Learn How to Buy a Foreclosed Home in 5 Steps

Description

You can get a terrific deal on a foreclosed property at a time when deals are hard to come by.

“The advantage of purchasing a foreclosure property is, in short, price,” says John Soffee, a Realtor with Freedom Realty Services in Midlothian, Virginia.

However, the procedure is more complicated than purchasing a regular listing, and it’s crucial to realize that foreclosures are currently at an all-time low. Furthermore, during the coronavirus outbreak, many lenders halted foreclosing, and generous forbearance programs allowed struggling borrowers to miss payments for up to a year. However, foreclosure rates would probably rise in 2021.

What is a foreclosure?

Foreclosures occur when a lender seizes property from an owner who has fallen behind on mortgage payments and has defaulted on their mortgage. Lenders, for their part, will strive to collect as much of their investment as possible by selling a foreclosed home for somewhat less than its market value.

In the right situation, “you are getting something below market value because the bank is motivated to get the home sold,” says Rose Sklar of The Sklar Team of Coldwell Banker in Weston, Florida. “Also, the bank tends to negotiate more than a typical seller would.”

5 Steps to Purchasing a Foreclosed Property

Here are some pointers to consider when purchasing a foreclosed home:

1. Find a real estate agent who specializes in foreclosures.
2. Obtain a letter of preapproval.
3. Before making an offer, consider the comps.
4. If other foreclosures are selling quickly, raise your bid.
5. Be prepared to purchase a foreclosure “as-is.”

1. **Find an experienced real estate agent.**

Engage the services of a foreclosure specialist to advocate your interests and keep the deal going. First, visit websites that have a database of foreclosed properties in your target area to find the right agent. Then, look for Realtors who have completed specialist real estate training in this field, such as the Certified Distressed Property Expert (CDPE) or Short Sales and Foreclosure Resource (SFR) designations.

To save money on the commission split, a buyer can work directly with the bank’s real estate agent rather than a buyer’s agent. This can be a risk, though, because “buyers feel more secure when they are (directly) represented,” Soffee says.

If you locate an agent with whom you wish to work to purchase a foreclosed house, ask them to keep an eye out for foreclosure properties that suit your criteria. These listings can sell quickly, so be prepared to act swiftly. These include:

- Preforeclosures occur when a buyer bails out a seller before the bank takes possession of the property.
- Short sales are transactions in which the borrower owes more than the home is worth, and the bank agrees to forgive a portion of the loan.
- Public auctions, in which bidders have the opportunity to make offers on repossessed properties at the local courthouse.
- Bank-owned dwellings, which the lender owns.

Some lenders, such as Bank of America, Citibank, and Wells Fargo, list their bank-owned properties on the internet. The United States Department of Housing and Urban Development also publishes a list of its foreclosure inventory.

2. **Get a letter of preapproval.**

If you can’t afford to pay cash, you’ll need a mortgage preapproval letter when making an offer on a foreclosure. “It separates the lookers from the buyers,” Soffee says.

Preapproval letters specify the amount of money you can borrow based on the lender’s careful examination of your credit score and income. Find a mortgage provider who understands your objectives and collects the appropriate papers to acquire a preapproval letter.

“It’s always good to be prepared,” Sklar says. “Having your proof of funds will make it an easier transaction.”

You should also think about what type of loan you want to get preapproved for. Foreclosed properties, for example, frequently require repairs or upgrades, and an FHA 203(k) loan can assist. Buyers can finance up to $35,000 in renovations with these loans.

Although cash-paying real estate investors typically purchase foreclosures, don’t let this deter you; many lenders will assist you in locating the appropriate financing to purchase a foreclosed home.

3. **Look for comps before making a bid.**

Finding the correct price to offer is a science as well as an art. Your realtor can perform a comparative market analysis (CMA) to assist you in understanding recent selling prices of comparable homes, or “comps.”

According to Soffee, he has performed a CMA over the last 180 days. He considers various aspects, including the velocity of property sales, tax assessment history, and a more in-depth review of similar homes nearby that have recently sold.

If you’re competing against cash bids, understanding this information can help you make a competitive bid. Keep in mind that your lender will want an appraisal to determine the home’s value, so keep that in mind while making your offer. If there is a price discrepancy between your request and the house’s appraised worth, you may have to make up the difference if the bank (the seller) refuses to budge.

4. **Make a higher bid if other foreclosures nearby are quickly selling.**

There is no specific formula for calculating the bank’s bottom line, so if foreclosed houses in your region are selling rapidly, work with your agent to build a firm offer that is backed up by your preapproval letter if seeking a mortgage. However, in many cases, foreclosures are already discounted so that the bank may reject a low-ball request.

Keep in mind that the type of house and location are important considerations, and some homes may sell faster than others. As a result, in competitive markets, you may need to offer the asking price (or somewhat more if other offers are received) while keeping contingencies to a minimum.

5. **Be ready to purchase a foreclosed property in the ‘as-is’ clause.**

When purchasing a foreclosure, the property is typically sold “as-is.” This means that the seller cannot guarantee the property’s condition, such as whether it has termites, structural difficulties, or lead paint, and is unlikely to undertake repairs.

"Since the bank owns a foreclosure, there is no one to fix any current issues," Sklar says.

If you plan to buy a foreclosed house, do a home inspection, so you know precisely what you're getting into. A house inspection is not, of course, required when purchasing a foreclosed home. Still, it can uncover substantial flaws that the bank is unaware of, allowing you to decide whether to proceed with your house purchase or back out if you included a home inspection contingency in your contract.

Pros and cons of buying a foreclosed home

Purchasing a foreclosed home is a personal choice. It is determined by several factors, including your risk tolerance, the property's potential value, finance, and your capacity to move swiftly. If the foreclosure is priced correctly, you could save a lot of money, so don't overlook this ad in your property hunt.

Pros

- Good value – Foreclosure shoppers are most interested in finding a reasonable price. Foreclosed properties might sell at a discount, especially in weak markets.
- Strong returns – If you identify a well-priced foreclosure and do cost-effective renovations, you will be rewarded with a house worth more than you paid.

Cons

- Extensive repairs — Foreclosed houses frequently require extensive repairs. Struggling homeowners may neglect routine maintenance, resulting in costly repair expenses.
- Complicated procedure – Buying a distressed home takes more specialist knowledge than a conventional transaction. Short sales are notoriously time-consuming, and finding preforeclosure vendors necessitates some homework on the buyer's part.
- Cash requirements – If you buy at an auction, you will almost certainly have to pay cash.
- Strenuous competition – Foreclosures are often the domain of expert investors, and competing with them isn't always straightforward.

Category

1. Finance

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