

How to Buy a Foreclosed Home

By a Realtor who has sold hundreds!



Valuable tips, secrets and information on buying a foreclosed home by a licensed Realtor who has sold hundreds.

Get inside information from someone who knows!

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Chapter 1 Find a Foreclosed Property

The real estate meltdown has an abundance of **foreclosed homes or REO's (real estate owned)** on the market. As a realtor, I have personally sold about 300 foreclosed homes in my career. This may be the time when banks are ready to **give the best deals** before the market changes and property values go back up.

There are many ways to locate foreclosed properties. Some of the more common ones;

Contact a Realtor. Look for an agent that specializes in foreclosed homes and let the agent search the local MLS (multiple listings service) to locate them.

Go directly to free lender sites that have listings of homes for sale. Some of these are:

- **Freddie Mac REO:**
http://www.homesteps.com/hm01_1featuresearch.htm
- **Fannie Mae REO:**
<http://www.mortgagecontent.net/reoSearchApplication/fanniemae/>
- **HUD REO:**
<http://www.hud.gov/homes/index.cfm>
- **IndyMac Bank REO:**
<http://apps.indymacbank.com/individuals/realestate/searchFDICProperties.asp>
- **Wells Fargo REO:**
<https://www.pasreo.com/reo/>

These and other sites allow you to search properties in your area and either contact the listing agent or the bank directly about any property currently on the market. There are also many subscription sites such as www.foreclosure.com that will allow property searches; however, you will have to pay a monthly fee to become a buyer member. I feel that it is usually not necessary to join those sites to locate a property unless you are looking over the whole country.

There are some foreclosed home sites like www.ForeclosedByBank.com which will allow you to search and contact the listing agent for free.

Chapter 2. Examine the Property

Remember, most of these homes will usually be sold "**as is**". You get what you see, as well as what you don't see. Usually no repairs will be made prior to closing with the possible exception of a termite treatment if needed or repairing a leaking roof. Therefore, you need to thoroughly inspect the home or hire a professional inspector to do the home inspection. This is normally a buyer's cost. You will have a short period, perhaps 10 days, to inspect and **opt out of the contract** if the property is not suitable to your needs. Note: This home inspection contingency allows the buyer's earnest money to be returned to the buyer if the inspection is done within the given amount of time allowed on the contract. Always get a termite inspection, as I have seen many foreclosed homes with active termites. I recall one that was so bad the **termites were coming out of the electrical wall sockets!**

Many foreclosed homes have had damage done to them and items removed like heat pumps, appliances, sinks, etc. Make sure what you need is still there and working or usable. Make sure the outside air conditioner unit, if applicable, is there and what is there is not just the metal shell, but has the interior coils, compressors and such. These **parts are stolen frequently** to sell for the copper content.

Keep **your safety in mind** while looking at foreclosed properties. Some are not in the best of neighborhoods and there may be angry owners still in the property or keeping an eye on it who will confront you. Never go into an occupied property. If you are looking at listed properties then the home should be vacant. Either way, **do not view properties alone** if possible or tell someone where you are going and when you will return. Keep your cell phone in hand ready to call someone if you see anything or anyone that look suspicious and vacate the property immediately if this occurs.

Chapter 3 Making an Offer

Buying a foreclosed home is similar in some ways to buying a normal home on the market, but is also very different in many aspects. One, you are dealing with a bank as the seller, not Mr. and Mrs. Jones, so the ***process is strictly business*** to them. They have a target figure in mind based on Realtors doing what is called a BPO or ***Brokers Price Opinion*** of which I have done thousands for these banks. Usually the bank will have the listing agent do a BPO as well as a non-listing agent so that a comparison figure is determined. The asking price is based on these BPO's as well as what the bank has paid for the property at the foreclosure sale or perhaps what is still owed on the mortgage.

Generally banks ***will drop the asking price*** on a property about every 30 days until it sells or hits bottom. If you can find out how long it has been on the market you may be able ***to time an offer just after a price drop***. I usually see a drop of about \$3000-\$5000 per month on an average priced home of \$75,000 to \$100,000 so it can be a significant amount on each price drop.

When you do offer, try to ***make a reasonable offer*** based on the condition and the asking price. Banks really only care about the bottom line and have no sentimental value attached to the property. If you get in the neighborhood of an acceptable offer, say 75-90% of asking price, they will usually work with you. Make a very ***low ball offer*** and you may not even get a reply. The banks or any seller for that matter, do not have to reply to any offer. Sometimes there will be more than one offer made at the same time in which you make an offer. You may be asked to do your ***highest and best offer*** while acknowledging in writing that there is more than one offer active. Make sure you make the offer contingent on any preferred financing or inspections.

Chapter 4 Legal Items and Financing

The selling bank will **clear the property title** for you and many times will provide free title insurance. You can use the banks attorney to close or your own attorney. Many times in order to get free title insurance you will have to use the designated bank attorney. You may or may not want to get a new survey of the property. A survey can be very expensive, but if you are obtaining financing, your lender will most likely require one. If there is any reason to question the property lines such as fence locations, encroachments and such **you should get a new survey** made.

If the property is a mobile home then many states will treat the mobile home as **personal property** and not real property. This means you will need to ask if you can get the mobile home title from the selling bank. The bank may or may not have the mobile home title. If not, you will have to decide on taking the risk of buying the property without it.

The current dismal lending environment is making it **harder to get loans for homes**. You may have to pay cash or get an investment type loan which will have higher interest rates. If you plan to live in the home some foreclosing banks also have lending programs specifically for residential use. One of these banks is Freddie Mac with their foreclosed home sales site at www.homesteps.com who also **offers special deals such as a home warranty, help with closing costs**, or special rates to home buyers from time to time.

Since most of the selling banks want the closing to occur within 30 days from the time the sales contract is signed, it is important to either be ready **to pay cash or be pre-approved** for a loan. This is not the same as pre-qualified which is a lenders opinion which simply says you are probably able to get a loan. Pre-approved means just that, you have most of the approval work out of the way.

Chapter 5 After You Close What Now?

Once you have closed on the property and you are the legal owner, try ***to take command of the property*** right away to keep vandals away. Bear in mind there may be some understandable ill feelings between the bank and the people who lost the home so keep it locked and under watch up to and after closing to lessen vandalism from previous owners or others. Change the locks.

Clean it up, mow the yard and leave some lights on at night until you are able to occupy the home or get it rented if this is the plan. One good way to keep out vandals is to ask ***a neighbor*** if they are willing to park a car there until you get it ready for occupants. The fact that the home is being repaired to be made livable and will soon be occupied will help their own property values, so many times neighbors are willing to help out.

If you plan to fix up and resale the home you may want to discuss with a Realtor the best price, local market and how much you should money you are willing to invest in the home .

Good Luck with your adventure in buying a foreclosed home!

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