

# Are Foreclosures Good Deals?

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If you are like most people, the prospect of finding some great deal and grabbing a house for some fantastic price is the stuff that dreams are made of. However, that dream can quickly become a nightmare for those potential wheeler-dealers who think that the foreclosure game is a quick and easy way to find the promised land. Is it actually possible to find some treasure at a great price? The answer is yes, but with a warning. If you want to play the foreclosure game, make sure that you come to the game table with four vital tools:

1. Research skills
2. Lots of available cash
3. A good dose of luck
4. Nerves of steel

## Research Skills are a Must

The prospective bidder must understand the terms of the sale. If the mortgage being foreclosed on is one subsequent to a first mortgage, or if there are other liens against the property remaining after the sale, the bidder would be responsible for satisfying those responsibilities. This would be the case where the foreclosure involves a second mortgage or home equity loan. A second mortgage could foreclose on the property, but only subject to the first mortgagee's interest. What if the foreclosure sale is subject to local real estate taxes? The bidder could owe thousands of dollars in property taxes outstanding even after the sale. Remember that any secured creditor not properly notified of the sale would have a valid claim against the property after foreclosure. In short, the potential bidder must be able to dig up information on properties of interest, or at least have a reliable person who can do that for him. Potential buyers often have a title search done from a title company done. Such a move can convert a few hundred dollars expense into thousands of dollars in savings if liens or mortgages that would survive the foreclosure are found.

It is also a good idea to have an engineer examine the property. It is obvious that you want to reduce the risk of some unknown structural problem which would have made a big difference in your "enthusiasm" for a particular property.

## Have That Suitcase of Cash Ready Just in Case!

The potential bidder must understand that the foreclosure game is not for patient, moneyless dreamers. How will you come up with the cash? Did you know that the successful bidder must come up with a 10 percent deposit – cash or certified check – on the day of the sale? Finally, did you know that the remaining 90 percent must be paid within 30 days of the sale? Auction referees will ask to see your deposit checks before the bidding even starts, which is why many bidders come armed with various denominations of such checks. The successful bidder, therefore, must not only come with cash, but also with planning as noted above.

Many bidders have the deposit but think that they can locate a lender willing to provide the remaining 90 percent within 30 days. Such optimism requires that your cash be "disposable," since you may never see the deposit again. Even under the best cases, the process may take long enough for you and your cash to become ex-friends.

## **Bring Your Lucky Shirt**

It is obvious by now that successful bidding at a foreclosure auction requires skills and planning. What should likewise be obvious, however, is that luck must also come to the sale with you. Any number of problems can throw even the best plans into a tailspin. A mistake here or there may have a small consequence or cause huge damage, depending on the circumstances. Those lucky enough to have things go their way and not get too burned by their errors will succeed, but those with no luck on their side will not survive the process.

## **Do You Have the Stomach for This Kind of Thing?**

Not only do you have to be able to deal with this kind of risk and stress, but you also have to be able to deal with the possibility that a tenant or former owner may need to be evicted! Many people in foreclosure situations are not exactly in the kindest moods, and they may blame you for their troubles. This blame could result in strange calls or other things that go "bump in the night." While many are not bothered by this prospect, others surely need to consider if they can deal with this kind of thing.

## **Conclusion**

Buying a house by foreclosure can be a very innovative and profitable way to obtain property, but those who play this game need to come to the table with an awareness of the risks involved. It is to nobody's benefit to have players who do not know what they are getting into, and knowing the rules of the game is part of the game itself.