

## *HOW TO BUY A FORECLOSURE (REO)*

A foreclosure is simply a home that has gone through the legal process of repossession by the bank. The property then is disposed of through the asset management division of the bank or through a third-party asset manager.

There are two ways to buy a foreclosure – through auction and on the open market. Until the home has completed the foreclosure process the homeowner has every opportunity to save the home, but once it's over, the home is available for auction.

Auctions are announced in local newspapers so you know when a particular home will be put on the block. You'll have only a little time to drive by, and you will not be allowed inside as the home is not open to the market.

At auction, the home goes to the highest bidder and the proceeds go toward the remaining mortgage debt. If you want to buy at auction, be prepared to bid against other investors on the courthouse steps and to pay cash for the home if your bid is accepted. Don't let excitement rule you; stay within your planned maximum bid.

If the home doesn't sell at auction, the bank takes the home back as an REO, or real-estate-owned property. From there the property is typically turned over to an asset manager and put on the open market.

Once the REO is listed with a real estate broker, you can buy it just as you would any other listed property, with a mortgage loan if you prefer. But, be prepared for out-of-the-ordinary delays. Asset managers may be handling hundreds of properties in your area. They may be unresponsive to low-ball offers, or refuse to negotiate at all. Their job is to get the most return possible for the bank.

When you shop for an REO, consider the same things you would in any other home – location, condition, features and price. Foreclosures are often in poor repair, so be prepared to put sweat equity into the home or to hire a contractor. Banks seldom do any more than make repairs required by federal lending standards. REOs are sold "as is," which means buyer beware.

Talk to your lender. Federal insurers such as FHA and VA have home improvement loan programs that may help.

When you make your offer to the bank, allow 10 days to get an inspection, but try to get your inspector in the next day after your contract is accepted.

Go back to your banker with your bids. The bank will appraise the house two ways for you, giving you a value for its current condition, and a second value based on the improvements you propose. If you're in line with neighborhood values, you'll likely get the loan.

Buying a foreclosure is only a good deal if you can buy the property and pay for the necessary repairs and updates it takes to bring the property up to neighborhood standards.