TIPS FOR BUYING MORTGAGEE-IN-POSSESSION PROPERTY

The hunt for a property bargain will sometimes uncover a mortgagee-in-possession sale which, while similar to a typical property transaction, does differ in some key areas, primarily the mortgagee's goals and flexibility.

Banks are not usually limited by the same issues that impact a typical vendor. For example, time constraints, such as the start of the school year or the start of a new job, do not apply.

The bank's goals are likely to be financial, which means they are motivated to sell primarily to recover the debt. In many cases, while a profit would be nice, they are driven by avoiding a loss.

There are strict rules around disposing of repossessed property and this can restrict the potential actions that the financial institution can take. Bear this in mind when you are preparing to negotiate terms.

The settlement period is also likely to be short. Banks are not in the business of owning property, their business is lending and finance, so when they decide to sell it usually happens quickly.

With all this in mind, here are a few tips for successfully navigating a property purchase from a financial institution:

1. **Finance finalised:** When dealing with the banks common sense dictates that you have all of your financial ducks in a row. This means make sure your lender has approved you and that you have a firm number that represents the limit you can spend. It is likely there will be a quick settlement so make sure you're certain before you begin the process and be ready to move fast.
2. **Brace for impact:** It's possible with some repossessed properties that the last occupant was under enormous financial duress and so repairs and maintenance may have been neglected. In addition, if the property has been vacant for a while, it may have been vandalised. This is one of the risks of buying a mortgagee-in-possession property. The bank is unlikely to spend a lot of money on repairs and they are under no obligation to do so, but this is certainly negotiable. Talk to them about what they are prepared to undertake.
3. **Due Diligence:** If you're an investor mortgagee-in-possession purchases require extensive market research. Is the area experiencing rising unemployment, high levels of repossessions and falling market values? These conditions could make the purchase even riskier. How long can you afford to wait for the market to pick up? Can you service the mortgage without a tenant for an extended period?
4. **At the negotiating table:** In days gone by, a mortgagee-in-possession sale, either auction or private treaty, signalled a quick sale and often at a bargain price. However, those days are long gone. Today, financial institutions have a legal duty to act in good faith for the

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mortgagor. This means a reputable agent must be selected, a marketing campaign prepared and a reserve price set under advice from the agent. However, if the property has failed to sell at the predetermined price, the mortgagee is often (not always) empowered to negotiate. If you have compelling research at your fingertips you can potentially negotiate the mortgagee to a mutually satisfactory price.

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