FORECLOSURE DEALS Made Easy

Making Big Money With Without Cash or Credit

By Will Grant

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Introduction

Buying foreclosure properties can be very profitable when you are familiar with the opportunities and procedures for buying foreclosure properties for investment, or to live in.

This e-book gives you a step-by-step guide on how to find and use different opportunities to your advantage.

Whether you are a seasoned investor or a first time buyer, this e-book gives you valuable information that will help you avoid costly mistakes when purchasing foreclosure properties.

At the end of this e-book, you will find a glossary of the terms related to foreclosures and real estate in general. As you read this e-book, you may look up the foreclosure and real estate terms that you are not familiar with in this glossary for a better understanding of the information.

Chapter 1: Buying a Home at a Bargain Price

Owning a home is still very much a part of the American dream. Buying a home may well be one of the most important decisions you will make in your life. To be able to reach that dream without breaking the bank requires a great deal of research and dedication on your part.

There are many questions that new home seekers should ask before buying a home, such as:

- Where is a good location to purchase property?
- What resources are easiest to work with?
- What is foreclosure?

This book addresses these questions and many more to help make your home purchasing experience a memorable one!

Read on! The home of your dreams may well be within your reach right now.

What is a bargain?

Bargain is a term that comes up often related to purchasing property. A bargain is "something offered or acquired at a price advantageous to the buyer". Finding foreclosure bargains can be very confusing because the market is very unpredictable and the information is often hard to find. This lack of information brings many opportunities to informed buyers who are able to find properties priced lower than market value.

Foreclosure bargains can be a result of the seller's lack of knowledge. They may sell the property at a low price because they underestimate the value of the property, or simply because they are in a rush to sell it.

However, you need to be aware that you may encounter many downfalls when buying bargain foreclosure properties. The seller usually knows what he is selling, including any problems or defects that the property might have. The more informed you are, the better your chances of making the right decision when buying your dream home or investment property.

Contrary to what is commonly believed, the price of a property is always negotiable, whether the property is new or used. Before agreeing on a price, there are many questions you should ask, such as:

- Who is paying for the closing costs?
- Does the property need repairs? If so, how much will the repairs cost and who will pay for them?

- Who will pay for the legal fees, you or the owner? Is the cost of the legal fees included in the set price?

Market Conditions

The market conditions can affect the sale or purchase of a property. There are two types of markets:

- **Seller's market** – When there are more buyers than sellers. In this market, the seller has the privilege of waiting for an offer that is beneficial to him, but may not necessarily be a good deal for the buyer.

- **Buyer's market** – When there are more sellers than buyers. In this case, the buyer is in a better position to negotiate a good price.

Seller's Motivations

Understanding how the market works will help you identify valuable property and will make you a better negotiator. Before you start bargaining, you should be well informed about the property and the seller's motivations. You can ask the owner about the reasons for selling the property, or if you are working with an agent, he or she can find out for you.

Determining the homeowners' motives for selling can benefit you during the selling negotiations. For example, you might get a reduced sales price in exchange for a quick closing.

Distress Sales

This is a good opportunity for the buyer to save a lot of money. A **distress sale** is when the seller is under pressure to sell the property. In most cases, sellers need to sell their properties because they are facing financial difficulties, or because they are in a rush to close for fear of facing foreclosure. This book explains all about foreclosures and how to find and buy them in a later chapter.

Make sure you research all the options using the information in this book and choose a property that best suits your lifestyle and helps you accomplish your goals. Whether you are looking to buy the house that you thought you could never afford, or you are just looking for a good income-producing property, foreclosure is the way to go.

The foreclosure market grows everyday and becomes more popular to consumers like you and me. If you have been afraid to look into foreclosure deals, now is the perfect time to do so. It is never too late to gain knowledge and great rewards by learning more about foreclosures.

Take your time and be patient. Your quest has just begun.

Chapter 2: The Home Buying Process

If you have never bought a house or any sort of property before, 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, you can gain more knowledge of foreclosure properties and become a good investor in the process. Buying foreclosed homes can be quite different from buying other types of properties. A lot of information is needed in order to make a legal and smooth foreclosure purchase.

Buying a home can be an adventure and an extraordinary experience. Searching for a new home in this growing market can be done in many ways.

Realtors provide **foreclosure listings** in what is known as the Multiple Listings Service ("MLS"). An MLS is a directory of homes and houses for sale in a particular geographical area. You can also obtain foreclosure listings from your local bank, broker, or you can subscribe to an online foreclosure listing service.

If you want to save time and money, or if you would 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. A **foreclosure listing service** is a directory of houses that are for sale by its owner, a bank, or the government and makes it easier for you to locate a perfect home in the area that you desire.

This book provides you with the most popular websites that offer available listings. A website subscription is the easiest to work with, since you can access it right from the comfort of your own home. Most importantly, it is available for your use twenty-four hours a day, seven days a week.

These are some of the services that we recommend: ForeclosureDeals.com and ForeclosureDatabank.com

After deciding which search method you want to use, begin to form ideas, keeping in mind the following questions:

- Where would you like the property to be located?
- How much money are you willing to spend?
- What is the purpose of purchasing the property?

When purchasing property, always spend within your available limits. Before making a decision, 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 have.

While searching for property, make sure you get information about the ones that catch your attention, such as:

- How many days has the property been on the market?

- What is the property's actual age?
- Is it accessible?
- Does it have a clear title?
- Is the property sold in what is known as an "as-is" condition?
- Does the property have defects or is it in teardown condition?

Keep in mind that you have to be a motivated buyer and know that the seller is a motivated seller.

Negotiations

Usually, the negotiations begin when you make an offer to buy the property at a price and conditions that you think will be acceptable to the seller. Always make a lowball offer.

Offers should be made in writing and not orally. If you are serious about buying the property, make a brief agreement that 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 of buying the property and indicates that a formal contract will eventually follow. This process is known as a binder or **sales contract**.

If the seller is interested, he will make a counteroffer in return. The seller may even have multiple offers. The negotiations will go on until the seller has accepted an offer. Further information about negotiating a contract is offered in Chapter 16 of this book.

After the seller has accepted your offer, then you may start working on the contract to purchase the property. The contract should describe everything that is included in the sale, the price and the rights of both the buyer and the seller. Before signing the purchase agreement, you must check the property for any material defects.

Make sure that everything you demand is stated within the contract, including the **closing date**. The closing date is the day in which the transferring of the property will occur. This is the most important date when purchasing a home, so make sure you include it.

The contract should include a **mortgage contingency**. A mortgage contingency is a part of the contract that requires that if the financing you need cannot be arranged, the sale is called off and you can retrieve your deposit money.

Your next step after signing of the contract is to arrange **financing** of the property by filling out a formal mortgage application with your bank or financial institution. Some banks may require an **application fee**. The financing process normally takes anywhere from two to eight weeks, according to the type of financing you get.

The lender will determine the value of the property before approving the loan by hiring a real estate appraiser to examine the property. After the loan has been approved, the lender forwards the required money to the closing agents. At the closing, the money is exchanged for the title of the property.

You need to have a title insurance agent perform a **title examination** to make sure that the title is clear of any liens and that you are receiving a secure legal title and to present the back title letter.

Finally, this marks the end of the buying home process. After the transfer of ownership, the property becomes yours.

Chapter 3: Market Value vs. Fair Value

Market value is an idea or concept created by economists. It refers to the price that a buyer is willing to pay for certain property, which 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.

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 changes constantly and it may take months or even years of search to find a suitable property. Time and patience are required because every property is different and serves different purposes. Whether the property you are looking for is for your family or to gain financial prosperity, it should be in good condition before it hits the market value.

Chapter 4: Can You Get a Bargain Home?

A **Bargain** 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 negotiating with others. Negotiating is a skill that you must develop in order to be able to get the most beneficial agreement. The act of negotiating involves dealing with a person or persons in order to come to terms or reach an agreement. Negotiating is a skill that we use everyday, even when deciding on a restaurant or the type of food to eat.

The foreclosure business is not only about houses, buildings or commercial property; it is also about people. Trying to negotiate with a seller could be rough if you do not 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 will be very hard to get a good bargain.

A basic tip to negotiating and obtaining a good bargain is to **set limits**. Set a limit on how much money you are willing to spend and decide how important acquiring the property is to you. Remember that if you don't put a limit on yourself, you might end up paying more for the property than what it is actually worth. Make sure you fully understand what you are buying as well as the actual market value of the property.

With all this in mind, now may be the best time for you to start your looking for a property. It is necessary to invest time and make a commitment to conduct your search. If you rush the process, you will end up with properties that have many problems or you may lose money in the process.

After you conduct your research, make a list of properties that caught your attention. We suggest that you attend a couple of open houses, and inspect the properties you have researched.

An advantage of bargain homes is that you have the opportunity to **inspect the property**. Inspecting a property is important because, with a bargain, you are usually buying the property "as is." If there is a property you feel strongly about, make sure to hire a professional inspector. An inspector will provide you with a detailed report, which will give you valuable information about the property. Also, make sure you **inspect the surroundings** of the property and find out whether or not they affect the value of the property. Examples of things to look for in the surroundings of the property are vacant buildings, violence control and condition of nearby neighborhoods.

A **reservation price** 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 to act 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 whether you got a good bargain.

The way to determine if you got a good bargain is when the amount you spent on the property is less than what you listed as your reservation price. If you are really fixed on a certain property, have an appraiser conduct an inspection 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 by preventing you from overpaying for a property.

Chapter 5: Buying Homeownership vs. Investment

Buying a property is one of the most important decisions you will ever make. The purpose for buying a property is very important when conducting a search. Whether you are looking for property as an investment or to live in, always aim for a profit.

You can buy real estate at **wholesale price**, which means you pay a price that is considerably below the market value and you make a profit. These properties usually need repairs, probably because the owners were unable to take proper care of the property. Most wholesale properties are fixer-uppers, which means that they have minor damages that can be fixed. Other properties have terminal defects that may be impossible to repair 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 their current value.

Banks do not want to finance these properties and real estate agencies do not want to list them. All of these reasons create the perfect opportunity for you to buy investment properties.

Home Buying Considerations

There are many things you should consider before buying a property to be your home. You should look for **blue-ribbon condition** homes, which are homes that are in excellent condition, is in a good neighborhood and the properties that surround it are in good condition. You should watch out for wrecked areas.

A factor that you must consider is infrastructure. Does the location suit your lifestyle and your needs?

As you can see, there are many factors that should be thought well and analyzed before purchasing a property to be your new home.

As an investor there are many things you must do before purchasing a property. For example, you need to find out whether the property will create a positive cash flow. **Cash flow** is 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. You must complete this is very important step before buying the property to determine if the property is worth buying or not.

Here is an example of 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

Following this example you can create your own table and will 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 taking a risk by crossing the street, driving a car or just eating. **Taking a risk** means to expose yourself or others to a chance of losing, that involves uncertain danger.

In foreclosure terms, risk means taking a 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 a new investment.

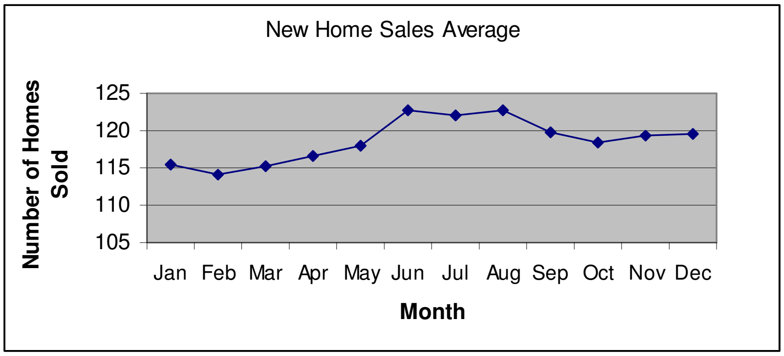
Out of all possible risks, a difficult tenant is the least common problem when renting a home. According to statistics, about 80 percent of tenants are fine, 10 percent are great, and 10 percent have the potential to be problematic.

The property's physical condition represents the greatest risk and 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 only minor problems you can fix without investing a lot of money. The 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 thoroughly research the property there is a much lower risk that the value will decrease. Make sure you obtain a comparative market analysis to determine the value of the property.

Chapter 7: Buying Out of Season

Home prices tend to change according to **season**. A good way to increase your chances of getting a good deal on a foreclosure property is to know when to purchase. Timing is everything. It is a fact that most people buy more 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. There are two main reasons for this:

- 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. 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.

- Company relocation is more frequent during the summer months.

The seasonal variation creates a window of opportunity for an ambitious investor 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.

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, townhouses, and condominiums 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 rush to buy the first one. Remember that many properties enter the market everyday. Take your time and be patient because your quest has just begun. Buying real estate foreclosure properties is becomes more popular. If you have not taken any risks, now is the perfect time to do so. It is never too late to gain valuable knowledge and great rewards by learning more about real estate foreclosure properties.

Chapter 8: For Sale by Owner

For Sale By Owner, or FSBO is the term used to identify properties, usually homes, which are sold by the owner without the help of a real estate agent. Typically, owners advertise their properties by means of websites, classified ads, word of mouth, etc.

Properties for sale by owners create a window of opportunity for good bargains. In this scenario, you are dealing directly with the owner and not with 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 and may pass on the savings by giving you a discount on the property.

Another advantage of buying a property from a homeowner is that the he may underestimate the value of the property. Homeowners usually advertise their homes in online listing websites. Online listing is the easiest and fastest way to sell and provides buyers with information about the property.

These are some of the services that we recommend: ForeclosureDeals.com and ForeclosureDatabank.com

According to the National Association of Realtors, over 70% of all homebuyers now use the Internet to search for homes. When the homeowners list their properties with real estate agents, the price is usually inflated to cover the cost of the agent’s commission. When the price is inflated, it makes it more difficult to sell the property. After a couple of months, homeowners come to the painful realization that no one is buying their home at the price set by the real estate agent. The homeowner will end up reducing the price or accepting an offer lower than the one asked for.

Some homeowners are intimidated by the simple thought of selling their homes or by the process of selling their homes. The advantage in dealing directly with the owner is that you have direct contact with the seller. Here is where your negotiation skills are necessary. Remember that you have direct access to the homeowner and there is no middleman to interpret or misinterpret a statement. Make sure you go out of your way to avoid tension between you and the homeowner if you really want to buy the property.

Chapter 9: Reasons for the Low Price: Seller, House or Neighborhood

When we find a property with an attractive price, we have to ask ourselves, "Why is the property being sold for such a low price?" There are many reasons, such as:

- The seller is unaware of the value of the property.
- The property is in poor physical condition or is a stigmatized property.
- The property may need major repairs that the homeowner is not willing to fix or that are not worth fixing.
- The neighborhood where the property is located is facing problems.
- The seller may be facing financial difficulties.
- The seller may be naive about the foreclosure world or about the property value.
- The owner has been relocated by his/her company and needs to sell as quickly as possible.
- The seller could be trading up or trading down.

Identifying the reason why the price is so low is very important. You do not want to end up with a property that is in bad physical condition. 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 is up to you to find the truth.

The property may need minor repairs like painting, floor work, or roof replacement. After you know the condition of the property, you can estimate how much it will cost you to fix it, and determine if it is worth buying.

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? You can determine a bad neighborhood by its crime rate, unemployment rate, low-income levels, population living in public housing, or low-scoring schools. You may get this information online by obtaining the statistical reviews or police records for the neighborhood.

Remember that you have no control over the neighborhood and because of this; you should reconsider before purchasing the property in a bad neighborhood.

Chapter 10: Inspecting the Property

The value of some properties may be low because the property is in poor condition or has corner influence. Try to identify the reasons why the property has not been sold and whether it is undervalued or priced correctly. You should always inspect the property before making an offer because the condition of the property will affect how much you are willing to offer.

You should inspect the neighborhood 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, as well as 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. For the inside:

- Make sure the door has a deadbolt lock and the windows are secured with locks.

- All sliding glass doors should have a bar or a stick of wood on the inside door path to prevent them from being opened from the 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 escape in case of an emergency?

- 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 repaired or 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.

- Make sure you check if there are any bugs or rodent infestations. Check the cabinets under the kitchen and bathroom sinks for any type of insects.

- 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.

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.

You need to check all these things in order to prevent future damages to the property and unforeseen expenses. Take your time and inspect the property carefully for any damages mentioned in this chapter.

Chapter 11: Why Banks Do Not Want to Own Real Estate

If you are thinking of buying real estate foreclosure properties, the best and most effective way is to buy **real estate bank foreclosure properties**. Banks do not want these properties, because bankers 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 staffers lack. This of course, is to your advantage and is the reason why banks want to sell the real estate foreclosure properties 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 what you consider to be a reasonable price, you can always negotiate with them. Real estate agents may drop the price until there is an offer that cannot be resisted.

You can save up to 40% of the regular market price by buying bank foreclosure properties. You may get information by checking the latest online real estate bank foreclosure property listings.

Bank foreclosure properties can be a good source for finding the right home. There are several options for locating bank foreclosure property, but the best are:

- The county tax office. Trustees who represent the bank usually auction off properties on the courthouse steps.

- Become familiar with the banks near you and wait 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 similar policies that may prevent you from getting the property.

- Subscribe to websites dedicated to listing bank foreclosure properties. A real estate foreclosure property listing is a directory of properties that are for sale by its owner, a bank, or the government.

These are some of the services that we recommend: ForeclosureDeals.com and ForeclosureDatabank.com

Real estate foreclosure property listing is the easiest and fastest way to obtain the best selection of available properties in an area you desire.

Chapter 12: Reasons Why Homes Are Repossessed

Many financial institutions lend large amounts of money to new home buyers at a low rate of interest because the 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, that is, when the homeowner cannot pay back the loan.

Most lenders will not consider 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 the loan fully and the mortgage contract. The mortgage contract gives the lender the legal rights to the property in case of a breach of covenant (you default on your mortgage).

There are many reasons why some homeowners stop paying their mortgages. The result is that thousands of properties are lost due to foreclosure. The primary causes of residential foreclosures include:

- Divorce
- Unemployment
- Death or serious illness in the family
- Drug and alcohol addictions
- Mental problems
- Local economic conditions

Many mortgage contracts give you a **grace period**. A grace period is the time given to a debtor during 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.

When payments are three or more months late, the loan is considered to be in default and the homeowner receives a notice of to that respect. If the owner fails to make the payments, then foreclosure occurs. This is the legal means that your lender can use to repossess (take back) 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 owe HUD an additional amount of money.

Chapter 13: Sold to the Highest Bidder! How an Auction Works

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 it up for bid, taking bids, and then selling the property to the highest bidder.

You can get an incredible deal when you buy a home through an auction. In most cases, the seller is either the government, which has taken possession of the property due to unpaid taxes, or the lender, who has taken possession of the property because 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 about 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 buy auction properties.

There are a few things you should do 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 listed and see which ones interest you. Auctioneers generally have a preview date during which tours of the house are given, although this is not guaranteed.

Make sure you get a professional appraisal on any property that you are interested in. 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. Some auctioneers only sell properties in as-is condition.

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 cause you problems down the road. If you do not check this before hand, you may find yourself liable for unpaid taxes or other bills attached to the property. After the property is yours, you cannot return it to the auctioneer if you have any problems.

At an auction, the seller might set a minimum bid price. In this case, the property is sold only if someone places a bid higher than the minimum. A seller may do this if he is unsure of the market and is willing to hold onto the property showing that he is not completely sure about the auction process or he may not trust the system.

It is important that you decide beforehand how much you are willing to spend. Setting a maximum bid can stop you from bidding higher than you can pay and losing a deposit.

In case a bidding war occurs, you should have a backup offer ready. At auctions, your adrenaline rises and it causes your feelings to get involved. You must have self-control 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 much as 25 percent of the bid amount or the bid deposit.

How Much Should You Bid And Where Do You Get The Money?

Where do you get the money to buy auction properties? Many Americans ask themselves this question before they consider buying properties at auctions. There are numerous ways to get 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 people that know what they are doing.
- You can create an investment group. An investment group can include your family members, your husband/spouse or even your friends.

There are many myths and rules about how much money you should bid at an auction.
The best-known rule is the 40-60-80. A minimum of 40 percent of the market value is good to start out. 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 no one rule is correct.

People have different opinions towards bidding. This is the reason why you should put a limit on the amount you are willing to spend on any property. Never exceed your personal limit, or you will most likely be 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 no 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 get a feel for the rules of the game.

Tips for Bidding at an Auction

Auctions can be a great way to get good 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 a simple and well-organized bidding processes. Before you attend an auction, familiarize yourself with the basic facts.

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 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 contains digital images, brief descriptions, and estimated presale values of the properties. Write down the lot number of the property that caught your eye and inspect it 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.

It is important to identify the property's condition before making a bid. There are four different types of conditions a property might be in:

- **Vacant and accessible** – no one lives in the property and that you can visit the property. You can go inside and inspect the property if you like.
- **Occupied and accessible** – the property is occupied, but it is still accessible.
- **Vacant and inaccessible** – no one is occupying the property, but you may not enter the house.
- **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 repaired in order to calculate the capital expenditure.
- Hire a home inspector to give you a written estimate that includes the price of the repairs.
- Find out how much time it will require the contractor to make the necessary repairs to the property.
- Determine the value of the property in a repaired condition.
- If you expect to rent the property, estimate how much your rental income would be, in order to calculate your cash flow.
- Calculate your bidding limits to prevent you from overpaying for the property.
- Know when the best time to purchase property is. Sometimes the market favors buyers more than sellers or vice versa. It is said that a market favors the buyers when the market has more sellers than buyers.

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 14: Should You Work with an Agent?

Buying a home without the representation of a real estate agent may save you money, but if you do not know your way around a real estate transaction, you could get yourself into trouble. The real estate market is growing and expands daily. It is so enormous, that sometimes it is hard to keep up with if you have a full-time job.

Every property is different and distinctive in its own way. The location, value, and types of property available 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. You might end up paying too much for a property if you are not able to gather all the information necessary to help you become an informed buyer.

A real estate agent is an individual who is licensed to negotiate and arrange real estate sales on your behalf. Real estate agents are involved in the real estate market regularly keep informed about changes you may not be aware of. A real estate agent can help you find a good home for your family or the best investment property opportunity.

Real estate agents help people like you and me buy and sell property. They must be able to tell you approximately how much 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 and selling properties. They can provide information on obtaining a bridge loan in case you need more time to secure financing.

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 in the Multiple Listing Services (MLS). Multiple Listing Services keep real estate agents informed of the properties offered for sale in a given geographical area. 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 it 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 accessed by any investor or by yourself by looking on the Internet. The Internet offers investors like you and me, many opportunities by providing listings. We recommend the following online foreclosure property listing services: ForeclosureDeals.com and ForeclosureDatabank.com

Foreclosure listings websites provide their members detailed information about properties that are for sale. Real estate agents can also tell you when and where auctions are taking place. They may give you step by step bidding instructions, and will let you know the best time to buy on auctions. Some real estate agents may even accompany you to an auction.

Real estate agents can also help you put in an offer. They basically do all the work for you. If you are a person with limited time, then hiring a real estate agent is the answer.

Chapter 15: Sales Contracts

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

First, remember that what 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 the seller accepts the selling price and your 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 a seller that states all the terms and conditions of a sale. The sales contract should explain in detail all the conditions of the sale:

- The purchase price
- What the purchase price includes
- Any warranties
- When the buyer can move in
- The amount of the closing costs
- Options the parties have if the contract is not fulfilled or if the buyer cannot obtain a mortgage commitment
- Any other relevant information

A sales contract makes the negotiation process between buyer and seller official. A sales contract is also known as a contract of sale, agreement of sale, or earnest money contract. The name depends on where you live in the United States.

Most real estate contracts contain most or all of the following items, although there are some variations based on your location:

- The **street address** and **legal description** of the property that you are buying.

- The **selling price** of the property.

- A **mortgage contingency** – a provision in the home purchase contract that states that if the buyer can not obtain 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.

- 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.
- Any **inclusions and exclusions** – An inclusion is what is included in the sale of the property and an exclusion is what is not included in the sale of the property.
- When the **home inspection** will be done.
- Any **warranties** included with the house and description of the warranty.
- Whose **insurance** will cover the property up until the closing date.
- Any other considerations.

Read the entire contract slowly and make sure that everything is correct before you sign the papers.

Chapter 16: Contract Negotiations

Many people hate negotiating, but with a few simple tactics, it can be rewarding and fun. The best way to buy a good property at a bargain price 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 the 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.
- Understand that most people want to be dealmakers and problem solvers, but salespeople want to sell.

Chapter 17: Condominium Properties

If your dream does not include mowing the lawn or working your whole life to buy a home, then consider buying a condominium. This is a good option for both first-time homebuyers and older people who are ready to downsize. Condominiums are typically smaller and less expensive than single family homes. They 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 recover 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 these types of property, such as:

- The cost of a condominium is less than that of a single-family home because condominiums require less land and are less expensive to build than a house because condominiums share common structural components and other design features.

- The lower cost of the property 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.

- Location can determine the price of a condominium. They can be expensive when placed in boroughs or boulevards such as Park Avenue in New York City.

- Condominiums usually attract people that like to be close to entertainment centers or downtown cities. You should choose according to your lifestyle.

- The low maintenance of a condominium unit attracts people. Condominium residents enjoy freedom from many household tasks, such as maintaining land, outside repairs, and other daily tasks. The association or the board generally take care of these responsibilities. You pay for these tasks in your monthly association or maintenance fee, but are less expensive than hiring others to do them for you.

- An advantage of buying a condominium is that since the units are attached, they may offer a greater sense of security than single-family homes.

There are several things that you need to find out when you consider buying a condominium:

- Check the design and floor plan layout for energy efficiency.
    - Does the condominium face sun or wind? Will it overheat in the summer or get too cool in the winter?

- Listen closely 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. Check if people can see through the windows from outside and check the privacy of your deck or patio.

- Consider the security that the condominium association offers.

    - Is the unit or building easily accessible to criminals trying to enter your apartment?

    - Is there a security system connected to the local police or fire station?

    - Is the building 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.

- Ask about charges to be shared with other tenants, such as electricity for hallways, pool maintenance fees and other charges that they may have.

- Ask about 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 or anything else that may affect your lifestyle?

- 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.

- Consider your wants and needs.

- Visit various condominium 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 18: Financing Foreclosure Properties

Unless you have a lot of money 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 most people. Searching for a loan is easy and fast if you have access to the Internet, or you can hire 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. You need to convince the lender to give you the loan to purchase a real estate property.

The first step that a prospective lender will take is to provide you with a **list of documents needed**. One important document is your credit report. You should obtain a credit report from one of the major credit reporting agencies before you fill out a loan application. A lender uses the information on 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 a 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 entire mortgage concept is about defining and proving these two premises in order to be 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 installments according to how long you are planning to own the property:

- **Fixed-rate mortgage** – Maintains the same interest throughout the years in which you promise to repay the loan.

- **Adjustable rate mortgage (ARM)** – Usually starts out with an initial interest rate that can change throughout the years, but cannot exceed the stated interest rate cap.

- **Balloon loan** – 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. The length of the loan also affects the loan's interest rate, the borrower's equity and the monthly payments. **Equity** is the difference between the value of your property and the amount you owe on it.

You can calculate how much you can afford to pay every month according to the different loan terms. Mortgages usually have terms of 15, 20, 25 or 30 years. A 15-year program lets you pay for 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 downfall of choosing a 15-year loan is that the monthly payments are higher than other mortgage loans and may be unaffordable for some people.

The traditional 30-year fixed mortgage is the most popular option because of the lower monthly payments. With a 30-year mortgage, you, as the mortgagor can get lower 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.

The following example illustrates the outcome when the same amount of money is borrowed for a 15-year term compared to a 30-year term.

A 15-YEAR MORTGAGE VERSUS A 30-YEAR MORTAGE

	30-year	**15-year**
Original mortgage amount	$50,000.00	$50,000.00
Interest rate paid	12%	11 1/2 %
Monthly payment (principal + interest)	$514.31	$584.09
Total amount paid over 5 years	$30,858.60	$35,045.40
Total interest paid over 5 years	$29,689.90	$26,690.21
Total principal paid over 5 years	$ 1,168.70	$ 8,455.19
Mortgage balance after 5 years	$48,831.30	$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 is a painless way to save thousands of dollars.

To save time and money, observe the breakdown of your mortgage payment. Your monthly mortgage statement shows two important elements: the **principal payment**, which is the portion of your debt that you are actually paying, and 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.

Chapter 19: Your Credit Rating

It is important to understand how credit works and how to maintain a strong credit rating. 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. You can improve your credit rating by taking positive actions and changing your attitude towards 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 that the information shown on your credit report is accurate. You should request a copy of your credit report at least once a year.

Here are some tips for maintaining good credit:

- If your debts are overwhelming, you can contact a consumer credit counseling service (CCCS) to work out a debt-consolidation plan. A counselor will help you consolidate your debts and will contact your creditors 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 temptation 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 for credit cards and avoid applying if possible.

Chapter 20: Making Repairs to the Property

It just needs a little repair, right? Buying and selling a foreclosed property can be very profitable, but there is a level of risk involved, not to mention a substantial commitment of time and effort on your part. If you are still up for the challenge, a handyman's special can be a rewarding experience.

After buying the foreclosed property, you have to make improvements to the property. Most 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 will not let this stop you.

When you are a first time investor, you might make some mistakes that first timers usually make, such as letting your feelings get in the way. You might overpay, overbid at an auction, or in this case, you might treat the property as if it were your own. Of course, all repairs should be done with care and quality, but they need to be done with a detached attitude.

When you are looking for properties to buy, keep an eye out for those that need only cosmetic improvements or are in move-in condition and do not have latent defects. Houses that could use new paint, carpeting or flooring are the least expensive to repair and offer the fastest potential turnaround. Larger problems such as bad roofs or faulty foundations are often expensive to repair.

A good property investment depends on how much net cash flow it can produce for you or how much you can sell it for. You want a property that gives you at least a break-even point, not a property that will face depreciation. Make whatever repairs and renovations are necessary and make sure you do not over improve the property. You can also make betterment improvements on the property, which will eventually get you capital gains.

Chapter 21: Tax Lien Certificates

Do you 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. A tax lien is a claim against a property for due and unpaid taxes. 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 imploring people to take these tax liens and properties off 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 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. There is a very low risk involved in buying tax lien certificates and provides the highest return guaranteed investment.

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 make 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.

Following is a partial list 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
DELAWARE	15% interest rate and a redemption period of 1 year
FLORIDA	18% per annum and a redemption period of 2 years
GEORGIA	20% Penalty and a redemption period of 1 year
ILLINOIS	36% for a full year, 24% on farmland and 2 year redemption period

INDIANIA	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

Chapter 22: Property Management

You may prosper by managing your property or the property of others. If you plan to manage property, you will need organizational and management skills. You also need good working knowledge about real estate matters. There are advantages and disadvantages to managing property.

Here is advice on evaluating prospective tenants:

- **Advertise your property for rent**. You may advertise the property in the local newspapers, by posting notices, on the internet, and in many other ways.

- 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 simple process may require time and patience.

- **Screen** the best candidates for your rental property by requesting a written application which includes 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 the 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 this 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 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 a credit report on the applicant 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 ask prospective tenants the following questions:

- Why do they want to rent your property?

- How long have they lived at their current residence?

- Why they are leaving their current residence?

You can determine whether 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, where they choose from multiple choices: Excellent, Good, Above Average, Average, Fair, Needs Improvement, and Non-Existent. It is 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 based on their credit history or background, but not because of housing discrimination or other discriminatory reasons.

Following is a sample of the type of information that you should ask your prospective tenants. This list is not all-inclusive and should be taken only as a guide.

Application for Rental

Address	Amount of Rent paid now $	
Name	SSN	
Spouse’s Name	Spouse’s 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
Name	Age
Name	Age

List anyone else who will be occupying property:

Name	Relationship	Age
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 #
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 23: "As Is" Condition

Whether you are looking for your next home or for a good investment, foreclosure properties can provide great opportunities. Homeowners that are going through foreclosure do not waste time trying to make the house "perfect" to attract buyers. When you buy foreclosed homes, you are cashing in on a home someone was no longer able to pay for.

Even though it is easy to locate foreclosure properties and to execute the transactions, there is a potential to turn those properties over for a tidy profit. You cannot expect the foreclosed home to be in perfect shape, due to the distressed situation of the owner. This is why the foreclosed property is sold "as is." Before you buy the property "as is", the homeowner is required to inform you of the damages to the property. If the property requires costly repairs and does not meet the requirements expected for a mortgage loan, you have to reconsider your decision to buy the property.

Chapter 24: Deed In Lieu of Foreclosure

Deed-In-Lieu of foreclosure (DIL) is a disposition option in which a mortgagor voluntarily deeds the collateral property to HUD in exchange for a release from all obligations under the mortgage.

A homeowner may sell the home for less than what they still owe on the mortgage. In the foreclosure world, this situation is known as a "**short sale**." Sometimes a lender is willing to split the difference between the sale price and loan amount, but the homeowner must still pay the difference at the agreed 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 the two major secondary market players.

If the down payment was low and there was private mortgage insurance on the loan, then the lender must also involve the mortgage insurance company that insured the low-down payment loan.

Deed in lieu of foreclosure is rarely used because the lender and borrower often cannot agree on the terms. The borrower just turns the legal documents of the property over to the lender to avoid foreclosure. This saves the bank time and legal fees and saves the borrowers credit from being ruined.

When a loan forecloses, the deed will eventually be turned over to the bank. This process can be time consuming and can be very expensive for the bank as well. When the borrower and bank decide to do a deed in lieu of foreclosure, the resolution is faster and the legal fees are much lower.

This process has downfalls for both the bank and the borrower, but it also has great benefits such as:

- The borrower does not have a foreclosure on their credit report.
- The bank can get the property and flip it immediately. Banks are in the business of lending money, not dealing with property.
- When the lender agrees to accept the property, the homeowner can prepare a quitclaim deed that transfers the homeowner's property rights to the lender.

You could be in a situation in which you purchase a home with the intention to sell it, but you cannot find a buyer. You are unable to continue to pay the interest on the loan and it goes into default. Rather than allowing the property to foreclose, the lender may ask you for the deed. Your solution is deed in lieu of foreclosure.

Chapter 25: Final Thoughts

Education is the key to success! 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 and the opportunities for investing in real estate foreclosures are excellent.

Finally, remember, if you generate an average of four deals a month with a net profit margin of $20,000 per deal, that's an income of one million dollars a year. Good Luck!

We recommend the following online foreclosure property listing services: ForeclosureDeals.com and ForeclosureDatabank.com

Glossary of Foreclosure Related Terms

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 a 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 at the time the application if filed. 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.

Commute

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 Fee

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 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 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. Approximately 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, andinternal 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.

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.

Over improved property

Property that could not be sold at a price high enough to recover 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 (ROI)
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.

Specification
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. 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.