

## Should I Buy a Foreclosed Property?

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Spring, 2015

Folks who are looking to purchase property sometimes see bank foreclosure sales as a way to get a bargain on a home, which might even make some money for the buyer if they “fix it and flip it”. Television shows about property flipping tend to make that process seem like the sure way to a comfortable fortune. Just remember that folks who are professional property flippers have done their homework and know a lot more than the average consumer about how to research property ownership, market conditions, and the value of the property as measured against the costs to rehab a distressed building and site. Rehab on a foreclosure property may not necessarily be a DIY project.

As a lender, when we own a foreclosed property, it’s generally been neglected by the owner and most likely been vacant for several months during the court process – maybe overlapping seasons. Unlike a traditional home for sale, the owner/lender cannot complete and furnish a property condition disclosure of what systems are functional. Nor can we offer any kind of warranty on a property because we don’t know when the plumbing or electric or heat and air systems were installed or if the property has ever burned or flooded. In some cases, we haven’t been able to take actual possession of the property until it is legally transferred into our name, so it may not have been secured from vandalism, winterized, or even cleaned out. These homes are usually sold in “as-is” condition, including the furniture or mess left by the previous owners.

Generally, if a home has been properly foreclosed, the title to the property is free and clear of any liens or encumbrances, because the court system has provided notice to anyone who might have an interest in the property to become part of the lawsuit or their interest is removed from the property once the foreclosure is finalized. However, the foreclosure action doesn’t ensure that the home is habitable or that the community where it’s located doesn’t have a desire to condemn a building and take it down through an abatement action due to hazardous conditions. Once you purchase a foreclosed property, you have the responsibility to ensure the site is not a hazard or in violation of any city or county codes. Surrounding property owners may exert pressure upon the authorities to enforce any codes in order to protect their property values, so it’s important to make contact with the neighbors to inquire about their support of your intended use for the property.

Rehabilitating a neglected home can be an expensive venture. If the needed repairs are strictly cosmetic and require more sweat equity than actual cash, a foreclosure purchase might be a good investment. But structural repairs or those which involve plumbing, electrical, mechanical or pest infestations can be extremely costly and may result in a larger investment than what the property would be worth.

Selling the property once rehabilitated can also prove difficult if financing is required since appraisers are bound by their licensure regulations to disclose the prior purchase through a foreclosure sale and usually within a short amount of time between acquisition and remarketing. If the property is bought as a rental property to be held for true investment purposes, it can also impact the values of other neighboring properties, which factors into the ultimate value of the property you purchase.

So is it a good idea to buy a foreclosed home? Maybe, **IF** you know how to research and rehab in order to protect your investment. In most cases, the lender has already taken a loss on the property so they are motivated to move it out of their holdings at what can be a bargain. Just be sure to do your

homework before you buy, and make sure you can handle the expense so you don't become the next victim of a foreclosure.