



FORECLOSURE CAUTION



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Ozzie Jurock has some words of advice for investors keen to take advantage of housing foreclosures occurring in the U.S.: Do your homework and buy thoughtfully.

BY OZZIE JUROCK

OIn Germany, we have an old saying that "one person's owl is another's nightingale." Recently, in Phoenix, I talked to depressed realtors and frantic bankers. Afterwards, I had a beer in the bar where delirious Canadians were discussing their "trophy" purchases. Go figure. The Americans are crying the blues, the Canadians are positive – but not all.

Canadians bask in the glory of a near-par dollar, a falling U.S. market, and a sharp downturn in the U.S. housing market. Albertans think: "Why should I fly to Vancouver Island and pay \$350,000 for a fine recreational property when I can fly to Phoenix and buy a similar one for \$200,000?" Torontonians fly to Florida and Vancouverites – well we always headed to Arizona in the first place. And then there is the lust for foreclosures. I call the foreclosure hunters grave dancers looking for that hot, hot deal. But is it really that easy to get rich quick buying foreclosures?

While we may read about U.S. homeowners losing their homes at breathtaking speed, the same is not true throughout the United States. Yes, in Alabama, late-paying homeowners can lose their properties to foreclosure in as little as 30 days after a delinquency notice is published. In New Hampshire, Mississippi and others, it also is fast – as little as 60 days. In California it is 120 days.

These states operate under the deeds of trust system, which are held by third parties – trustees – who temporarily hold title until mortgages are paid off. With deeds of trust, the trustees don't have to go to court to initiate a foreclosure; with a mortgage, the home loan lender almost always does, which slows down the process.

In states that operate under a system similar to (but not the same as) Canada, where foreclosures use the mortgage procedure, it takes a lot longer to foreclose. States like Vermont, for instance (210 days), Florida and the Nebraska housing market (180 days). New York, at 12 to 19 months, is the state with the longest typical time frame.

And that's what you – as a potential "grave dancer" eager to profit from a foreclosure in a given state – have to find out first: Does the state where I will make my fortune operate on a deed of trust or mortgage system?

Another twist is that some states have redemption periods whereby the original homeowner can buy

back the property by paying whatever money he owed. In Tennessee, for instance, that period is two years.

There are three ways you can buy foreclosures, each with its own rules:

- Pre-foreclosures: You buy directly from a homeowner before the bank forecloses.
- Auction: You place a bid, possibly in competition with others.
- REO: You buy from a real estate company.

PRE-FORECLOSURES

In the U.S. you can buy pre-foreclosure lists; in Canada, with our privacy laws, that is not as easy. You then can deal directly with an owner who is behind in payments. You have time to inspect, do title search for second mortgages and liens and get an inspection. You will assume the existing mortgage and you may also make offers subject to obtaining a discount from the bank (a short sale – pay less back). Whether you will do well, depends on your negotiation skills.

AUCTION

Auctions can be held on courthouse steps, in the county clerk's office, or in front of the foreclosed house. In Arizona, there are also auction houses that do hundreds of sales in a big barn. Not necessarily always a good deal, as their brochure prices may not represent true current market values.

You may or may not have the time to inspect, depending on the U.S. state you are in, and you must have cash or proof of cash/mortgage arranged. You may also find the current owner is not too happy with his loss, leaving the property in a less-than-desirable state.

REO – REAL ESTATE OWNED PROPERTIES

Much like CMHC buys back its foreclosed homes and then lists them with a realtor, many banks sell foreclosure properties through a broker. Here you get to inspect, research, have time and a professional to guide you.

It is clear that you need to do some learning, and you may wish to start out by buying the book, *Foreclosure Investing For Dummies*, by Ralph R. Roberts, in which he suggests creating a file containing:

- A copy of the foreclosure notice or notice of default
- Title commitment and a 24-month history in the chain of title or the last two recorded documents
- A copy of the deed with the current homeowners' names
- The last recorded first mortgage, so you know how much the current homeowners owe (some of this may be available online)



- Copies or documentation of all liens against the property, including property tax liens
- A map showing the location of the property
- Your exterior home inspection (with photos and videos), plus neighbourhood photos
- City worksheet on the property showing all repairs, inspections reports and other information
- Local multiple listing service (MLS) data showing how much comparable homes are selling for in the area
- Copy of the tax bills and notes on whether they are paid up or not
- A copy of the SEV (standard equalized value) of the property, on which property taxes are based. (In Canada, we would call it an Assessment Notice.)

Other than that, remember the fundamentals. Buy in an area of good employment, good population growth, and low vacancies. Don't abdicate your responsibility to do research, research, research. Just because it is cheap it may still be a lousy deal. In some areas in the U.S. you must bring your sidearm to collect the rent. Don't abdicate your responsibility to research and buy from a wholesaler, an aggregator, a limited partnership where you have not checked out the principals. There are a lot of people attracted to the foreclosure boom that may help you to your own!

In an auction, do not get caught up in auction frenzy. Watch out for areas where thousands of homes are foreclosed – like Indiana, Ohio, several others where for the next 10 years these homes will keep competing with your purchase for lower prices. Ideally buy in A and B areas of whichever state or city. And don't rush. The downturn is not over yet. If you have the cash, you are in a great position to beat down the bank (where the owner has already left the property) and the bank wants out. Donald Trump said recently on the Larry King show: "If you have cash, you have the opportunity of a lifetime," but don't rush to buy that deal of a lifetime.

In the meantime, B.C. is turning down too as far as volume and perhaps prices go but at the same time listings are rising. Not too surprising, given the huge run-up we have had. With the U.S. stock market down 20 per cent since last October and the Canadian markets only even because of higher energy prices, we have a crazy world.

I will go find peace in the Gulf Islands this summer – you do the same – get those toes into the sand, your buns on a beach towel and watch the seagulls. Have a fine, hopefully hot, summer and forget the world. The world wants one thing – to come here and live here. Maybe for you and me, the best deal is to stay right here. ☐

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