of property.

Caravan A group of real estate agents who tour a house that has been recently listed for sale.

Cash flow The amount of cash a rental property investor receives after deducting operating expenses and loan payments from gross income.

Cash-out refinance The refinancing of a mortgage in which the money received from the new loan is greater than the amount due on the old loan. The borrower can use the extra funds in any manner.

Certificate of eligibility A document issued by the Veterans Administration that verifies the eligibility of a veteran for a loan program.

Certificate of occupancy A document stating that a home or other building has met all building codes and is suitable for habitation.

Chattel Personal property such as furniture, clothing, or a car.

Chattel mortgage A lien on personal property used as collateral for a loan.

Clear title A title to property that does not have liens, defects, or other legal encumbrances.

Closing The final procedure in which documents are signed and recorded and the property is transferred.

Closing costs Expenses incidental to the sale of real estate, including loan, title, and appraisal fees. These costs exist in addition to the price of the property and are paid at closing. Some are one-time expenses and some are recurring.

Closing statement A document, which details the final financial settlement between a buyer and seller and the costs paid by each party.

Collateral security Additional security that a borrower supplies in order to obtain a loan.

Commission A negotiable percentage of the sales price of a home, paid to the agents of the buyer and seller.

Commitment A promise by a lender to make a loan with specific terms for a specified period.

Commitment fee A fee charged by the lender to guarantee a specific set of loan terms to be honored at some future date.

Common law A body of laws based on custom, usage, and rulings by courts in various jurisdictions.

Common-area assessments Fees paid by the owners of a condominium project or planned-unit development to maintain, repair, improve, or operate common areas.

Commuter The distance and time it takes a person to reach his or her workplace.

Comparables Properties used as comparisons to determine the value of a certain property.

Comparative market analysis An estimate of the value of a property based on an analysis of sales of properties with similar characteristics.

Competent A term for a buyer who is legally fit to enter into a sales contract.

Conditional commitment A promise by a lender to make a loan if the borrower meets certain conditions.

Condominium Individual units in a building or development in which owners hold title to the interior space while common areas such as parking lots, community rooms, and recreational areas are owned by all the residents.

Consumer Credit Counseling Service (CCCS) A nationwide, nonprofit organization that helps consumers get out of debt and improve their credit profile. National headquarters: 8701 Georgia Avenue., Suite 507, Silver Springs, MD 20910. Phone: (800) 388-2227.

Contingency A condition specified in a purchase contract, such as a satisfactory home inspection.

Contingency listing A property listing with a special condition attached.

Contingent fee A fee that must be paid if a certain event occurs.

Contract An agreement between two or more parties that creates or modifies an existing relationship.

Contract for deed A contract in which the seller agrees to defer all or part of the purchase price for a specified period of time.

Contract to purchase A contract the buyer initiates which details the purchase price and conditions of the transaction and is accepted by the seller. Also known as an agreement of sale.

Conveyance The transfer of title of property.

Conveyance tax A tax imposed on the transfer of real property.

Corner influence The effect on the value of a property because it is situated on a corner or near a corner.

Counteroffer A response to an offer.

Covenant A legal assurance or promise in a deed or other document, or implied by law.

Credit The money a lender extends to a buyer for a commitment to repay the loan within a certain time frame.

Credit history A record of an individual's current and past debt payments.

Credit life insurance Insurance that pays off a mortgage in the event of the borrower's death.

Credit rating The degree of creditworthiness assigned to a person based on credit history and financial status.

Credit report A detailed account of an individual's credit, employment, and residence history. A lender uses this report to determine a loan applicant's credit worthiness. The three largest credit bureaus are Trans Union Corp., Equifax, and Experian (formerly TRW).

Credit repository Large companies that gather financial and credit information from various sources about individuals who have applied for credit.

Creditor An individual or institution to whom a debt is owed.

Curable defect A deficiency in a property that is easy or inexpensive to fix, such as chipping paint.

Curb appeal The first impression of a house as seen from the street.

Current value The value of a home at the time of appraisal.

D

Days on the market The period of time a property is listed for sale prior to being sold or taken off the market.

Debt Any amount one person owes to another.

Deed The legal document that transfers ownership of a piece of property.

Deed of trust A document that gives a lender the right to foreclose on a piece of property if the borrower defaults on the loan.

Default The failure to fulfill a duty or discharge an obligation, such as making monthly mortgage payments.

Delinquent mortgage A mortgage that involves a borrower who is behind on payments. If the borrower cannot bring the payments up to date within a specified number of days, the lender may begin foreclosure proceedings.

Deposit Money given by the buyer with an offer to purchase property. Also called earnest money.

Depreciation The decline in value of a piece of property.

Digital images Images that are incorporated into house listings to give potential buyers a view of the property.

Distressed property Property that is in poor physical or financial condition.

Document needs list A list of documents a lender requires from a potential borrower submitting a loan application. The required documents range from paycheck stubs to credit card statements.

Documentation preparation A fee charged by the settlement agent (escrow company or attorney) to ready the necessary paperwork for closing.

Down payment The difference between purchase price and the portion of the purchase price financed by a lender. Most lenders require that the down payment come from the buyer's own funds, but may also allow gifts from relatives.

E

Early occupancy The condition in which buyers can occupy the property before the sale is completed.

Earnest money Money a buyer gives with an offer to purchase a property. Also called a deposit.

Electronic transfer The process of having a mortgage payment automatically deducted from a borrower's checking or savings account. Many lenders offer this service.

Encumbrance A claim or lien on a property which complicates the title process.

Endorser A person who signs over ownership of property to another party.

Equal Credit Opportunity Act (ECOA) Federal law that prohibits a lender or other creditor from refusing to grant credit based on the applicant's sex, marital status, race, religion, national origin, or age, or because the applicant receives public assistance.

Equity A determination of the value of a property after existing liens are deducted.

Escheat A situation in which the ownership of property reverts to the state when the owner dies without leaving a will.

Estimated closing costs An estimate of expenses incidental to the sale of real estate, including loan, title, and appraisal fees. These costs are in addition to the price of the property, and are prepaid at closing. Some are one-time expenses and some are

recurring.

Exclusive listing A contract that gives an agent the exclusive right to market a property for a specific period of time.

Executed contract A contract in which all parties have fulfilled their promises.

F

Fair Credit Billing Act A federal law that governs credit and charge card billing errors. If a credit or charge card company violates any provision, consumers can sue to recover damages.

Fair Credit Reporting Act A federal law designed to regulate procedures and prevent old or inaccurate information from staying in consumer credit files. The act gives individuals the right to inspect their own credit files, although the credit bureau may charge a fee.

Fair Housing Act Landmark federal law that makes it illegal to refuse to rent or sell to anyone based on race, color, religion, sex, or national origin. The 1988 amendments to the act expanded the protections to include family status and disability.

Fannie Mae The official name of the Federal National Mortgage Association, it is a congressionally chartered, shareholder-owned company that buys mortgages from lenders and resells them as securities on the secondary mortgage market.

Federal Home Loan Mortgage Corporation (FHLMC) The Federal Home Loan Mortgage Corporation is commonly known as Freddie Mac. The company buys mortgages from lending institutions, pools them with other loans, and sells shares to investors.

Federal Housing Administration (FHA) This government agency operates a variety of home-loan programs. Its most popular is the Section 203(b) program, which provides low-rate mortgages to buyers who make a down payment as small as 3 percent.

Firm commitment A promise made by a lender to loan money for the purchase of property.

Fixed installment The monthly payment on a home loan.

Fixed-rate mortgage A home loan with an interest rate that will remain at a specific rate for the term of the loan. About 75 percent of all home mortgages have fixed rates.

Fixer-upper A house that needs refurbishment or remodeling and usually sells at a below-market price.

Flat fee A set fee charged by a broker instead of a commission.

For Sale By Owner (FSBO) The seller acts as the selling agent and handles the sales process directly with the buyer or buyer's agent. In this situation, the seller does not pay a listing commission.

Foreclosure Legal process by which a lender ends the borrower's interest in a property after a loan is defaulted. The lender may sell the property and keep the proceeds for mortgage and legal costs, using excess proceeds to satisfy other liens or return to the borrower.

G

Gift A cash gift a buyer receives from a relative or other source. Lenders usually require a "gift letter" stating that the money will not have to be repaid.

GPM (graduated-payment mortgage) A mortgage that requires a borrower to

make larger monthly payments over the term of the loan. The payment is unusually low for the first few years but gradually rises until year three or five, then remains fixed.

Grace period A specified amount of time in which a borrower may make a loan payment after its due date without penalty.

H

Handyman's special A house in fixer-upper condition.

Home inspection An examination of a home's construction, condition, and internal systems by an inspector or contractor prior to purchase.

Home inspector A professional who evaluates the structural soundness and operating systems of a residence.

Home price The price agreed upon by a buyer and seller, usually based on an appraisal of the house's market value. If there's a difference between price and appraised value, lenders will base their loan on the lower amount.

Housing discrimination The illegal practice of denying an individual or group the right to buy or rent a home based on race, color, religion, national origin, sex, disability, or family status.

I

Improvement A change that adds value to a house, prolongs its useful life, or adapts it to new uses.

Income property Property that is not occupied by the owner but is used to generate income.

Incurable defect A defect in a property that cannot be fixed, such as an adjacent hazardous waste site, or one that would cost too much to repair relative to the value of the property.

Infill development Any significant new construction in an established area.

Infill housing Home construction in established areas.

Infrastructure The roads, schools, parks, utilities, bridges, and communications systems in a community.

Initial interest rate The original interest rate on an adjustable rate mortgage.

Initial rate cap A specific limit defined by some adjustable rate loans (ARMs) for the maximum amount the interest rate may increase at the expiration of the initial interest rate.

Initial rate duration Most adjustable rate loans (ARMs) offer an initial interest rate below the current market rate. This initial or "teaser" rate expires after a period called the initial rate duration, which may last months or years.

Inspection fee A fee paid to determine the present physical condition of the home, required by the lender in order to supplement the information contained in the appraisal report.

Inspection report An examination of a home's exterior, foundation, framing, plumbing, electrical system, heating, air conditioning, fireplace, kitchen, bathroom, roof, and interior.

Instrument A written legal document.

Insurance Owners and buyers can purchase various types of insurance including hazard, private mortgage, and earthquake. The policies guarantee compensation for specific losses.

Interest The fee borrowers pay to obtain a loan. It is calculated based on a percentage of the total loan.

Interest paid over life of loan The total amount paid to the lender for the use of money during the time the money is borrowed.

Interest rate The fee, expressed as a percentage, charged for a loan. The interest rate also helps determine the monthly payment. For adjustable-rate loans, the interest rate may change from its initial level.

Interest rate cap The maximum interest rate charge allowed on the monthly payment of an adjustable rate mortgage during an adjustment period.

Interest rate ceiling The highest interest a lender can charge for an adjustable rate mortgage.

Investment property Real estate that generates income, such as an apartment building or a rental house.

J

Joint liability The responsibility of two or more people to fulfill the terms of a home loan or debt.

Joint tenancy Ownership by two or more people that gives equal shares of a piece of property. Rights pass to the surviving owner or owners.

Judicial foreclosure A procedure to handle foreclosure proceedings as civil matters.

L

Late charge A fee imposed by a lender when the borrower does not make a payment on time.

Late payment A payment a lender receives after the due date has passed.

Latent defect An invisible problem in a piece of property such as bad wiring, termite damage, or lead paint.

Lease A binding agreement that contains the terms and conditions of a renter's occupancy.

Lease option A lease that contains the right to purchase the property for a specific price within a certain time frame.

Lease purchase A type of delayed closing. The lease purchase contract sets the closing date and provides remedies to the seller if the buyer defaults.

Leasehold The limited interest in a property held by a tenant; primarily the right to inhabit it for a specified period of time. At the end of the lease, the property reverts to the owner or landlord.

Leasehold estate An arrangement in which the borrower does not own a specific piece of property but possesses a long-term lease.
leasehold interest

Lender A bank, savings institution, or mortgage company that offers home loans.

Lessee A person to whom property is rented under a lease.

Letter of intent A formal statement that the buyer intends to purchase the property for a certain price on a certain date.

Leverage The use of a small amount of cash (for example, a 5 percent down payment) to buy a piece of property.

Liabilities A borrower's debts and financial obligations.

Lien A claim laid by one person or company on the property of another as security for money owed.

Life cap Limits the amount that a loan rate can change during the mortgage term. For example, if the rate on an adjustable-rate mortgage begins at 5 percent and has a life cap of 6 percentage points, it can't go over 11 percent.

Liquid asset Cash and all other assets that can be converted to cash relatively quickly. Liquid assets can include money in savings and checking accounts, money market accounts, and most certificates of deposit.

Liquidated damages A sum of money specified in the purchase contract to be paid by one party to the other in the event of a breach of contract.

Liquidity The ability to sell an asset at a price close to its true value and convert it into cash in a short period of time.

Listing A piece of property placed on the market by a listing agent.

Listing agent A broker or sales agent who has contracted with a seller to handle the marketing and sale of a piece of property.

Listing inventories The known number of houses for sale within a given market.

Loan application The first step toward submitting a home loan requires the borrower to itemize basic financial information.

Loan application fee A fee charged by lenders to cover expenses incidental to a loan application.

Loan commitment A promise by a lender or other financial institution to make or insure a loan for a specified amount and on specific terms.

Loan officer An official lending institution representative who is empowered to act on behalf of the lender within certain limits.

Loan origination fee The lender requires a loan origination fee (or points) to cover the direct costs of arranging the loan.

Loan term The time set by a lender for a buyer to pay a mortgage. Most conforming loans have 30-year or 15-year terms. In the case of balloon loans, payments are based on the amortization period and a final payment due at term.

Loan type The type of loan determines its borrowing limit, down payment requirements, and qualifying rules. Available loan types include conforming, jumbo, FHA, and VA.

Lock-in A lender's commitment to a borrower to guarantee (or "lock in") a specific interest rate for a limited amount of time.

Lock-in period A period of time during which the borrower is guaranteed an agreed-upon interest rate, even if market rates rise. The longer the period, the higher the cost (in points) to the borrower.

Low down-payment loan A home loan that requires the borrower to make only a small down payment before obtaining the financing needed to purchase a house.

Lowball offer An offer made to a seller that is substantially below market value.

M

Maintenance fee The monthly assessment paid by homeowners' association members for the repair and maintenance of common areas.

Market conditions Factors affecting the sale and purchase of homes at a particular point in time.

Market value The price that a piece of property sells for at a particular point in time.

Marketable title A good or clear title that is free of defects.

Material defect Any defect in a specific property that could either affect a buyer's decision to purchase it or affect the property's value, such as a cracked foundation.

Material fact Any information about a specific property that could affect a buyer's decision to purchase it, such as an upcoming zoning change in the neighborhood.

Maximum financing A loan amount within 5 percent of the highest loan-to-value ratio allowed for a property.

Mediation A dispute-resolution process in which a neutral party works to resolve contract differences.

Merged credit report A report that draws information from the Big Three credit-reporting companies: Equifax, Experian, and Trans Union Corp.

MLS (multiple listing service) The service combines the listings for all available homes in an area, except For Sale By Owner (FSBO) properties, in one directory or database.

Modification A change in the terms of a loan agreement.

Modified annual percentage rate (APR) The modified APR is an index of loan cost based on the standard APR and adjusted for the time the borrower expects to hold the loan.

Monthly association dues A payment due monthly to a homeowners' association, to be used for maintenance and communal expenses. Condominiums, townhouse complexes, and planned unit developments (PUDs) may require monthly homeowners' association dues.

Mortgage In casual use, a sum of money borrowed to purchase a home at a certain interest rate using the property as collateral. In formal use, a mortgage is the legal document that pledges property as collateral for a loan.

Mortgage acceleration clause A clause that allows a lender to demand repayment of the entire loan balance in a lump sum under certain circumstances, such as when the home is sold, title is changed, the loan is refinanced, or the borrower defaults on a scheduled payment.

Mortgage banker A company that provides home loans using its own money. The loans are usually sold to investors such as insurance companies and Fannie Mae.

Mortgage broker

A company that matches lenders with prospective borrowers who meet the lender's criteria. The mortgage broker does not make the loan, but receives payment from the lender for services.

Mortgage life insurance A special type of insurance that will pay off a mortgage if the borrower dies before the debt is retired.

Mortgagee

A bank or other financial institution that lends money to the borrower. The borrower is considered the mortgagor.

Mortgagor The person who borrows money to purchase a house. The lender is called the mortgagee.

Motivated buyer A buyer with a strong incentive to make a purchase.

Motivated seller A seller with a strong incentive to make a deal.

Move-in condition A house that is ready for a new occupant.

Move-up buyer A buyer who has purchased a home before and is looking for a bigger or more expensive home.

Multiple offers More than one purchase offer made on a property. Multiple offers commonly occur in seller's markets or hot neighborhoods.

N

Net cash flow Income from an investment property after expenses such as principal, interest, taxes, and insurance are subtracted.

Net listing A listing agreement in which the broker's commission consists of the amount above a net price set by the owner. If the net price is not met, a commission is not earned.

No-documentation loan A loan application that does not require verification of income but typically is granted in cases of large down payments.

Non-liquid asset An asset such as a house that is not easily turned into cash.

Note A legal document that requires a borrower to repay a mortgage at a certain interest rate over a specified period of time.

Note rate The interest rate specified in a mortgage note.

Notice of default A lender's initial action when a mortgage payment is late and attempts to reconcile the issue out of court have failed.

O

Obsolescence Loss in value because a home's design and construction have become obsolete.

Online real estate listings Properties listed for sale on the Internet.

Open house A marketing tool in which a listing agent opens a house to the public for viewing.

Open listing A property given to a number of brokers to market at the same time.

Option A situation in which a buyer puts down money for the right to purchase a piece of real estate within a set time period but does not have an obligation to buy.

Oral agreement Contractual arrangements that are not in writing and are usually not legally binding.

Origination fee A fee charged by most lenders to cover the direct costs of arranging the loan; also called points. A point is 1 percent of the total loan amount.

Overimproved property Property that could not be sold at a price high enough to recoup the costs of improvements.

Owner financing A transaction in which the seller of a property agrees to finance all or part of the purchase.

P

Pre-approval letter A letter from a lender that states the amount of money a potential buyer can obtain.

Prepaid expenses Expenses including taxes, insurance, and assessments that are paid before the due date.

Prepaid fees Funds collected by the lender from the borrower to pay certain recurring items in advance, including interest, property taxes, hazard insurance, and, if applicable, private mortgage insurance (PMI).

Prepayment penalty A penalty that a lender may impose on a borrower who pays a loan off before its expected end date.

Price range The upper and lower limit of what a buyer is willing to pay for a home.

Principal The amount of money originally borrowed in a mortgage, minus any payments made subsequently.

Principal and interest Principal (the capital sum) and interest on the principal are combined in the mortgage payment to result in full repayment at the end of the loan's term (except in the case of balloon loans).

Principle of conformity The idea that a house will more likely appreciate in value if its size, age, condition, and style are similar to (or conform to) other houses in the neighborhood.

Private mortgage insurance (PMI) A form of insurance required by a lender when the borrower's down payment or home equity percentage is less than 20 percent of the home value. This insurance partially protects the lender if the borrower defaults on the loan.

Processing fee A fee charged by some lenders for gathering information necessary to process the loan.

Property tax Tax paid on privately owned property. Property taxes are usually paid semiannually, or monthly if the lender requires. The amount is based on local tax rates and assessed property value.

Property tax deduction The U.S. tax code allows homeowners to deduct the amount they have paid in property taxes.

Property value The value of a piece of property, based on the price a buyer will pay at a given time.

Punch list A list compiled by a buyer prior to a sale detailing items to be fixed before closing.

Purchase agreement A document that details the purchase price and conditions of the transaction.

Purchase contract A legal document that binds a buyer to purchase a piece of property for a set price, and also binds the seller to sell that property to the buyer.

Purchase-money mortgage (PMM) A mortgage obtained by a borrower as partial payment for a property.

R

Rate cap The maximum interest rate charge allowed on the monthly payment of an adjustable rate mortgage during an adjustment period.

Rate lock A lender's commitment to a borrower to guarantee (or "lock in") a specific interest rate for a limited amount of time.

Rate type Rate type determines if and how payments adjust over the loan term. Available rate types include fixed-rate, balloon, and adjustable-rate.

Real estate agent A person licensed by a state to represent a buyer or a seller in a real estate transaction in exchange for a commission. Unless they are also brokers, agents must work in association with a real estate broker or brokerage company.

Real estate broker A person, corporation, or partnership licensed by a state to represent a buyer or seller in a real estate transaction in exchange for a commission. Brokers supervise licensed sales agents, who then act for the broker (who is legally the

principal agent in any transaction).

Real estate professional Any real estate broker, sales agent, or attorney who holds a real estate license.

Real Estate Settlement Procedures Act (RESPA) A federal law designed to make sellers and buyers aware of settlement fees and other transaction-related costs. RESPA also outlaws kickbacks in the real estate business.

Refinancing The process of replacing an older mortgage with a new mortgage that has better terms.

Regulation Z A federal code issued under the Truth in Lending Act that requires that a borrower be advised in writing of all costs associated with the credit portion of a financial transaction.

Relocation benefits Employer-provided benefits for new employees. These benefits can include moving costs, reimbursement for temporary housing and transportation, real estate agent assistance, and discounted loans.

Relocation company A firm that administers all aspects of relocating new employees from one location to another.

Repayment plan When a borrower falls behind in mortgage payments, many lenders will negotiate a repayment plan rather than go to court.

Repossess To take back property. A lender holding a mortgage may repossess a property if the buyer fails to make payments.

Rescission The cancellation of a contract by law or consent from the parties involved.

Restriction Any limitation on the use of property.

Restructured loan A mortgage in which new terms are negotiated.

Return on investment The amount of profit a property generates.

Right to rescission A provision in the federal Truth in Lending Act that allows borrowers to cancel certain kinds of loans within three days of signing.

S

Sales concession A cost paid by the seller, even though the cost is customarily paid by the buyer.

Sales contract A contract signed by the buyer and seller that details the terms of a home purchase.

Second mortgage A second loan placed upon a piece of property.

Secured loan A loan backed by collateral.

Security A piece of property designated as collateral.

Seller's market A hot real estate market in which sellers have the advantage and multiple offers are common.

Selling agent A real estate broker or salesperson who writes the purchase offer for a buyer in a real estate transaction, but may not actually represent the buyer.

Settlement or closing fees Fees paid to the escrow agent (and often a title insurance company) for carrying out the written instructions of the agreement between buyer and seller and/or borrower and lender.

Settlement statement A document that details who has paid what to whom.

Severalty Ownership of real property by one person. Also known as sole ownership.

Severance Changing an item from real property to personal property by

detaching it from the land.

Specifications The written requirements for materials, equipment, and construction systems and standards.

Step-rate mortgage A loan that allows a gradual increase in the interest rate during the first few years of the loan.

Stigmatized property Property that has an undesirable reputation because of an event that occurred on or near the site.

Subordinate loan A second or third mortgage.

Subsequent rate adjustments The interest rate for adjustable rate loans (ARMs) adjusts at regular intervals. This adjustment period could in some cases differ from the initial interest rate duration period.

Subsequent rate cap A specific limit defined by most adjustable rate loans (ARMs) for the maximum amount the interest rate may increase at each regularly scheduled interest rate adjustment date. This limit may differ from the initial rate cap.

Survey A precise measurement of a piece of property by a licensed surveyor.

Sweat equity The non-cash value added to a piece of property by the owner, such as do-it-yourself home improvements.

T

Tax deduction A tax break given by the government. Mortgage interest, loan points, and property taxes can be deducted.

Tax lien A lien placed against a property for nonpayment of taxes.

Tax sale The public sale of a property by the government for nonpayment of taxes.

Tear-down A house in such poor condition as to require rebuilding from the ground up.

Tenancy by the entirety Ownership by a husband and wife in which they together hold title to the whole property with right of survivorship.

Tenancy in common A form of ownership in which two or more owners hold an undivided (though not necessarily equal) interest in the property, with no right of survivorship.

Title The legal document conferring ownership of a piece of real estate.

Title company A firm that ensures that the property title is clear and provides title insurance.

Title examination An examination of the public record to determine that the seller is the legal owner and there are no encumbrances (such as claims or liens) affecting the property.

Title insurance A policy issued to lenders and buyers to protect against loss due to disputed property ownership.

Title insurance binder A title insurance company's written commitment to insure title to the property, subject to the conditions and exclusions shown on the binder.

Title search The process of reviewing all recorded transactions in the public record to determine whether any title defects exist that could interfere with the clear transfer of ownership of the property.

Total of all payments The total cost of the loan, including repayment of the principal amount and the sum of monthly interest payments.

Total paid at closing All closing costs, prepaid fees, and the down payment. The

lender may require you to demonstrate extra cash reserves equal to two months' worth of housing expenses as well.

Trading down Buying a home that is less expensive than the one's current house.

Trading up Buying a home that is more expensive than one's current house.

Transfer of ownership Any legal means by which a piece of real estate changes hands.

Transfer tax An assessment by state or local authorities at the time a piece of property changes hands.

Trustee A legally empowered person who holds or controls a piece of property for another person.

U

U.S. Department of Housing and Urban Development Also known as HUD.

A federal agency that oversees the Federal Housing Administration and a variety of housing and community development programs.

Unsecured loan Any loan that is not backed by collateral.

Unsecured loan An unsecured loan is a loan that is not backed up by collateral.

Often, loans from family members or personal acquaintances are unsecured loans. A gift from another person that is not expected to be repaid is not an unsecured loan.

Upgrades Options offered to buyers in a new-home project that go beyond the standard carpeting, lighting, finish carpentry, and other amenities.

Usury Illegally excessive interest charged on any loan.

V

VA loan A loan through the Veterans Administration program, which allows most veterans to purchase a house without a down payment.

Valuation The estimated worth or price. The act of valuation by appraisal.

Variable interest rate A loan rate that moves up and down based on factors including changes in the rate paid on bank certificates of deposit or Treasury bills.

Variable rate An interest rate that changes with fluctuations in such indexes as the U.S. Treasury bill index.

Variable rate mortgage (VRM) A loan with an interest rate that hinges on factors such as the rate paid on bank certificates and Treasury bills.

Verification of deposit Part of the loan process, in which a lender will ask a borrower's bank to sign a statement verifying the borrower's account balances and history.

Verification of employment Part of the loan process, in which a lender asks the borrower's employer for confirmation of the borrower's position and salary.

Veterans Administration (VA) A key program of the U.S. Department of Veterans Affairs. The Veterans Administration allows most veterans to purchase a house without a down payment.