

## **Buying Property at the Sheriff's Sale: Without Losing Your Shirt!**

Buying foreclosures at the Sheriff's Sale (or Auction as its commonly known) is one of the best ways to make big profits in the distressed property business. It is also the easiest way to lose your shirt.

The sale of the property comes at the end of the foreclosure process when the defaulting homeowner can't repair his financial problems with the lender.

About half one half of our states uses the "judicial" process when foreclosing mortgages. This process starts with the mortgage document, a security device used to pledge the property as security against the loan.

When a default occurs, the lender will attempt to end the homeowner's rights of possession to the property. The lender must file suit and prove in court that it has the right to sell the property to recover its loss by virtue of the default and as stipulated in the signed mortgage agreement. If awarded a final judgment from the court, the lender will proceed with the foreclosure and the property will be scheduled for sale.

Properties are sold at public auction under the direction of the court in the county where the property is located. The successful bidder becomes the new owner of the property. About 80% of the time the successful bidder is the lender, the original mortgage holder.

Attorneys will be there to bid on the property for the lender. There will also be investors, onlookers and curiosity seekers observing the proceedings. Occasionally, a lien holder will appear trying to salvage what he can from his claim. Rare but certainly possible, the homeowner may show up to bid on his own property.

### **Advantages**

The biggest advantage to buying properties at the Sheriff's sale is the high profit potential. If there is a large difference between the market value of a property and its final judgment amount at auction, you can really win big. Typically, the largest cash rewards come from the proper application of this investing method.

Sales are usually advertised 4 - 6 weeks in advance. In some states, this information may be available 6 - 8 months or more before the sale. This gives you ample time to research the property, the condition of the loan and the condition of the home owner. Why the home owner? If you can work out a satisfactory arrangement with him, you can save yourself the trouble at the auction. If you meet with the owner and can't work out a deal, you should at least take careful note of the property's condition. This gives you a competitive advantage over other auction bidders.

You can go to the courthouse and observe the process as often as you like before going to bid on your property. It's certainly a good idea to familiarize yourself with the auction process.

There usually isn't much competition for properties sold at auction. Sometimes no one shows up to bid on a property, perhaps due to transportation problems or inclement weather. This creates fantastic opportunities for the diligent investor.

### **Disadvantages**

Buying at the courthouse can be very dangerous for those who do not do their research properly. Horror stories abound.

The large cash outlay required to buy the property is the biggest deterrent for most buyers. Certified checks and sometimes cash will be required to bid on properties.

You may have to pay off the sale amount within 30 - 90 days. In some states it's a matter of days. Here in Palm Beach County, Florida, the successful bidder must pay for the property in full by 3:00 PM on the day of the purchase. That's just 6 hours from the time the bidding starts to the time you must pay for the property in full or risk losing your cash deposit.

You may not be able to inspect a property before bidding on it. In that case, there is little chance you will be able to assess the property damage and replacement costs. This hinders your ability to determine the true market value, your maximum bid amount and your profit.

If you are the successful bidder, you may have to evict tenants currently residing in your new property. This could take several months. This also interferes with your plans to repair and quickly sell the property for a profit. This delay increases your carrying costs and erodes your profits.

There may be land use problems with a property such as zoning or environmental issues like petroleum contamination or toxic waste. A clue to avoiding a problem property is when the lender's representative fails to appear or bid on the property. If the lender doesn't want it, you don't want it either.

Failure to research a property correctly leads many to over-bid. Too often properties are purchased for much more than

their value. This accompanied by "auction fever," the tendency to get caught up in the heat of the moment and over-bid, results in large over-payments and even larger losses.

The most important concern perhaps is the possibility of other liens or judgments. As the successful bidder, you replace the homeowner's position in the property. Any problems clouding the title are your problems now. This includes other mortgages, mechanics liens and taxes.

At the sale, the first lien holder can nullify all other liens if he's the successful bidder. Junior lien holders must buy out senior lien positions and be high bidder to gain possession of the property with clear title.

The first mortgage holder is not the only one foreclosing properties. If a third lien holder forecloses, the process will not wipe out the first and second lien holders. Buying this property means you buy these liens as well. Typically, first mortgages are the largest liens on the property.

### **Researching Properties**

The only way to be sure that this is a first mortgage holder foreclosing is through a full title search. The cost of the search is nothing compared to the potential loss from not investigating the condition of the title.

Locate properties going to sales or auctions by looking for "Foreclosure Sales" or "Sheriff's Sales" or "Auctions" in your newspaper, real estate magazine or by contacting the county clerk's office.

Evaluate the properties and determine their profit potentials. Do this by determining the market value using comps, appraisals and brokers' opinion of price. Subtract the default amount from the market value. If there is a significant difference, you may have a winner.

Inspect the property if you can and assess any damages or repairs you must make before re-selling the property. Deduct those expenses from the profit you calculated earlier.

Calculate your profit potential. Start with the price you can sell the property for in good condition. Subtract any repair expenses. From this number, subtract the costs you will incur while holding the property (loan payments, taxes, insurance). Subtract from this the closing costs you will incur when you sell the property, including a broker's commission if you intend to sell your property through a broker.

Locate any other liens or judgments, and subtract those amounts from your previous figure. Paying off the liens at a discount is one way to increase your profits, assuming you are the successful bidder.

Your sub-total so far, is your expected sale price of the property, less repair expenses, holding costs, liens and closing costs. This is the "net to you" after you sell.

Deduct the default or final judgment amount from your last sub-total. This is your gross profit potential, hypothetically the most you can make assuming all goes well.

Determine your maximum bid amount. The lowest you can bid is the final judgment amount. The highest you bid is the "net to you" amount. Any amount over that break-even point results in a loss. Determine the minimum profit you want to make. Subtract your desired profit amount from the "net to you" figure. That's your maximum bid amount.

### **Going to Auction**

Prepare for the auction by phoning ahead. Make certain that the sale hasn't been postponed. Determine the requirements for purchasing properties. How much deposit is needed? When is the balance due? What type of payment is required? Attend the auction. Arrive early. Properties are sold very quickly, sometimes within minutes. Pay attention. Register yourself as a bidder if necessary.

Listen carefully for your target property to be announced. Observe the bidders. Know your competition. Do not announce your intentions to anyone there. Never bid more than your pre-determined amount.

The successful bidder will receive a deed, the type of which depends on who is conducting the sale and state law. Record your new deed and obtain title insurance as soon as possible.

Remember to research properties and their liens thoroughly. Calculate your expenses and profit margins. If you can not inspect a property, leave yourself a little extra room and some extra cash.

Experts agree: if you are unsure about the property, don't do the deal!