Mistakes of Foreclosed Home Buying

Nothing illustrates the devastation of America's housing bust more vividly than the abandoned properties now blighting the nation's communities. In the third quarter of 2008, foreclosure filings were reported on more than 750,000 properties in the United States, a 71 percent increase from the same period last year, according to RealtyTrac. But for real estate investors, one person's tragedy can be another's good fortune. With so many foreclosures on the market, this is a once-in-a-generation opportunity for many people.

Still, the purchase of foreclosed property—an often complex and involved process—presents would-be buyers with plenty of opportunities to make costly mistakes. In an effort to help consumers avoid such pitfalls, U.S. News spoke with a handful of experts to create a list of six common blunders that individuals make when attempting to buy foreclosed properties.

1. Flying solo. While enterprising do-it-yourselfers can certainly get away with going through the traditional home buying process without an agent, foreclosed real estate is another matter. Such complex transactions require the expertise of not just any real estate agent but one with a background in buying and selling foreclosed homes. In today's uncertain times it's important to be working with someone who has been through market cycles before. So unless you are truly a real estate expert, do some research and find an agent with foreclosure experience in your market.

2. Being unfamiliar with the law. It's important to remember that real estate agents aren't lawyers, and foreclosure laws can change significantly from state to state. A lot of people don't realize that foreclosures are heavily regulated and every state has its own set of laws. If you don't have the language proper in your contract, or if you have even the font size wrong, it's criminal and civil damages- don't count on every Realtor knowing this. Do not rely solely on a real estate agent for legal advice. Instead, consumers should review the foreclosure laws in their state and then get qualified legal advice from a local real estate attorney.

3. Thinking short term. Since many foreclosed homes may decline further in value in the coming months, it's important that buyers approach the transaction from a long-term perspective. If you are not looking at a piece of foreclosed property from a 10-year time horizon-as an investor or as an owner occupant-then you will likely suffer. So if you are just trying to cash in on a quick flip, don't buy a foreclosure. Only investors with the resources and patience for a long-term real estate investment and homeowners who can afford a fully amortized fixed-rate mortgage should consider buying foreclosed property.

4. Seeing only the sticker. While the price you negotiate for a foreclosed home may be significantly less than its value just a few years back, many such homes may require substantial repairs. Anyone buying a foreclosed property should make sure to set aside an additional 10 percent of its price tag for repairs. It is amazing how quickly houses can deteriorate. Prospective buyers should keep these additional repair costs in mind when they are negotiating the home's price.

5. Searching too broadly. With so much inventory coming onto the market these days, it's easy for buyers to become overwhelmed. Anyone in the market for a foreclosure should target a specific neighborhood and contact an agent with experience there. Make sure to specify the type of property you are looking for in order to avoid being inundated with listings. Tell the agent, "I want all these kinds of houses in this neighborhood that are bank listings and I want to know about them all as soon as they come on the market. The agent will then be able to shoot you all the listings by email that meet your requirements as they become available. An automated search can be set up for your search criteria as well. If the buyer is patient enough and they get plugged in to the flow of new bank listings coming in, they can pick up some awfully good deals.

6. Taking no prisoners. While buyers can certainly get good deals on foreclosed homes, it's a mistake to assume that banks will accept any and all offers. Unless, of course, the listing specifically says so. Banks aren't set up to sell houses, so they typically outsource their foreclosed properties to real estate agents. In such cases, agents can receive listings in bulk, perhaps 50 at a time. While these agents want to get the properties sold off quickly, they also want to get a good price for the seller so that the bank will give them additional business in the future. Saving face is important for them. A lot of people just assume that because this property is bank-owned they will just take half off. That's just not true. Insultingly low offers have the potential to tank the negotiations over foreclosed homes. So make sure you present your wholesale offer case well both in writing and verbally with the listing agent.