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## Is it safe to buy a foreclosure?

By [Holden Lewis](#) • Bankrate.com

My Note: Bankrate is a great source for solid information, If you are considering foreclosures in Bergen County, This can help get you started.

- Likely safe to buy a foreclosure if title insurance is available.
- Former owner probably can't seize home back.
- Insurance is crucial to clearing up "cloudy title" issues.



It's safe to buy a previously foreclosed-upon house if title insurance is available on it, experts say.

The "robo-signing" scandal -- in which banks and law firms cut corners on [foreclosure](#) paperwork -- caused some lenders to suspend their foreclosure cases this fall while they reviewed their procedures.

What would happen to the buyer of a foreclosed house if the home previously had been wrongly repossessed?

As long as the new lender and new owner have [title insurance](#), the former owner can't seize the home back. The new owner will keep the house, and the displaced former owner might be compensated with money.

"To the extent that a borrower who was foreclosed upon has recourse, it's against the foreclosing lender, and they can seek monetary damages. But the property's gone," says Mark Skilling, chief operating officer and general counsel for ForeclosureRadar, an online foreclosure data marketplace based in northern California.

"The current owner who got [title insurance](#) -- they get to keep the property. They're a good-faith purchaser," Skilling says.

### Bargain bin protection

That's welcome news for homebuyers who rummage through the bargain bin of foreclosed houses.

Few consumers buy houses at foreclosure auctions. More commonly, consumers buy foreclosed properties from the [banks](#) that seized them.

The term for such houses is REO, for real estate owned -- as in, "real estate owned" by a bank. Some real estate agents specialize in selling REO properties.

A good share of REO houses are decrepit. Many sit empty for months before they are sold, and they end up in such bad shape that they are ineligible for [mortgages](#). Investors often buy these REOs with cash, fix them up and sell them, just like the house flippers of the boom years.

Whether bought from the bank or from a flipper, almost all REOs are listed through real estate agents.

Armando Montelongo, host of "Flip This House" on the A&E network, says certain phrases in the listing -- such as "completely rehabbed" or "newly remodeled" -- are signs that the dwelling was a foreclosure, and is now in good-enough shape to be eligible for a [home loan](#).

"It's the benefit of buying an REO from somebody who flips properties, versus buying an REO straight from the bank," says Montelongo, who lives in San Antonio.

## Cloudy titles

However the foreclosed house ends up in a buyer's hands, issues that lurk in the property's past could "cloud title" -- cast uncertainty on the buyer's ownership rights. Title insurance protects against such defects in the title, such as undiscovered liens, forged signatures or defects in documentation.

There are two types of title policies. Lender's policies protect lenders and owner's policies protect owners. Mortgage lenders always require lender's title policies.

Owner's policies are optional, and are recommended for properties that have been through foreclosure.

"From the consumer's perspective, I don't think they have a lot to fear as long as they're able to purchase title insurance on an REO property," says Ivan Choi, national default sales executive for New Vista Asset Management based in San Diego. "By and large, the title companies are still out offering policies."

There have been reports that title insurers have refused to issue policies on some homes foreclosed by lenders involved in the robo-signing scandal. Responding to these reports, Fidelity National Financial -- the largest mortgage insurance company -- issued a statement that "this situation will not have a material adverse impact on its title business."

The statement said "new owners and their lenders would have the rights of good-faith purchasers which should not be affected by potential defects in documentation."

Those "good-faith purchasers" won't be kicked out of their houses, Skilling says. He adds that Fidelity's message is that "they're still going to underwrite on REO properties."

**Before you start a frustrating search call me and we can narrow down all the possibilities and discuss the special financing available for foreclosures.**

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