Foreclosure homes for $1,000?

by Rick Sharga

Foreclosure Buyers Find Deep Discounts

Could those late-night infomercials be true? Could you actually buy your next home for pennies on the dollar?

The answer to the first question won't be tackled here, but the answer to the second question is "possibly." If you're looking for a foreclosure, if you understand the rules of this hidden market -- and if you're willing to work hard to find the best deals.

Thousands of foreclosure properties across the country sold for deeply discounted prices in 2006, some of them for as much as 90 percent below market value, according to a survey of foreclosure sales by RealtyTrac. And some bank-owned property auctions scheduled for early 2007 have opening bids as low as $1,000.

2006 U.S. Foreclosure Sales Survey*

Sales surveyed	23,834
Avg. sales price	$201,070
Avg. savings	28%
No. of sales with savings over 50%	3,577
No. of sales with prices less than $100K	8,241

Default Properties for $11K

On average, foreclosure properties sold for 28 percent below market value, but much bigger bargains were available. For example, a San Diego home with an estimated market value of $486,000 sold for just $11,000 in November. A Notice of Default was filed against the property in September, but the owner sold the property to a third party before the public foreclosure auction.

A Fort Lauderdale, Fla., home in default also sold for $11,000 in November. The property's estimated market value was $80,000, giving the buyer an 86 percent discount.

An important caveat: the sales price may only represent the tip of the iceberg when it comes to the overall terms of the transaction agreement, according to RealtyTrac CEO Jim Saccacio.

"Because foreclosures often come with a complex set of circumstances, buying a foreclosure can involve an unorthodox purchase agreement where the sales price is minimal but the seller agrees to take on other costs such as expensive repairs or loans encumbering the property," he said. "That said, foreclosures still provide an amazing opportunity to buy real estate below market value, and foreclosure investors occasionally hit the jackpot with the type of jaw-dropping bargains that make real estate investing so enticing to many people."

Auction bargains missed

The sales data also shows some apparent foreclosure bargains were missed by local buyers or real estate investors. One property in Fort Wayne, Ind., sold back to the foreclosing lender at a public auction for $10,316. That means no other bidders at the auction submitted a bid above that sales price. With an estimated value of $84,000, the property could have represented a profitable addition to someone's real estate investment portfolio.

Indiana buyers and investors weren't the only ones to miss out on potentially great bargains. A Philadelphia property with an estimated market value of $59,000 sold to the Department of Veterans Affairs, a major home loan provider, for $11,100 at an August sheriff's sale.

An important note in relation to buying at a foreclosure auction: the winning bid at the auction may not always represent all that's needed to purchase the property free and clear. If the loan in foreclosure is not in first position -- meaning that other active loans exist that were taken out after the loan in foreclosure -- the

winning bidder may also need to pay off those other loans to own the property with a clear title. However, if the loan in foreclosure is in the first position, other active loans are typically cleared from the title.

"Buying at an auction requires careful research and a higher tolerance for risk. But savvy investors who do their homework often find great discounts at auctions," Saccacio said, noting that RealtyTrac provides lien and loan history for foreclosure properties listed on its website.

A simpler foreclosure purchase

For those wanting a more straightforward method for purchasing a foreclosure, there's still a chance to buy a property once it's repossessed by the foreclosing lender. In fact, some of the best foreclosure bargains in 2006 were for properties purchased directly from the foreclosing lender, bank or government agency -- such as the Department of Housing and Urban Development. A HUD-repossessed property in North Tonawanda, N.Y., with an estimated market value of $63,000, sold for $10,200 in July, giving the buyer an 84 percent discount.

"In the past few years, when the housing market was soaring on rapid price appreciation and high demand, it was hard to find many lenders willing to give much of a discount on foreclosed property because they knew they could pretty much get full market price," Saccacio said. "But with foreclosures on the rise, lenders are saddled with larger inventories of repossessed properties and are often more willing to negotiate on the price."

REO auctions: an emerging trend

Because of the bigger inventories, some lenders are turning to both offline and online auctions to sell bank-owned properties, also known as REOs. Offline auctions require an interested party to attend a physical auction to participate in bidding. Online auctions allow interested parties to submit their bids online and are typically open for bidding for at least a week. In both offline and online auctions, winning bidders usually have about 30 days to close the transaction by paying the seller the winning bid amount plus any transaction

fees.

The Bottom Line: Bargains are out there, if you know where to look

Potential buyers can find much of the information they need from public records at county records offices, or in legal filings. Online services such as RealtyTrac make the information on these types of properties available online.

"These property records have always been available in public record, but were usually the purview of industry insiders," noted Saccacio. "The Internet has allowed us to democratize this information, and make it available to everyone looking to buy foreclosure properties. Our hope is that by exposing more of these properties, earlier in the process, to more interested buyers, we'll help distressed homeowners avoid foreclosure by providing them with another viable option, while giving buyers and investors a chance to secure a property at a significant savings."

While the number of properties available at 85 percent or more below market value are few and far between, properties in all stages of foreclosures represent tremendous bargains for home buyers and investors who do their homework, and work diligently to find and pursue the best deals.

Foreclosure homes for $1,000? by Rick Sharga