

## *I'm Interested in Buying a Foreclosure...What Do I Need to Know?*

Home buyers looking for a good deal in real estate invariably like to first consider the possibility of pursuing foreclosures. Many people receive advertisements on a daily basis claiming that it is possible to buy foreclosed homes with just pennies on the dollar. While buying a foreclosure may be an excellent way to save money on a home that you might otherwise not have been able to afford, it's not always that cut and dry. Buyers often imagine a cute little house surrounded by a white picket fence, owned by a widowed mom who fell on hard times. However, that scenario is often far from reality. Usually a property that is purchased for just a few hundred dollars will have many outstanding liens or associated costs. Other properties will require significant investments in order to make them habitable instead of condemned. Sometimes the discount does little more than offset the costs a buyer incurs for making necessary repairs and updates.



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**Buying a foreclosure is really a matter of balancing the investment with the expected returns and that's why it's important to understand how the whole process works.**

### *Why do sellers end up going into foreclosure in the first place?*

Sellers stop making payments for a number of reasons but few choose to go into foreclosure voluntarily. Often they are found in an unpredictable situation and made victim of unfortunate circumstances such as:

- \* Being laid-off, fired or quitting a job
- \* Reduction in earnings
- \* The inability to continue working due to medical conditions
- \* Excessive debt and mounting bill obligations
- \* Divorce; Altercations with co-owners
- \* A job transfer to another state

When the borrower defaults on the loan for an extended period of time, the lender has the right to foreclose on the property or assume the rights of occupancy. Most of the time lenders are not interested in the responsibility and expense of maintaining such properties and so they are almost always auctioned off to agencies that specialize in reselling them. Investors who specialize in buying foreclosures often prefer to purchase these homes before the foreclosure proceedings are final.

### *Before approaching a seller in distress, you may want to consider the following factors:*

- 1. Foreclosure proceedings vary from state to state.** In states where mortgages are used, a home owner can end up staying in the property for almost a year. However, in states where trust deeds are used, a seller often has less than four months before the trustee's sale.
- 2. Almost every state makes a provision for some period of redemption.** This means that the seller has an irrevocable right over a certain length of time to resolve the default. Resolving it would mean paying all of the foreclosure costs, back interest, and missed principal payments in order to regain control of the property.
- 3. Many states also require the buyer to give certain disclosure notices to the seller.** Failure to either provide those notices or prepare offers on the required paperwork can result in fines, lawsuits or even revocation of the sale.

*There are also some factors to consider before purchasing a home at the Trustee's Sale:*

**Sometimes buyers are not allowed to inspect the house before making an offer.** The problem with buying a house sight unseen is that it's not possible to estimate how much it will cost to improve the structure or bring it up to acceptable standards. In addition you have no idea as to whether or not the occupant may retaliate and destroy the interior. If that occurs, you may need to evict the tenant or owner from the premises after receiving title, and eviction processes can be quite costly.

**Additional drawbacks could be liens recorded against the property that will become a problem after the title transfer.** Some investors opt to pay for a title search in advance to avoid this issue. Those who show up to bid on the courthouse steps are generally professionals and they buy foreclosures at auction as a business. They hope to buy the foreclosure at a very low price in the hopes of making a nice profit when they later flip the home. The other downside to purchasing a home at an auction is that you usually have to pay cash. Even though it is not necessary to hire a real estate agent in order to buy a foreclosure at the auction, it is necessary to know what you are doing.

**Buying a foreclosure from a bank is a little different because most banks do not sell homes directly to the home buyer or investor.** Banks that sell homes individually rather than in bulk, generally list the homes through a real estate agent. REO (real estate owned) agents specialize in foreclosure listings. It is generally more common to buy a foreclosure directly from the bank in a bulk sale purchase. In bulk sales, the bank will package a bunch of properties into one transaction and sell them all at once to one entity. That is the best way to buy a foreclosure, if possible, because the discounts are typically the best.

**If the idea is to purchase a foreclosed home with the intention of living there, buyers will usually have first crack at it before investors.** Government agencies that sell foreclosed homes allow an introductory offer period during which only owner-occupants may make offers. The good news is that when you do find a foreclosed home being sold through a government agency, you will not need to meet specific income or other guidelines unless you plan on applying for mortgage financing. However, you will need to submit your bid through a licensed government broker in order to have your offer considered. The benefit is that someone who knows how the process works will handle all the paperwork and help it go more smoothly.

**Finally, depending on the home, you may or may not be eligible for traditional mortgage programs.** Many foreclosures do not meet lenders' minimum property standards which means you may need to seek alternative financing or even pay cash. If purchasing a foreclosed home from a government agency, you may be eligible for a specialty mortgage program that makes allowances for property condition and sometimes even allows latitude for improvement funds.