

Buying a Home at Auction

Foreclosure auctions can be a great opportunity to invest in real estate, for those willing to spend some time and effort to find them.

By the time a Home is placed up for Auction it has already gone through the foreclosure process, an auction is the lender actually selling the home to try to gain its mortgage money back. After foreclosure proceedings are done and the auction date is set, the mediator will post legal notice of the pending auction.

You can find auctions by checking the legal section of the newspaper classifieds. The notices will list the plaintiff (the lender) and the defendant (the home owner), along with the property address. Most notices will also list the minimum bid.

Once you have found some properties, you need to drive by and look at them. Don't be discouraged if the outside of the foreclosure property shows some distress - this is very common with these types of homes, as the owners are unable to afford upkeep, and sometimes do actual damage to the home out of frustration.

You will likely be unable to view the inside of the property unless the mediator allows walk throughs. Contact the mediator to see if you can schedule one. If you are able to get inside and bring an inspector with you. If not, take good notes about the outside condition, and peek inside windows if the property is vacant (don't do this with occupied houses).

Now that you have seen the house and the neighborhood, you need comparable sales to judge whether or not to place a bid at the auction. For the most accurate information you should contact a realtor. They can give you comparable sales in that neighborhood. If the amount of the auction house is far below what comparables are in the area, you have the possibility of a good deal. If the house has a lot of damage and is not much under the comparables, you would do best to skip this auction, unless you were going to live in the property while you renovate it.

If you decide to bid on the property, you will need to have some cash on hand. You have to have funds in the form of a cashier's check the day of the auction. Most times the amount needed is 10% of the final auction price (but always check with the mediator). So if a home goes for \$40,000 - the winning bidder must have at least a \$4,000 cashier's check available. Keep that in mind when considering how high of a bid you are willing to make. Also work with your lender to get the approval process moving.

The day of the auction, be prepared with your cashier's check and a form of identification. Many times the auction is held at the town or city offices, many times outside of the courthouse. The mediator will be there, and a representative for the lender, as well as any interested bidders. At this time, you can ask if there are any outstanding liens on the property that won't be cleared up with sale. Sometimes back property taxes or a mechanic's lien will be present. Since the new owner will have to pay any outstanding liens, this will influence your maximum bid.

The mediator will start with the opening bid by the lender, which will normally be for the full amount of the mortgage. The lender will normally not bid again, and the rest of the bidding will occur by the attendees. Remember how much your maximum is and stop there. Don't get caught up in the frenzy of bidding. Sometimes there are only a few people there, and you can pick up the property for a bit over the bank's bid.

If you are the winning bidder at the auction, you will be required to sign paperwork and turn over the deposit check. Depending on the lender, you will have 14 to 30 days to actually close, which means getting financing in place from your lender. This short time is why you need to have the approval process started with your lender.

The costs associated with buying a property at auction are exactly the same as those associated with buying a property in the conventional way. The buyer will have to pay solicitors fees for things like the survey of the house. He or she will also have to pay stamp duty, which is a government tax on the paperwork involved with the house buying process and varies in amount depending on the price of the house. Then there is the deposit, since few mortgages cover the 100% price of the house now. Some lenders will have additional fees too