

This article by CNN Money is a nice summary on how to buy a foreclosure

How to buy a foreclosure

Many buyers, especially first-timers, hope to purchase a foreclosed property at a bargain price. While purchasing a foreclosed home can be a wise choice for some buyers, it is important that buyers understand the differences in buying at different stages of foreclosure and be prepared to take on the challenges typically associated with each.

MAKING SENSE OF THE STORY FOR CONSUMERS

- There are three basic stages of foreclosure in California: Pre-foreclosure, trustee's sale, and repossession, often called an REO or real estate owned by the bank.
- Pre-foreclosure homes are in the foreclosure process, but have not yet been auctioned. Owners of pre-foreclosed homes often try to sell the properties because they are "underwater," meaning they owe more on the mortgage than the home currently is worth. Many homeowners attempt to sell via short sale, where the lender must agree to accept less than the amount owed on the mortgage. Buying at this stage of foreclosure often is a complicated and slow process. However, buyers of pre-foreclosed properties often are given the opportunity to inspect the home prior to purchasing, whereas this is not always the case when buying at other stages of foreclosures.
- The second basic stage of foreclosure is the public auction at a trustee's or foreclosure sale. Homes in this stage often are well priced, but also come with challenges to buy. These homes may not be available for inspection and buyers may later discover the property needs numerous repairs. As a result, many of the homes at auction are purchased by investors and contractors who have experience working with homes needing numerous repairs, or taken back as REO by the foreclosing lenders.
- If a home does not sell to a third party at the trustee's auction, the bank takes the property--the final stage of the foreclosure process. Although homes in this stage typically do not offer buyers the best prices, buyers generally can perform a thorough inspection of the property prior to closing.

Pre-foreclosure: These homes are in the foreclosure process, but they have yet to be sent to auction. Owners are typically trying to unload them because they are "underwater," owing more on the homes than they are worth.

As a result, potential buyers must negotiate a deal with the lender as well as the owner. That makes buying at this stage of foreclosure complicated and slow. But, you have the advantage of being able to inspect the home before purchase -- which isn't the case in other types of foreclosure sales. Sharga warned, however, that prices are usually higher than at other stages of foreclosure.

Sheriff's auction: These sales yield the lowest prices, but they are fraught with difficulties. Often the house is unavailable for inspection, leaving buyers with a long list of expensive repairs -- and much larger bill than they intended. This stage is usually best left to the professionals, the contractors and investors who regularly bid on these places and know what they're doing.

Repossession: This occurs after the home has gone through a sheriff's auction but does not sell and the bank gains possession of the property. Homebuyers may not get the best bargains during this stage, but they can nearly always perform a thorough inspection before closing, minimizing costly surprises. Plus, the property comes with a clear title.

In addition, the banks selling these places may extend preferential financing terms to the buyers and may have made some repairs before putting the property on the market.

Even in this safer stage, though, homes are still usually sold in "as is" condition. "That means the bank won't pay for cosmetic issues," said Adam Wiener, a spokesman for the Redfin, the online real estate marketer. "Although, they will often pay for some or all of repairs that are health and safety issues. That makes the home inspection even more critical."

He also pointed out that, since you're buying from a corporation, not an individual, the buying process can be faster, so be prepared to move quickly. Many times a listing goes on sale on a Friday and is sold over the weekend.

"The buyers and their agents need to be on top of everything from the inspection to the financing," said Wiener. "Some banks will even charge a per diem fee for late closings."

Once you've decided which type of home to buy, there are several common mistakes foreclosure buyers should take care to avoid. These include:

Getting caught up in a bidding frenzy: The banks often under-price repossessions, hoping to generate excitement, attract multiple bids and sell them quickly. The problem is, as in any auction-type sale, bidders get excited and pay too much.

Underestimating repair costs: Take full advantage of the home inspection and don't delude yourself about much the repairs will cost.

Not knowing what comparable properties cost: This is important in any market but especially in this endeavor. In high foreclosure areas, prices can be eroding very quickly. You want to have the latest homes sale prices on repossessed properties and try to keep your bid comparable or lower.

Buying in a neighborhood flooded with foreclosures: This is most important for people buying for the short-term. Any neighborhood saturated with REOs and foreclosures may be headed for further price falls. If you're planning to relocate within a few years or buying a bigger house, that could mean selling at a loss. A better bet, if you can find it, is to buy the only foreclosed home in an otherwise stable community. That's more likely to hold its value.