

## **Top 10 Foreclosure Myths**

**By RealtyTrac Staff**

Because the foreclosure market has been relatively dormant in recent years, many people aren't familiar with foreclosures and don't fully understand how the foreclosure process works. This lack of understanding can foster foreclosure myths that are detrimental both to homeowners who want to avoid foreclosure and to buyers and investors interested in purchasing a foreclosure.

Here are 10 of the most common myths about foreclosures:

### **Myth 1:**

**Foreclosures aren't available in the current market.**

While foreclosures are at a relatively low level from a historical perspective, plenty are available in the current market. More than 270,000 properties entered some stage of foreclosure in the second quarter of 2006, a 17 percent increase from the same period last year, and many experts are predicting a continued increase over the next 18 months as home price appreciation slows and trillions of dollars in adjustable rate mortgages reset at a higher interest rate.

### **Myth 2:**

**Foreclosures only happen in poor areas.**

Foreclosures come in all shapes and sizes and occur in all neighborhoods. From low-income to million-dollar properties, you will see the full spectrum of homes entering into the foreclosure process. Economic forces such as rising interest rates and decreasing home values impact homeowners from a wide array of neighborhoods.

### **Myth 3:**

**Financial irresponsibility causes most foreclosures.**

While there are always those cases of financial neglect, most homeowners have shown some high level of financial responsibility in order to qualify to purchase a property in the first place. Unforeseen events such as job loss or a catastrophic accident can cause sudden and unpredictable financial havoc for homeowners. In addition, foreclosures also tend to increase when interest rates are up and property values plateau or decrease. When this occurs, homeowners may find themselves paying higher monthly mortgage payments for a property that is no longer worth what they originally bought it for.

### **Myth 4:**

**All foreclosures are in disrepair.**

While some foreclosures can be in less than ideal shape, many are in great condition. The myth that all foreclosures are in disrepair seems to be driven by the other myth that foreclosures are usually caused by financial irresponsibility. Many homeowners who find themselves in a default situation encounter circumstances that are out of their control. Even so, this usually does not negatively affect the condition of the property. However, if you are not an expert in buying foreclosure properties, it is highly recommended that you seek the advice of a professional who is experienced with these types of sales to avoid common pitfalls.

**Myth 5:****Lenders want to foreclose on homeowners.**

The foreclosure process is costly and time consuming, and is a last resort for lenders to recover their investment. When a homeowner defaults on a mortgage agreement, the lender typically must first file a public default notice after which the homeowner is given a grace period known as a pre-foreclosure period. During this time, the homeowner can pay off the debt or choose to sell the property. The minimum timeframe for a pre-foreclosure period varies by state and can range from 27 days (Texas) to 290 days (Wisconsin). Only at the end of the pre-foreclosure period can the lender auction the property off to a third-party buyer or repossess the property and sell it on the regular market.

**Myth 6:****Foreclosed homeowners never actually get kicked out of their homes.**

Unfortunately, some homeowners in default believe that if they just stay put, the lender or third-party buyer won't actually take the step of evicting them from their home. But while the eviction process can be lengthy and messy, evictions can happen when homeowners in default do nothing to salvage their situation. Homeowners who fall behind on mortgage payments should take immediate steps to avoid losing their home.

**Myth 7:****Foreclosure buyers usually take unfair advantage of the homeowner.**

While homeowners in default should be wary of unscrupulous buyers and investors who try to take unfair advantage of the situation, most foreclosure buyers can actually help an owner to walk away with something to show for equity in the property and avoid a bad mark on his or her credit history. During the pre-foreclosure period, a potential buyer may approach the homeowner in default and arrange to buy the property before the foreclosure actually takes place. This pre-foreclosure sale also benefits buyers, allowing them to often purchase properties below full market price.

**Myth 8:****Foreclosures can be bought for pennies on the dollar.**

While it is true that foreclosures are often purchased below market value, buyers and investors should be leery of anyone claiming that they can consistently find discounts of less than 10 percent of market value. According to a RealtyTrac analysis of foreclosure sales in the last seven months, the average savings on foreclosure purchases nationwide is approximately 29 percent below full market value.

**Myth 9:****Foreclosure investing is an easy way to get rich quick.**

This myth is typically perpetuated by the same folks who claim that foreclosures can be bought for pennies on the dollar. Buying or investing in foreclosures takes time, money and vigorous research. Those willing to put in the hard work often reap substantial financial rewards, but those hoping to amass a fortune off a couple deals that take a few minutes of their time have unrealistic expectations.

**Myth 10:**

**Foreclosure buying is only for professional investors.**

Perhaps at one time this may have been the case, but with all of the tools available to today's buyers, more people than ever before have the opportunity to purchase foreclosure properties. You can also have a real estate professional help you navigate the process.