How to buy a Foreclosure home? Know the basics before you buy

Foreclosure is most often a regrettable tragedy for a homeowner. The circumstances that give rise to foreclosure, whereby a lender is forced to step in and perfect his interest in the secured property, often follow a catastrophic financial setback for a family. Banks also dislike having to foreclose, own, and market real estate, as it represents a financial loss to the institution as well. These circumstances place the real estate investor who knows how to flip properties in an advantageous position.

The notion of stepping into a foreclosure situation is not as damaging to the homeowner as one might expect. The decision by a homeowner to allow a foreclosure nearly always follows a reasoned assessment that concludes there is not enough equity in the property to continue with the burden of payments. After all, if the equity were there, the homeowner could simply sell the property and withdraw the equity himself. In most instances, it is the lender who takes the greatest loss.

When banks take over property they are highly motivated to get it off their books. They go by the theory that the first loss is the best loss. This leaves open the prospect for great opportunities for the real estate investor who knows how to buy property, rehab property, and flip property for a profit.

Having said that, be aware that there can be hidden problems with foreclosed properties such as deferred maintenance items, the presence of mold, broken appliances and plumbing fixtures, and an expensive clean out when the previous owner trashes the property before vacating it. Thorough property inspections are a must in order that the real estate investor has a complete understanding of the scope of problems he might be facing.

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Buying at Auction

Finding properties that are in foreclosure can be an exhausting, but rewarding, task. You can find them in your county records, in the public notices in local newspapers, or by contacting lenders that are selling property. Another useful tool is the official website of the U.S. Department of Housing and Urban Development where information about foreclosure auctions can be found.

Assess the Property

In some instances, a hindrance to making a solid assessment of value can be the inability to do a thorough inspection of the interior of the property. If the owner of the property is still in possession, and he chooses to not allow you to view his home, then you're out of luck. You may be able to judge what work is needed on the outside of the property, but are left in the blind about the interior. If that is the case, then the real investor must plan for the worst and bid on the property accordingly.

Set Your Bid in Advance

The successful real estate investor knows what price he can expect to get for the house when he is ready to put it on the market. He has checked comparable sales in the area as a measure of what he might expect when it's his turn to sell. Knowing the price for which he can expect to sell the house, and having an educated estimate of the cost to upgrade the house and market it, the investor now knows what he can afford to pay for it. With this bid price in mind, he must be disciplined. This is business. This is no time to be emotional, or to fall in love with a property. He must set his bid price and stick to it. If the bids exceed his estimations, he will just have to walk away. There will be plenty of other opportunities to buy and sell properties profitably.

Buying an REO Property

An REO (Real Estate Owned) property is one that did not successfully sell at auction to someone other than the lender. This means that no one outbid the lender when the property went to public auction, and the lender had to take possession. The longer a property remains unsold, the more a lender loses on it. The expense of maintaining the property continue on, and such things as real estate taxes, homeowner's insurance, maintenance, and utilities continue and become the responsibility of the lender in possession. This is when the banks begin to sweat. To begin with, by bank accounting rules, real estate represents a liability on the books. And in this case, a liability that just keeps growing. This is great news for the real estate investor. Again the first loss is the best loss rule takes over, and often the bank will discount the property quite deeply just to be rid of it. That is a good reason to know the people inside the banks who are responsible for collections, foreclosures, and owned real estate. One caution though: banks do not always know the condition of their properties, so it is important for the real estate investor who is interested in a property to do his own thorough inspection. This will help to avoid unpleasant surprises, and help assure a better bottom line.

Are Buying Foreclosures a Thing of the Past?

There are still thousands of people engaged in the foreclosure real estate business. The buying and selling of foreclosed properties reached its peak following the financial crisis of 2008. It became such a robust enterprise that homeowners and public investors such as hedge funds entered the market and began buying properties in bulk. This is a testament to just how profitable this business can be. But that does not mean that the opportunities for foreclosures are over. There are still homes going into foreclosure and the default rate is slowly rising. With diligence and patience, and by working hard and looking in the right places, today's homebuyer and real estate investor can still find great bargains that offer the potential for healthy profits.

You can find foreclosures in your area now, just click here to start searching or get email alerts as new properties are added daily.