



What You Need to Know About Buying a Foreclosure

As the number of foreclosures in your area grows, you may feel the urge to jump into real estate as part of your investment strategy. Real estate investments done right can give you higher returns than mutual funds, but they require a lot more time and trouble. Be sure you're prepared financially and mentally before plunging down your cash.

Financially, you should:

- Be debt-free
- Have a full emergency fund of 3–6 months of expenses
- Be investing 15% into retirement accounts, such as 401(k)s and/or IRAs
- Have cash to fund your real estate deals

Mentally, you need to:

- Educate yourself about the foreclosure process
- Understand your real estate market
- Be patient about finding good deals

What's a "Good Deal"?

In real estate, money is made at the buy. You can consider it a good deal if you get it for 80% of market value minus the cost of repairs.

For example, let's say you find a foreclosure listed at \$125,000. You and your real estate agent agree this is a fair market value for the house in pristine condition. Your contractor estimates repairs at \$15,000. Now do the math—80% of \$125,000 is \$100,000, minus repairs of \$15,000 is \$85,000. There's your offer. You've got some room to negotiate, but don't go into debt to get the deal done.

Another option is to buy a home from the owners before the foreclosure. The owners have the right to sell the house at any point before the actual auction. Even better, they are highly motivated, meaning you can get a great deal by helping them prevent a foreclosure.

Contact the homeowners and make an offer. The transaction will have to happen quickly, though—good thing you've got cash! And remember to buy title insurance to protect yourself from liens or other hiccups down the road.

Foreclosure Fine Print

Some states have what's called "right of redemption," which means a homeowner who has been foreclosed on has a period of time to redeem or buy back the property. That means

been foreclosed on has a period of time to redeem or buy back the property. That means that if you bought our example property for \$85,000, the previous owner has the right to buy it back from you for \$85,000 plus some interest. The period of time varies and can be up to one year. You don't want to fix up someone's house for free, so wait to make any improvements until after the period expires.

Real estate investments can be profitable, but success requires a lot of effort on your part. Plan carefully and be patient!

If you're ready to find some foreclosure deals, don't go at it alone. Connect with one of Dave's real estate Endorsed Local Providers (ELPs) in your area who will guide you through the process and work hard on your behalf.