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5 MORE Foreclosure Myths - BUSTED!

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Four years into the housing crisis, myths about foreclosure still litter the minds of even the smartest of real estate consumers. When it comes to matters as high stakes as your home, confusion can cost you thousands - or even your home. Whether you're a buyer looking at foreclosures, a homeowner struggling to keep your home or a seller concerned making sure your home can compete with the foreclosed homes on your block, these foreclosure myths are prime for the busting, with no further ado.

Myth #1: Foreclosure happens fast. With unemployment and underemployment still affecting nearly 1 in every 4 Americans, no one is immune from fears that a pink slip might quickly turn into a foreclosure notice. According to NeighborWorks America, nearly 60 percent of families seeking foreclosure counseling cited a lost job or cut wages as the reason they were facing foreclosure.

While the Obama Administration's Home Affordable Programs haven't been nearly as effective as predicted in actually preventing foreclosures, they have had the effect of extending the foreclosure process for many families. Even though the legal process of foreclosure can happen in as few as 6 months in most states, it is currently taking much longer for the average foreclosure to get to completion. Recently, JP Morgan Chase revealed that their average borrower who loses a home to foreclosure has not made any payments in 14 months nationwide; 22 months in FLorida and 26 months in New York.

To be sure, some see this as a good, others view it as unnecessarily dragging out the overall market's recovery. Many insiders will point out that these delays in foreclosure may be calculated to save the banks the costs of owning and maintaining foreclosed homes, not to help homeowners. In any event, the fact that foreclosure does not happen nearly as fast, in many cases, as expected does give families who are temporarily down on their luck some extra time to try to get back on their feet and save their homes.

Myth #2: Buyers can't get clear title or title insurance on foreclosed homes. When the foreclosure robo-signing scandal first hit, there was widespread concern that buyers would not be able to get clear title on foreclosed homes, because the former foreclosed owners might be able to come get their homes back when the improprieties in the bank's foreclosure documentation processes came fully to light. At the same time, several of the country's largest title insurance companies publicly balked at issuing policies on bank-owned homes until the issue was resolved. At this point, the banks claim they have revamped their processes, and all banks have stated that they have found not a single borrower whose home was repossessed without them having missed the requisite number of mortgage payments. Nevertheless, a number of governmental investigations are still in progress.

The fact is, buyers of bank-owned properties in nearly every jurisdiction are protected from later title attacks by foreclosed homeowners by the bona fide purchaser rule, under which courts would prefer to simply award cash damages to be paid by the culpable bank to a wrongfully foreclosed-on homeowner, rather than reversing the sale or ownership to the new, innocent buyer. Additionally, the title insurers have now changed their tune and restarted issuing insurance policies on bank-owned homes which protect buyers' interests, after working with the banks for them to take responsibility in the event a former homeowner prevails in a wrongful foreclosure suit.

While there are still many intricacies of title to be resolved for foreclosure buyers who purchase homes at trustee sales and auctions, or for cash buyers who often went without title insurance in the past, on the average, Trulia-listed, bank-owned property purchased with an average mortgage and title insurance, the chances a buyer's title will later be successfully challenged by the foreclosed homeowner on the basis of robo-signing? Exceedingly slim.

Myth #3: Buyers should wait for the shadow inventory to be released. Many a buyer, discouraged with the homes they see on the the form in their price range, has decided to sit still and wait for the banks to release for sale what is called their "shadow inventory" - rumored to be anywhere from 4 to nearly 6 million homes that have already been foreclosed, but not listed for sale, or will be foreclosed in the near future. The fact is, to the extent that the banks have acknowledged the existence of a pool of homes they own but are not selling, they have expressed that their reasoning for holding the homes off the market is to avoid flooding the market and driving home values down any further. For that reason, buyers should not expect to see a massive influx of these shadow homes onto the market anytime soon - if ever.

The banks' current modus operandi is that as they sell a home, the replace it with another home in that market - if they sell 50 homes in a town that month, they'll put another 50 on the next. So, don't hold your breath waiting for a fabulous new flood of homes. Instead, set up a Trulia alert to notify you when homes that fit your search criteria come on the market, and be ready to call your agent and go visit any and every one that looks like it might be a good fit.

Myth #4: If you're looking for a deal, you're looking for a foreclosure. Despite what they may say, no buyer's heart's fondest desire is to buy a foreclosure. But almost every buyer dreams of buying a great home - and getting a great deal on it. Many people think that to get a great value on their home on today's market, it means they must buy a foreclosure. As a result, the value and other advantages of buying an individually-owned home on today's market are frequently overlooked. Individual sellers with homes on the market right now are generally quite motivated, and understand that their homes are competing with discounted short sales and foreclosed homes. Many of these sellers are slashing prices in an effort to get them sold - the most recent Trulia Price Reduction Report revealed that 27 percent of homes on the market across the country have had at least one price reduction. Now that's what I call a sale!

Further, individual owners are often much more negotiable on a wide range of contract terms than a bank which owns a foreclosed home. You can work with non-bank owners on things like repairs, closing dates, choice of escrow provider, closing costs and even included personal property much more flexibly than you can when the bank is on the other side of the bargaining table. On top of that, many individually-owned homes are in pristine, move-in condition; that is much rarer with foreclosures. So, don't underestimate the value of the deal you might be able to get on a non-foreclosed home. Just get clear on what you can afford and look at all the homes that are available in that price range, without discriminating against non-foreclosures.

Myth #5: Having a foreclosure on your credit history means it'll take years and years before you can buy again. One of the most Frequently Asked Questions in the Trulia Voices Community by homeowners who are facing or have just lost a home through foreclosure is how long it will take before they'll be able to buy again. Until recently, the standard wisdom was that 5 years, minimum, would have to have elapsed between the foreclosure and the new home purchase. Now, though, borrowers can obtain an FHA loan with the low, 3.5 minimum down payment requirement as soon as 3 years following a foreclosure. To do so, though, all your other ducks must be in a row.

Post-foreclosure buyers need a credit score of 620-640 to qualify for an FHA loan; higher for a non-FHA loan - given that the foreclosure itself usually dings anywhere from 100-150 points off the credit score (not necessarily counting a full year or more of pre-foreclosure missed payments), former homeowners who want to buy again need to ensure they have no other late payments or credit dings after they lose thier home. You must have clean credit with no derogatory marks like late credit card payments following the foreclosure, and you may also be required to document 12 to 24 months straight of on-time rent payments after the foreclosure.

Further, the bank may impose a lower debt-to-income ratio on post-foreclosure borrowers than on borrowers who have not had a foreclosure, in an effort to keep your mortgage payments low, keep you from overextending yourself and boost the chances you'll be a successful homeowner over the long-term this time around. The bank will also need to see 2 years of continuous employment history in the same field, and documentation that you meet other loan qualification requirements.

Source: Trulia.com

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