

# Foreclosure **NEWS** Report

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## Subprime Fallout a Boon for Some Investors

By Octavio Nuiry  
Staff Writer

Struggling with an oversupply of homes, a growing number of foreclosures, and falling home prices, the housing market is ripe for investors like Andy Baker, who is buying distressed properties and renting them out at a profit. Baker – and his twin brother Chad – specialize in working with distressed homeowners in the early stages of foreclosure. In two years they have purchased 20 foreclosure properties in the Nashville, Tenn., area. Baker said his business is booming, thanks in part to the recent surge in subprime foreclosures.

“We start our day by pulling the new pre-foreclosure data off the RealtyTrac site,” explained Andy, who started buying foreclosures in 2005.



“Then my brother and I split the leads and we start knocking on doors.”

The door-knocking campaign has paid big dividends for the Baker twins. The 28-year-old duo has amassed 14 single family homes and six multi-family units. Andy, who is a licensed real estate agent in Tennessee, saves the 3 percent commission on each transaction.

The Baker twins, like other investors, have found a booming niche working foreclosures while the standard real estate market is stagnant.

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## Best Places to Invest in Foreclosures

By Daren Blomquist  
Managing Editor

Most real estate investors see the current housing market as a prime opportunity to find bargains. But many are gun-shy about jumping into the market before it hits bottom – a concern that can be mitigated by investing in areas with solid underlying economic fundamentals.

“Real estate, if you do your homework, I think it's still a good investment,” said Ron Welch, data researcher for the University of Houston Institute for Regional Forecasting.

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## My Take

### Foreclosure History in the Making in California

By Bruce Norris  
President, The Norris Group

Over and over I read something along the lines of, “The number of trustee sales in California is not a danger at this point. We’re just reaching historically normal levels. However, if the trend continues, it could cause a serious problem.”

Let’s take a look at four charts that spell out what inevitably will occur. The words “might,” “could,” or “perhaps” are not appropriate at this point. It’s a done deal. The charts reflect an imminent increase of historic proportions in trustee sales and bank-owned property.

California is nowhere close to being done with a downturn; in fact, we’ve just begun!

The trustee sale chart for Southern California (page 3) will be used as an example. This chart shows the number of trustee sales since 1987. The most important years are the transition years. This chart doesn’t fluctuate every other year. Once an increase in trustee sales begins, it keeps on increasing until a new

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## Subprime Fallout a Boon for Some Investors

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For homeowners, Andy Baker says, foreclosure is a financial catastrophe. But investors can step in and save the homeowner from foreclosure while still purchasing a home below market value. Then they can rent it out or resell it at a profit.

Nowhere are foreclosures surging more than in Detroit, which documented the highest foreclosure rate among the nation's 100 largest metropolitan areas in the first quarter of 2007. The volume of Detroit foreclosures is so large that prices have dropped more than 50 percent in some neighborhoods, according to Michael Bommarito, a real estate broker in Rochester Hills, Mich.

"In some areas, you can buy a home for the 1997 value," he said. "We've lost 10 years of appreciation. Everybody is trying to figure out if we've bottomed out. I think we're close."

Bommarito – who has a growing business handling bank-owned foreclosures, also known as real estate owned, or REO properties – said Rust Belt states such as Michigan, Ohio and Indiana are struggling because of mass layoffs at the Big Three automakers, coupled with the subprime mortgage meltdown.

"The subprime market propelled the real estate economy in Detroit," he said. "It kept home sales alive. Now,

however, the majority of new homebuyers can't afford a loan. And troubled borrowers are trapped in loans that they cannot afford. We're very busy right now with foreclosures and short sales.

"Probably 40 percent of the properties on the MLS in Detroit are bank-owned properties," he continued. "Two years ago, there were none."

With more than 430,000 foreclosure filings nationwide in the first quarter of 2007 – up 35 percent from a year ago – more homeowners are losing their homes to foreclosure because they can't afford to pay their mortgage. And many experts are predicting a continued rise in foreclosures over the remainder of the year as lenders clamp down on the kinds of mortgages they approve.

Like the Baker brothers, investor Les Lazarus is busier than ever. Lazarus is currently working on selling 10 foreclosure homes in various stages of repair. Unlike the Bakers – who purchase and hold their foreclosure properties – Lazarus buys and flips foreclosures for a living.

"Before I bought my first foreclosure I spent one year going to auctions," said Lazarus, who started investing in foreclosures in 1998.

Lazarus, who now buys 10 to 20 foreclosures a year in Franklin, Tenn., fears the shrinking subprime market will put a drag on sales. But he thinks buyers will still find a way to finance their real estate.

"Buyers are finding it tougher to get financing," Lazarus said. "Today it's harder to sell my properties because all the subprime loans are going away. Mortgage companies are stricter now with their loans. It's harder on the selling end. But our market here in the Nashville area is stable and growing."

Because buying foreclosed properties at the auction is risky business, and negotiating with distressed homeowners is time-consuming, some foreclosure experts recommend buying bank-owned foreclosures.

Atlanta-based foreclosure specialist Donna Burton, a real estate agent with ERA Buckhead Realty, said it's a "buyer's market" in the Peach state.

"The word is out. Atlanta is a good place to invest. Investors are coming from everywhere – from California, New York, even locally to buy foreclosures," said Burton, who has 19 Atlanta REO foreclosure listings.

Jon Callaway, a Dallas agent with Keller Williams, predicted a rise in Dallas foreclosures in the coming months. Callaway has been working with investors from California, Nevada and Arizona who are scooping up Texas foreclosures.

Asked if the subprime mess was slowing his business, Callaway said: "Absolutely not. Business is great. It's not hurting me. Greed pushes crummy financing. Until the lending institutions make corrections, foreclosures will continue to rise."

Foreclosure News Report is a monthly publication dedicated to helping foreclosure investors succeed by providing them with timely and relevant information about the foreclosure market.

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