

HOW TO BUY A HOME AT A DISCOUNT

Special Report

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It is no secret the real estate market is in a downward cycle. All you have to do is read the newspapers or watch television and you'll be privy to the latest foreclosure statistics. Not only foreclosures but you'll get the revelations about the prices of existing homes dropping and no new ones being built.

What does all this mean? Can it be put into an understandable perspective for those folks looking to buy a home? I say it can and will do it in the next few pages.

You must first understand that real estate travels in cycles. Some years it goes up in price and in some years it goes down. Swings on both sides of this equation can be quite dramatic given the amount of money involved.

I would guess you have seen homes on your block that were selling for high prices just last year now selling for quite a bit less. When the market starts tumbling, it has a tendency to take all homes with it. In other words, it doesn't just take the price of foreclosed homes down, it takes your house, your neighbor's house and homes across the whole darned country.

For those people looking to buy a home, the opportunity is ripe to buy at a steep discount. Let me explain my theory on real estate cycles. Since we just experienced a very active upward cycle, we know that prices of homes that used to sell for \$100,000 were selling for \$200,000 or more depending on the area of the country under discussion.

I will use a home that was priced at \$350,000 last summer as my example. Today that house may sell for \$275,000 or less. Whatever it sells for will be called market price. It is market price because that is what a willing buyer bought it for from the willing seller.

The reason the seller sold it doesn't matter in my theory. It doesn't matter because the house sold.

But, if we look at this house from a different perspective, we might be able to buy it for even less than \$275,000. If this house was repossessed by the bank, it is called real estate owned (REO). The bank calls it a non-performing asset.

It is non-performing because no one is making monthly payments to the bank. Truth is, the bank is paying the real estate taxes and insurance and someone to go by every few weeks to make sure it hasn't burned down or been vandalized or had something else happen to it.

This costs the bank money and they would like to sell it. This is how you can buy a home at a discount. Before we discuss the mechanics of buying this home, we need to explain why this is a good idea and a good buying decision.

According to my theory, the \$350,000 price this house reached is the figure this house will appreciate to when the cycle turns around. This will become the new base price for this house should the owner decide to sell in the new market upswing.

I base my statements on watching the market for over 20 years. Whenever it went upside down, the prices at which it began its decline became the base line prices at which the new up swing reached in a relatively short period of time.

Real estate market dynamics in a rising market force the new buyers to pay market, or above market, for homes. This means a homeowner really needs to do nothing but sit back and watch his home escalate in price caused by the buying frenzy.

If you paid any attention to this last up cycle, you grasp what I am saying. Getting back to the \$350,000 priced home that isn't selling and how we can buy it for less than the asking price.

At this point I will call it a REO so the example is easy to grasp. I will also say you are familiar with this property because you had looked at it when it was priced at \$350,000. Unfortunately at that time it was out of your financial reach.

You liked it and wished it was for sale at \$225,000 so you could afford to buy it. Well, guess what, you may be able to buy it from the bank at the \$225,000 you can afford. If you buy it for that price, according to my theory, you will have picked up \$125,000 in equity.

I realize most people would disagree because all they can see is a market that is in decline. I ask you to think about that scenario for a moment. Will the market continue to decline forever? Probably not.

Will it decline until all homes are valued at \$0? Not very likely, right?

So if my theory is correct, the market will stop falling at some point. I say that point is between 40 and 50% of the former market's high point. This means the \$350,000 house could fall to \$200,000 or even \$175,000.

If that is a possibility, should you wait? Yes and no is the only answer. Yes, if you believe you are the only one interested in that home. If you are, you are in the cat bird's seat and can afford to wait to see the true bottom price.

However, if you are not the only one interested in the house, you can't wait to put in your bid because someone may come along and offer \$250,000 for it and the bank will accept their offer.

If the home is listed by a real estate agent, and almost all REO properties are listed, you can easily find out if anyone has put in a bid on the home. The agent is eager to sell the home because he gets a commission from the lender for selling it. The agent will even tell you the price history on the house.

Price history is nothing more than the price at which it was listed and any reductions and when the reductions occurred on the home. For example, let's say the lender listed it at \$350,000 and it just sat on the market for three months with absolutely no interest from buyers.

They then lowered the price to \$325,000 and three months later still no interest. So, they once again lowered the price to \$300,000. Again, no interested buyers but it is still listed at \$300,000.

This is the point at which you may wish to place a bid. The lender has shown a tendency to drop the price to get people interested but no one has shown any interest. You want the house and are willing to pay \$225,000 for it.

Whatever you do, don't tell the lender the price you are willing to pay. Instead, put in a bid with the agent to buy the house for \$175,000. If the bank balks and doesn't accept your offer but counters back with \$200,000, you have just saved yourself \$25,000 and bought a \$350,000 house for less than you would have been willing to pay.

By the way, the real estate agent has to present your offer to the lender. The Sales & Purchase Agreement is an offer you are making to the lender through its agent, the listing real estate agent. No matter what the agent thinks of your offer, he has to present it to the owner of the house.

Only the owner of the house can accept, reject or counter your offer. The agent is merely that, an agent of the seller. Many people don't understand this and get scared off when the agent says something like, "the lender will never accept that." The truth is the agent doesn't know what figure the lender will accept.

Besides, if the lender does accept your offer, the agent makes a commission off the accepted price. Listing commissions range between 3% and 6%. This means the agent would receive between \$5,250 and \$10,500 simply for taking and presenting your offer.

Given the market conditions as I write this paper, an agent would be foolish to kick this potential commission check in the behind.

Is it really that easy to buy houses at that kind of discount? Again, yes and no. Yes, if the lender is motivated to sell and no, if they aren't. Don't look too hard for any philosophy behind a lender's decision.

The house may have been on their books for a year and they are being pressured by a government agency to reduce their REOs or their board of directors wants to improve their balance sheet by reducing the non-performing assets on the books.

Don't be afraid to make an offer that fits your pocket book. Once you make the offer be prepared for the lender to counter or outright reject it. If they outright reject it, and you want the home, put in another offer at \$1,000 higher than your first offer.

Accompany your offer with a letter saying you understand they rejected your first offer so you are willing to bid a higher price that is fair to both you and the lender. This is no guarantee this offer will be accepted but it might.

It also tells the lender you are serious and they just may come back with a very reasonable counter offer. Your goal is to buy this home so you should be prepared to make at least two offers on the property.

You want to show you are determined to have this house but at a price that is reflective of the current market. You are not responsible for what happened between them and the previous owner.

Before you made your original offer you performed a walk through of the home and wrote down everything you saw was wrong inside and outside the home. You also should have taken pictures and attached them to your original offer.

Refer to these defects and problem areas in your second and third offers as well. Don't forget the problem areas didn't go away simply because the lender rejected your offer.

Other tips you can use are to bring along a housing inspector to go over the home with a professional's eye. Once you receive the completed inspection make it a part of your offer. Let the lender see on paper that this house will be sitting for an even longer time and it will be costing them a lot more to keep it.

If you don't want to hire an inspector, bring along a contractor friend or a handyman. Have them detail everything and list what it would cost to fix the problem. This tells the lender you have done your homework and you know what it will take to bring it up to market value as well as make it safe and livable.

If you don't want to use a real estate agent to locate REO properties, visit the various lenders web sites. They all have a link to their REO properties and give company contact information so you can call or write the company directly about a home in which you are interested.

If the property is listed, the company will tell you to contact the listing agent. If the property isn't listed, they will tell you who in the company is the right contact person. Either way, you will have the name and phone number of a live person with whom to speak.

This takes some research and leg work but the potential reward is huge. Imagine finding your dream home and buying it for fifty cents, or less, on the dollar. It is possible and not out of your reach.

You simply have to be willing to take the first step and go house hunting. If you already know the house you want, half your work is done. If you don't know the house you want, drive through the neighborhoods where you'd like to live and when you see a for sale sign, write down the name and number of the agent.

Ask if it is an REO or owner occupied. If it is owner occupied, you probably won't get as good a deal. If they are all owner occupied, go for another neighborhood drive. You will eventually find a home to your liking.

If you apply everything you've learned from this paper, you will be in a position of strength to begin your offer and negotiations. Good luck to you and may you find the home of your dreams.

If you would like to learn how to buy homes at an even BIGGER discount and how you could make up to \$50,000 on just one deal in the real estate market, then head over to.

Home Foreclosure Profits:

<http://www.bankownedassets.com/HFP>