**HOW TO SUCCESSFULLY BUY FORECLOSURES AT AUCTION**

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Sales of distressed homes usually come in several forms. First, there are [short sales or pre-foreclosures](https://www.auction.com/residential/short-sales_at/aed-desc_st/48_rpp/list_vt/), deals where an owner who can no longer afford the property tries to work out a purchase with a buyer, subject to the approval of the lender. If that doesn’t work, the lender may start foreclosure proceedings, and the home may be put up for sale at a public auction. If the highest bid at the auction is insufficient, the lender then gets title to the property and holds it as a bank-owned (or REO) property.

The purpose of a foreclosure auction is to get the highest possible price for the property, in order to mitigate the losses a lender suffers when a borrower defaults on a loan. If the sale amount covers the outstanding mortgage debt and various foreclosure costs, then any surplus goes to the borrower. Bidders, on the other hand, are looking for investment bargains, so many homes sold at foreclosure auctions ultimately sell at something of a discount compared to traditional properties.

**PREPARING FOR A FORECLOSURE AUCTION**

[Foreclosure auctions](http://www.auction.com/blog/buying-investment-real-estate-at-auction-the-basics/#sthash.Gc3t70fK.dpbs) differ substantially from a typical residential sale. There are no terms to discuss, no haggling over paint or appliances. The property is sold as is, where it is, and with any existing faults and limitations. The property may be sold on an absolute basis (the highest bid wins, even if it’s for a tiny amount) or with a reserve or minimum bid (the property has to sell for at least a given price, otherwise the lender gets title).

The condition of the property may range from wonderful to awful, and it may or may not be occupied. Some properties are [“zombie foreclosures,”](http://www.realtytrac.com/news/foreclosure-trends/q2-2015-zombie-foreclosures/) a situation where the borrower has abandoned the property before the foreclosure has been completed. In all cases, bidders should review disclosures with care and seek as much information as possible about the property.

It’s important to visit the property before the auction, if you can, especially if you live locally. Does it seem occupied or not? How does the exterior condition appear? Be aware that trespassing and Peeping Tom rules may limit access unless you’re invited onto the property. Some bidders drive by the property just before the auction to ensure that its condition hasn’t changed since the disclosure papers were written. In some cases, you may be able to see a virtual tour or even attend an open house.

Lastly, real estate values are related to local economies. How much would a given property be worth if it was in pristine condition? What rental could you expect? Is there a lot of local sale and rental demand—or a little? Speak with local real estate brokers to better gauge the market.

**YOUR FORECLOSURE AUCTION QUESTIONS, ANSWERED**

As with any real estate purchase, there are a variety of expenses associated with a foreclosure auction. Charges, fees and costs vary widely, so it’s important to understand these expenses before you bid. Here are some questions people often ask about financing and buying a foreclosure at auction:

***BEFORE THE AUCTION***

**Since it’s the lenders that are selling houses, why don’t they just finance the foreclosure sale?** That usually doesn’t happen. The division of the lending institution that sells foreclosure properties and the division that does real estate financing are two separate organizations.

**Are foreclosures riskier than existing home purchases?** It depends on which foreclosure and which existing home. All real estate investing—like all stock market investing—implies some level of risk. But there are some inherent risks involved in buying a foreclosure home—like the inability to do a thorough internal inspection. People who buy these properties hope that the risk will be offset by the kind of discount prices often available on these homes.

**Will I have to register to bid?** You bet. As with a rental car reservation, you’ll typically have to provide a credit card number and expect the auction company to take a given amount to hold. Why? They want the money in case someone bids and wins, but doesn’t close the deal. How much will be taken out? It depends, so ask the auction company for details.

**Will I have to qualify?**Yes. The auction company wants to be sure that you have the funds to close the transaction. Most foreclosure auctions are all-cash transactions. The term “all-cash” generally means the ability to put down a deposit immediately after a successful bid and close within a short timeframe.

**Do I always need the full amount in cash to buy a foreclosure?** This depends to a great degree on the laws in your state. Most foreclosure auctions require payment in cash (or a cashier’s check) within a relatively short time after the auction. Technically, it doesn’t matter if the funds come from you or a lender. What does matter is that successful bidders have the financial ability to close the deal on time and in full. Ask auctioneers about financing and pre-approval requirements.

**What’s the best way to learn about auctions before actually buying?** Register for auctions and attend the bidding. Learn the mechanics of the auctioning process in your community. Get to know local auctioneers, brokers, attorneys, repair specialists and appraisers who specialize in foreclosures.

***DURING THE AUCTION***

**Is it better to go to absolute auctions or sales that require minimum bids?** People debate this question, but it’s largely a matter of personal preference. With an absolute auction, one bidder will win, while with a reserve sale, it’s possible that no bid will be sufficient. However, if you attend a reserve sale and the lender takes title, then speak with the lender after the auction about an REO purchase. The overwhelming majority of foreclosure sales are conducted using a reserve, since lenders are trying to capture at least a minimum amount of money to offset their losses.

**Can I bid $1 more than the next bidder and win the property?** Probably not. There are typically minimum bid increments in place.

**If I win, do I get title then and there?** Not usually. The seller—usually a lender—must approve the bid. Typically, they have 15 days to do so. Once an answer comes through, there’s an additional period required to arrange closing, which may take several weeks.

***AFTER THE AUCTION***

**After closing, do I own the property?** In some jurisdictions, there may be an [equity of redemption](https://en.wikipedia.org/wiki/Equity_of_redemption) right that allows the borrower who defaulted to regain title to their property under certain conditions. Speak with a local attorney for details before bidding.

**Will there be any liens that will become my responsibility after the sale?** Most liens are sublimated (or wiped out) by a foreclosure sale. But there are exceptions. Real estate tends to attract liens, so it makes sense to get title insurance for the property with the insurer you prefer.

**How much should I set aside for repairs?** Each property is unique, so repair requirements can vary widely. [Estimating repairs](http://www.auction.com/blog/how-to-properly-estimate-repair-costs-on-a-flip/#sthash.jiEhwFsa.dpbs) can be difficult because if the property is occupied, the residents may not want visitors. If it’s unoccupied, the utilities may be turned off. The best approach is to get as much information as possible before in the auction. In some cases, you may be able to find utility records that can help you better understand property issues.

**What if I have owners or squatters on the property?** If the residents won’t move, you may need to contact an attorney who can obtain an eviction notice and arrange for a sheriff to clear the property.