

## Buying a Home in Foreclosure

They're not all in run-down neighborhoods, and they're not all in complete disrepair. As the housing market's woes continue, more homes go into foreclosure, and more real estate investment opportunities open up. While a buyer still has to prepare and beware, it may be possible to purchase a property in foreclosure at a discount off its market value. Foreclosure is a legal process whereby a lender terminates a borrower's right to redeem a property, generally because the borrower has defaulted on the mortgage. Once the foreclosure process is complete, the lender can sell the property to repay the mortgage.

If you're considering buying a foreclosed property, keep in mind that there are many pitfalls to watch out for, and laws vary from state to state. You'll want to work with an experienced real estate attorney.

### The three stages of foreclosure

Depending on state law, foreclosure can be a relatively short or lengthy process. You might be able to buy a property in pre-foreclosure, at a foreclosure auction, or (if it didn't sell at auction) in the real estate owned (REO) phase.



### Pre-foreclosures

In order to identify properties that are in a pre-foreclosure status, you'll need to locate loans that are in default. To

do this, you may need to spend time in the courthouse researching foreclosure filings or subscribe to an online foreclosure reporting service that will do this for you. Once you find a property you're interested in, you'll need a title search performed to determine what liens are against the property, and you'll need to contact the owner to negotiate a purchase. You'll also need to have the property inspected (it may need some repair work) and then determine its market value. In making an offer on the property, consider the cost of paying off liens, repairing the property, and any other fees you'll need to pay (such as those associated with securing financing to make the purchase). This option requires a lot of legwork on your part and (preferably) the services of others experienced in the process. Contacting an owner (especially one who hasn't listed the property for sale) can be difficult and stressful. However, pre-foreclosure sales may require minimum down payments, and you may be able to acquire a property at a good discount off its market value.



### Auction sales

Once the foreclosure process is complete, the foreclosing lender (usually the holder of the first mortgage) may attempt to sell the property at auction--a fast-moving, public proceeding. Before you buy, you should have the title researched just as you

would when making a pre-foreclosure offer.

However, you generally won't be allowed to have the property inspected beforehand (which precludes the possibility of obtaining a mortgage to purchase it), so you'll be buying it "as is" and may not know all of what that entails. If you're the successful bidder, you'll need to make at least the required minimum down payment in cash (or with a certified check) on the spot and pay or finance the balance within 30 days, sometimes sooner. Because you can't first inspect the property and arrange financing, and because you must buy it "as is," buying a property at auction can be very risky. However, you can receive a substantial discount off the market value of a property when it's bought at auction.

### Real estate owned (REO) properties

If a foreclosed property doesn't sell at auction, the foreclosing lender takes possession of it. As a result, junior liens (such as second mortgages or home equity lines of credit) that may have encumbered the property's title are discharged, and any taxes owed are paid. Any occupants remaining in the property are evicted, and the property is usually listed with a real estate agent. At that point, the property becomes available for inspection. You may be buying an REO "as is," but you'll be able to find out what that means, and can adjust your purchase offer accordingly. While the lender holding the REO will try to get as much as possible for the property, it may consider discounts off market value in order to get the property off its books. Purchasing an REO is probably the least risky way to buy a foreclosed property. You have time to arrange financing, and you may be able to obtain some discount off the property's market value. However, the discount off market value will generally not be as substantial as with the other options for buying foreclosed property, and working with the bank can be a lengthy process.