**Buying Foreclosures at Auction: The Basics**

Auction.com

**What Types of Properties are Sold at Auction?**

While virtually any type of property or asset can be sold at auction, most home auctions—and the type you’ve probably heard the most about, thanks to the housing crisis—are [foreclosures](http://www.auction.com/residential/foreclosures_at/). Depending on the state, a trustee assigned by the lender or an officer of the court conducts a foreclosure sale to recover the balance of a loan from a borrower who’s **defaulted on their mortgage payments. According to** [**RealtyTrac**](http://www.realtytrac.com/statsandtrends)**, as of January 2018, there were close to 570,899 homes in some stage of foreclosure in the United States.**

There are two types of real estate auctions: **live (in-person) and online**. The latter is becoming more and more prevalent as people grow more comfortable with making major purchases online.

No matter which route you choose, remember that buying real estate can be complicated. Companies like [Auction.com](http://www.auction.com/) are making the process more efficient and transparent, but in most cases there are still long contracts, escrow, disclosure documents and other paperwork required by law.

**Buying Foreclosure Properties at In-Person Auctions**

The phrase “real estate auction” often brings to mind the stereotypical image of a small group of investors, huddled around an auctioneer on the county courthouse steps. And in fact, almost all foreclosure auctions are conducted live in front of (or in a room inside of) county courthouses. Many states only require a publicly accessible space, like a hotel ballroom or room in a convention center. In some of these larger venues, hundreds of foreclosure properties might be auctioned on a single day.

Some of the larger counties in Florida now conduct foreclosure sales online; Wayne County Mich., the county in which Detroit is located, conducts online tax lien sales (where the government seizes a home due to unpaid taxes). The laws vary widely from state to state, so be sure to check out the [specific rules governing your state](https://www.auction.com/lp/foreclosure/).

Live foreclosure auctions are free to attend and open to the public to ensure that a home being foreclosed upon receives the highest possible recovery for the bank or lender *and* the smallest deficiency for the borrower. Anyone can attend; however, if you want to bid, you’ll need to register. In almost all cases, you’ll have to show that you’re in possession of sufficient funds to pay for the property in full. (There are a few states that allow an auction day deposit and payment in full the following day).

**Here are the basic steps for participating in a live foreclosure auction:**

**Find and track foreclosure auctions**

Consult an online resource like RealtyTrac or Auction.com to find foreclosure auctions in the area or areas in which you want to buy. Remember: After creating a free account at Auction.com, you can easily view [which foreclosure homes](https://www.auction.com/lp/find-local-properties/) are for sale near you. If you find something you like, save it to your favorites.

Foreclosure sales data is usually available from the specific county either online or at the county courthouse, or from the third-party foreclosure sales agent, often called a “trustee.” You can also work with a local real estate agent or broker to identify these properties, but you should know in advance that, by law, there is no agent commission on these sales.

**Do your research**

Be sure you read and understand all [due diligence](http://www.auction.com/blog/due-diligence-10-steps-to-take-before-you-buy/) documents and transaction details prior to the auction. It wouldn’t be a bad idea to seek independent advice from a real estate attorney or a knowledgeable real estate agent.

Research the estimated resale value of the property, how much the borrower owes on the mortgage, and whether there are any liens against the property. *This last point is especially important.* If you’re the winning bidder, you may have to pay off these liens. It’s worth hiring a title company or real estate attorney to run title searches on properties you’re interested in bidding on.

**Drive by the property, if possible**

This will let you see the home’s condition—from the outside. Homes in the foreclosure process are usually occupied by the owner who’s being foreclosed upon or a renter. ***Do not trespass or disturb the occupant!*** Doing so is a criminal offense.

When you bid on a foreclosure, you’re bidding on the property “as-is.” You won’t know what condition you’ll find inside once you take possession. Extra, unexpected repairs could cost you thousands of dollars, so take that into account when figuring out how much you can comfortably bid. There’s a saying among investors that’s a pretty good rule of thumb: “How it looks on the outside is what it’s going to look like on the inside.” In other words, an unkempt exterior indicates an unkempt interior, while a home with great curb appeal will probably look similar inside!

**Get your financing in order**

Most foreclosure auctions accept cash, bank money order or cashier’s checks for payment. In nearly every state, you’ll have to pay in full immediately following the auction of the property; a few states allow you to pay a percentage at auction and the rest within a certain time frame.

County foreclosure auctions often require advance deposits. The deposit amount varies across municipalities, but generally runs from 5% to 10% of the expected final bid amount of the property.

**Confirm all auction details, even on the day of the auction**

It’s very common for foreclosure auctions to be postponed or even canceled. Sometimes an auction is canceled because the borrower comes up with the money to pay the lender the amount they owed, obtains a loan modification or sells the property as a short sale. Auctions might be postponed for a myriad of reasons; for example, the bank or lender might not be able to compile the proper documentation in time, or the owner might request more time to complete a short sale.

**Attend the auction and bid**

Check-in at least one hour before the auction’s start. Get an Auction Bidder Card and raise it when the auctioneer announces a price that you’re prepared to accept as your winning bid.

If you win the auction, your payment is due immediately or the following business day (dependent on state). Once you’ve paid in full, you’ll complete a certificate of sale or an execution of sale receipt, deed upon sale and [IRS Form 8300](https://www.irs.gov/pub/irs-pdf/f8300.pdf), subject to state-specific laws.

**Wait for your certificate of title**

While you’ll get your certificate of sale immediately, the actual certificate of title may take as much as 10 days to complete. During that time, the original owner may file an objection to the sale and pay the amount owed in full to retain their rights to the property. Don’t do any work on the property until you receive the certificate of title.

**Buying Property at an Online Auction**

In an online auction, you won’t find yourself standing on the steps of the county courthouse or packed into a hotel ballroom. You could be anywhere when you bid—at home, the office, even an airport—as long as you have an Internet connection. Bidding can occur 24 hours a day over the course of days or weeks, instead of on a single day.

Online auctions also broaden the types of properties you can bid on: short sales, non-distressed, bank-owned homes (known as REOs), and commercial property and notes.

The steps for bidding in an online auction are similar to a live auction.

**Find a property you love**

With online auctions, you can search for and bid on properties all over the country. You can even bid on multiple properties at once. Remember, you can always consider getting [a free account at Auction.com](https://www.auction.com/lp/find-local-properties/) so you can easily find homes near you.

**Do your due diligence**

Many online auction sites provide a wealth of information on the property page, including maps, estimated resale value and any liens. Be sure you read it all! It’s also a good idea to conduct your own due diligence, including a title search, and seek independent advice from a real estate agent or broker, a real estate attorney, or another experienced investor. Unlike live foreclosure sales, most homes sold in online auctions do have an agent commission (called “broker co-op” in the business), which allows a real estate agent to get paid for their services.

As with foreclosures, visit the property if you’re local. The real estate agent may even offer open houses; if so, bring your contractor with you to help you assess what repairs might be needed.

**Register for the auction**

Most online auctions require you to register and submit a refundable deposit in the form of a credit card authorization. This simple process ensures that all bidders are serious and motivated. (Don’t worry—you’ll get the deposit back if you’re not the winning bidder.)

**Prepare your financing**

**To expedite the close if you win, start gathering the following documents before the auction:**

* [**Proof of funds**](https://www.auction.com/lp/learn-more/bank-owned/post-auction/#Proof-of-Funds) **or financing information. Although most online auction sites don’t provide financing, Auction.com has a large—and growing—number of homes with financing available.**
* [**Entity documents**](https://www.auction.com/lp/learn-more/bank-owned/post-auction/#Buying-Under-Separate-Entity) **if you’re bidding under a company name or entity such as an LLC, trust or limited partnership.**
* **An** [**earnest money deposit**](https://www.auction.com/lp/learn-more/bank-owned/post-auction/#Earnest-Money-Deposit)**, which is usually 5% of the total purchase price and due one business day after the auction ends.**

**And if you’re the winner?**

Be ready for things to move fast. With Auction.com, for example, the contracting department will contact you within two hours and walk you through the online purchase and sale agreement, which shows the total purchase price and the timeline for submitting documents and payments. Make sure that escrow receives your documents and payments on time; otherwise, you could lose your earnest money deposit.

Look closely at the property page for each property you are planning to bid on. Many properties have what’s called a “buyer’s premium,” which is the fee charged by the auction company for conducting the sale, from marketing through the closing. The amount can vary, but it’s usually 5% of the winning bid amount. Many properties don’t have a buyer’s premium because the bank or seller has arranged to pay this fee out of their proceeds from the sale.

**Title insurance**

It’s a good idea to purchase title insurance. Here’s why: The properties in an online auction often have quitclaim or special warranty deeds that will transfer the bank’s interest in the property to you at closing. The problem is that any undiscovered liens will transfer to you as well! Title insurance protects you from these risks. For some homes, you can buy title insurance through escrow; for others, you can buy it after closing.

Occasionally, you’ll receive clear and marketable title to the property at closing. It depends on where the home is in the foreclosure process. This is another reason why a knowledgeable real estate agent or attorney can provide a valuable service to you.

Buying real estate at auction can be a lucrative—and fun—way to start or enhance your investing career. It can also mean years of heartache for the uninformed, so take advantage of all the resources available to make sure you know what you’re getting into.