

Foreclosure Questions and Answers

These foreclosure questions and answers represent a significant amount of effort in compiling useful information about foreclosure investing that you can apply immediately. They are the result of many questions I've seen or heard from investors just like you about various types of foreclosure property investments. I provide straightforward and understandable answers about the types of investment opportunities available to you. You can decide whether you prefer to invest in one or more of these opportunities and adopt them for your own investment business.

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General Questions:

What are real estate foreclosures?

Real estate foreclosures are properties that have been foreclosed on by lenders because the owners, who have taken out loans to buy the properties, have defaulted on the loan payments. Owners can default on loan payments for a variety of reasons including divorce, illness, death of a spouse, and unemployment. Lenders try to work out some kind of resolution with defaulted owners, but will generally initiate foreclosure procedures after three months of default.

Foreclosure properties represent an exciting way to buy real estate because they can be purchased at discount prices, typically between 10% to 50% below market. These discount prices are possible because the property owners, which can be either the borrower, lender, or government agency (see [HUD](#), [VA](#), and [Fannie Mae](#) properties below) are motivated to sell them very quickly, often at below market prices. As a homebuyer, you can buy a foreclosure as a home with instant equity. As an investor, you can buy foreclosures as investment properties with built-in profit margins.

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What types of foreclosure properties are there?

A foreclosure property exists in three primary stages: [pre-foreclosure](#), [auction property](#), [real estate owned](#) (REO). A pre-foreclosure occurs when the lender initiates foreclosure proceedings

as the result of a default. If the borrower cannot cure the default by paying off the back payments (arrears) and does not sell the property, it is sold at a public auction. If no one buys the property at the auction, it reverts back to the lender and becomes a Real Estate Owned (REO) property.

There is also a fourth stage, which can occur on properties with loans insured by a federal agency such as [HUD](#) or [Fannie Mae](#), or guaranteed by the Department of Veterans Affairs ([VA](#)). When such properties revert back to the lenders, the agencies reimburse the lenders and take ownership of the properties. The agencies then make arrangements to sell the properties to the public.

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How do lenders foreclose on property owners?

Lenders foreclose on property owners using primarily the judicial or non-judicial foreclosure procedure. States that use mortgages to document property ownership follow the judicial procedure. The judicial procedure requires lenders to file a court case to prove default before they can foreclose on the owners. States that use deeds of trust follow the non-judicial procedure, which does not require a court case. Non-judicial foreclosures can take up to about 30 days. Non-judicial foreclosures can take up to an additional 30 days because of the court action. In some states, the process can take up to a year depending on the circumstances.

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Can people make money investing in foreclosures?

Absolutely. People can and do make money in foreclosures because they can buy the properties at below market value prices. Buying properties at discount prices is the surest and quickest way to make money in real estate. Individuals who are looking for homes can get a significant amount of equity up front with foreclosures. Investors looking for short-term income can flip foreclosure properties for big profits. And landlords can buy and rent foreclosures, with positive cash flow, for long term wealth accumulation.

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How do I get started with foreclosure investing?

The best way to get started with foreclosure investing is to learn about it. I offer an excellent set of guides on my site.

- The Complete Guide to Preforeclosures
- The Complete Guide to Foreclosures
- The Complete Guide to Preforeclosures and Foreclosures

The guides present easy-to-learn, step-by-step approaches to making money with preforeclosures and foreclosures. Since the intent of foreclosure investing is to buy and sell foreclosure properties for profit, the first and probably most important step is to find the foreclosure properties.

Our site offers a very popular [nationwide database of foreclosure properties](#) that you use to get started. Our database is the most current and comprehensive inventory of foreclosures available on the Internet. We provide daily property updates along with complete tax roll information, thus

ensuring the accuracy and timeliness of the data. We obtain our property information directly from foreclosing lenders and government agencies, including HUD, VA, and Fannie Mae and about 100 other corporate sellers. People all around the country like you use our property database to find good deals.

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Do I need a realtor to buy foreclosure properties?

You **do not** need a realtor to buy pre-foreclosures, auction properties, and REOs. You can buy pre-foreclosures directly from the property owners before the auction. You can buy auction properties from the foreclosure attorneys or auctioneers at the public auction. You can also buy REOs from lenders after they have taken the properties back at the auction. In all three cases, you can buy the properties without a realtor.

Conversely, you **do** need a realtor to buy government properties. HUD, VA, Fannie Mae, and other federal agencies offer their properties for sale to the public via realtors. The agencies will publish their property lists either on the Internet, in local newspapers, or with local management companies. The properties are usually also published in the Multiple Listing Service, which makes them accessible to realtors. There are many realtors who specialize in government properties and can work with you to submit contracts for purchase.

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How do I find the cash to buy foreclosures?

You might be surprised to know that there are several sources of investment capital available for funding foreclosure deals. These sources fall into four main categories: conventional financing, partners, lines of credit, and hard money lenders. You can obtain conventional financing from any number of commercial banks and mortgage companies. This type of source can be very cost effective, providing you have good credit. Partners are individuals, including friends, relatives, and other investors, who would be interesting in providing some or all of the money for a percentage of the profits. You can advertise by word of mouth, via the Internet, or in local newspapers.

You can use existing lines of credit (or credit cards) to fund your deals. You can also use hard money lenders who are in the business of providing loans for real estate deals. Both of these sources require you to make monthly payments on the loan until you sell the property and pay off the balance. Check local sources, including the newspapers, for ads from hard money lenders. Mention conventional financing.

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Pre-foreclosures

What is a pre-foreclosure?

A pre-foreclosure is a property whose owner has defaulted on the loan payments and whose lender has initiated the foreclosure procedure. A pre-foreclosure property exists during the first stage of the foreclosure procedure, and therefore still belongs to the owner. The length of the pre-foreclosure period depends on type of foreclosure procedure used, either [judicial or non-judicial](#).

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How do I find pre-foreclosures?

There are several ways to find out about pre-foreclosures, including list or database subscriptions, local newspapers, and contacting foreclosure attorneys. You can subscribe to a paper list or online database of pre-foreclosure properties. You can look in the local newspapers that publish “Notices of Public Sales”, sometimes referred to as Trustee Sales or Sheriff Sales. You can also contact local foreclosure attorneys to find out what foreclosures they are currently working.

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How do I buy pre-foreclosures?

You must submit a written contract directly to the owners in order to buy a pre-foreclosure, since the property still belongs to the owners during this stage. You can initiate contact with the owners by mail, by phone, or by visiting them, depending on your personal preference. When you make contact, find out all you can about the physical and financial details of the property. For example, find out the age, size and type of house, condition, and other distinguishing features. Also find out the number of liens, type of liens, loan balances, and amount of arrears.

You will need this the physical and financial information to do your research and to determine whether the property represents a good deal. Once you have made the determination, you can then prepare a written contract and submit it to the owners. When you have successfully negotiated the purchase, you must then inform the foreclosure attorney to stop the foreclosure process.

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How much cash do I need?

You generally don't need much of a deposit when negotiating with property owners. Deposits can be \$1,000 or less. Of course, you will need to obtain the [funding](#) to pay off the current debt on the property.

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What should I be aware of?

There are two primary points to consider. The first is that all of the debt on a pre-foreclosure remains on the property until it is sold at auction. This means that any junior debt, including trusts, mortgages, tax liens, and judgments, which may exist on the property must be paid before you can buy the property. Usually, there is only one trust or mortgage on a property. However, it is important that you find out about possible junior debt before you spend too much time and money investigating the property.

The second primary issue is that only the individuals who are on the title to the property can sell the property. All of the owners of the property must agree to sell it to you before a sale can occur. Make sure that you know who the owners are and that they are all interested in selling before you start negotiating a deal. Most homes are owned by individuals or couples, so finding

them and negotiating with them should be straightforward. Owners who have abandoned the property or have moved out of the area may take some more effort to find.

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What should I be aware of in buying foreclosures?

You should be aware that ALL foreclosure properties are sold in “as is” condition. That means that neither the owner, foreclosure attorney, lender, government agency nor their agents are required to do any property repairs. You should therefore expect and be prepared to fix up the property, either by yourself or by hiring a contractor.

In addition, it is important to arrange your financing in advance of your foreclosure purchase. Contact your lenders or partners to negotiate the terms and conditions of your financing so that you will be prepared to complete the purchase once you negotiate a good deal.

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Auction Properties:

What is an auction property?

An auction property is one that is sold or about to be sold at a public auction. This means that the property owner could not payoff the arrears or sell the property before the date of the auction. The auction is open to all bidders, including investors and homebuyers, and is sold to the highest bidder. An auction property is under the control of the foreclosure attorney who conducts the sale on behalf of the lender.

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How do I find auction properties?

You can find out about auction properties just as you would about pre-foreclosures. You can search a property database/list, look through the local newspapers, or contact the foreclosure attorney regarding pre-foreclosure properties.

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How do I buy properties at auction?

You buy auction properties by bidding on them at public auctions. The attorney starts the bid at the opening bid amount specified by the lender, and continues to solicit bids from you and other interested parties until the winning bidder is determined. The bidding process can occur very quickly, often in as little as three minutes, so you have to be very vigilant in tracking the bids and watching your competition. You should always decide on your bidding strategy and your upper limit before you start bidding.

Note that in some cases, if directed by the lender or if requested by a bidder, the attorney can qualify bidders by asking them to show their deposits. You can use this technique to identify the real bidders and thereby establish the extent of the competition.

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How much cash do I need?

You typically need enough funds to make a deposit of about 10% of the remaining loan balance or of the winning bid. The deposit must be in cash or certified check; jurisdictions do not accept personal checks, credit cards, or wire transfers. In some jurisdictions, the required deposit amount is specified in the sale notice either as a percentage or a fixed amount. If you are the winning bidder, you must pay the deposit immediately after the auction. You then have up to 30 days, again depending on jurisdiction, to come up with the rest of the money.

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What should I be aware of?

There are three points to consider. The first point is that auctions start on time and are conducted very quickly so make sure you arrive early. The second is that you should expect to have some competition even if it's minimal, so make sure you are well prepared with the details of the particular property to be successful. The third point, as mentioned before, is that you must have cash or a cashier's check, and must be prepared to settle shortly thereafter.

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Real Estate Owned (REOs)

What is an REO?

An REO is a property that was not sold at the auction to a bidder and was therefore taken back by the lender. Since lenders are not in the business of managing real estate, they are willing to sell the REOs quickly to interested homebuyers or investors. REOs are sometimes called special assets to distinguish them from properties that are actually used by the lenders, such as corporate facilities or branch offices.

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How do I find REOs?

You can find REOs by following the properties through the foreclosure process (i.e., pre-foreclosure, auction property) or by contacting the lenders' REO or Special Assets departments. Some lenders establish relationships with local realtors who manage and market the REOs for sale to the public. You may therefore be directed by the lenders to contact these realtors to find out about available properties.

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How do I buy REOs?

You can buy an REO by submitting a written contract directly to the lender or through the lender's realtor. As in the case with pre-foreclosures, you should find out about the physical and financial information of the REO and determine whether it is a good deal, before you submit the offer.

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How much cash do I need?

Lenders will generally request a deposit to be submitted with the offer. The deposit is usually \$500 to \$5,000 depending on the lender and the value of the property. Once you have successfully negotiated the terms and conditions of the deal with the lender, such as the amount of the down payment and the settlement date, you then need to obtain your funding in order to settle on the property.

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What should I be aware of?

Some lenders will be interested in offering you a loan to buy an REO; others will not. Some will provide financing to investors; others will only provide financing to owner-occupants. You must communicate with each such lender to determine its loan policies along with its financing terms and conditions.

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HUD Repossessions

What is a HUD property?

The Department of Housing and Urban Development (HUD) is a federal agency that insures mortgages to homeowners through its Federal Housing Administration (FHA). HUD acquires properties from lenders that foreclose on FHA-insured mortgages and offers them for sale to the public. These properties are sometimes referred to as HUD foreclosures or repossessions.

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How do I find HUD properties?

HUD advertises its properties to the general public via its web site and often in local newspapers. HUD also advertises its properties through asset management companies that are contracted by HUD to manage and market its properties. Check the HUD web site or the local newspapers for a list of properties.

You can also find HUD properties by contacting real estate agents who are registered by HUD to market and sell them. These agents generally list their HUD properties in the Multiple Listing Service (MLS), where they are accessible to all other agents. Check the ads in your local newspapers or contact local real estate brokerages for the names of agents who will be able to help you find HUD properties.

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How do I buy HUD properties?

Bids to buy HUD properties must be submitted, during the bid period, via a registered real estate agent. Your agent will generally submit your bid using HUD's web-based, electronic bidding process. Agents who don't have computers can submit bids by telephone. HUD's computer system stores the bids until the end of the offer period, which is the opening bid date, and automatically performs the calculations to determine which bid offers the highest net proceeds.

If you are the winning bidder, HUD will notify your agent who will then notify you. You and the agent must then prepare a signed sales contract, based on the winning bid, within 48 hours. The agent should have all the paperwork you need. Once your contract is submitted and approved, HUD will ratify the contract and schedule your settlement date usually within 30-60 days.

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How much cash do I need?

HUD requires a deposit of 1-5% of the purchase price to be submitted with the written offer. You will have 30-60 days to arrange your financing.

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Can I buy HUD properties for \$1?

Only registered state and local governments can buy HUD properties for \$1. HUD offers some of its properties to government agencies to support community programs. These properties are not available to the general public. You can only buy HUD properties using the process described above.

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What should I be aware of?

Even though HUD property listings are available to the general public, there is an initial 5-day period during which only owner-occupants can submit bids. At the end of the period, if the properties have not sold, the bidding is opened up to both owner-occupants and investors. Properties available to investors are noted in the database.

Also, make sure that your contract matches your bid and is received within 48 hours. Otherwise, HUD will return the associated property to the market or offer it to the next highest bidder.

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VA Repossessions

What is a VA property?

The Department of Veterans Affairs (VA) is a federal agency that guarantees mortgages to homeowners who have served in the military. VA acquires properties from lenders that foreclose on VA-guaranteed mortgages and offers them for sale to the public. These properties are also known as VA foreclosures or repossessions.

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How do I find VA properties?

VA uses regional property management companies to manage and advertise its properties to the general public. The list of companies can be found at the VA web site. Most of the companies advertise the properties online via their web sites. Others advertise the properties in local newspapers.

You can also find VA properties by contacting real estate agents who are registered by VA to market and sell them. Check the web site of the property management company in your area for the names of agents who can help you find VA properties. Also check the ads in your local newspapers or contact local real estate brokerages.

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How do I buy VA properties?

Offers to buy VA properties must be submitted on VA forms via a registered real estate agent. The forms can be found on the VA web site, and your agent can work with you to complete them. The agent must then submit the forms online, by fax, by mail, or hand delivered, depending on the process followed by the management company in your region. If you are the winning bidder, VA will notify your agent who will then notify you.

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How much cash do I need?

VA requires a deposit from \$100 to 5% of the purchase price to be submitted with the forms. You must arrange your own financing or you can apply for a VA loan. You must give VA at least seven days notice prior to your settlement date. The settlement is conducted by the title company identified in the property listing.

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What should I be aware of?

You can use conventional or other financing to buy VA properties. However, you can only obtain a VA loan if you intend to live in the property as an owner-occupant.

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Fannie Mae Repossessions

What is a Fannie Mae property?

Fannie Mae is the popular name used to identify the Federal National Mortgage Association (FNMA). Fannie Mae was established by the government to purchase FHA loans and to bundle them for sale on the secondary mortgage market. Fannie Mae acquires properties from lenders that foreclose on such loans and offers them for sale to the public.

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How do I find Fannie Mae properties?

Fannie Mae advertises its properties to the general public via its web site. The properties are also listed in the local Multiple Listing System (MLS), which is accessible by real estate agents. You can contact local real estate brokerages to find agents who market and sell Fannie Mae properties.

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How do I buy Fannie Mae properties?

Fannie Mae sells its properties via real estate agents. You must present your offer to the agent who in turn presents it to Fannie Mae for consideration. Fannie Mae will review each offer and notify the agent of its decision. Fannie Mae will either accept your offer, reject your offer, or make a counter offer. The counter offer demonstrates Fannie Mae's willingness to negotiate for a price that is mutually agreeable to both parties.

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How much cash do I need?

Fannie Mae offers a variety of loan programs including some with low down payments. These down payments are typically between 3-5% of the purchase price.

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What should I be aware of?

Although Fannie Mae may sometimes make a few repairs to properties to increase their value, the properties are sold in "as is" condition. This means that Fannie Mae does not guarantee any work that may have been done on the property. You will have to check the repairs to validate the quality of the work.

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