

Foreclosure Home Buying Formulas

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You've found the foreclosure home you're looking for and are ready to purchase. Here are formulas to help you as prepare to move forward with the purchase of your foreclosure home:

Foreclosure Home Bidding Rules

If you are looking at a bank foreclosure, then the rules of bidding are fairly simple. Contact your real estate agent or the listing agent and express your interest in the foreclosure home. Then:

1. Have your mortgage loan officer draw up a pre approval letter for no more than the price you plan to offer on the subject foreclosure home.
2. Have your real estate agent send the listing agent a letter of intent for the foreclosure home. The letter of intent differs from a full-blown contract in that it covers only the generalities of the transfer of the foreclosure home (i.e., price, financing, proposed closing date, etc.).
3. Once the listing agent receives the letter of intent for the foreclosure home from your real estate agent, the listing agent will send the letter of intent to the bank holding the foreclosure property. Be prepared to wait at least a week from this point, as banks work slowly and cautiously.

How Much To Bid For the Foreclosure Home

Obviously, one of the main considerations when thinking about placing a bid on a foreclosure home is how much to bid and, moreover, how to bid just enough to win the bid for the foreclosure property without overpaying. This is where the trouble potentially begins. Unlike HUD or the Veterans Administration (VA), which are both government agencies, banks determine the price they are willing to accept for a foreclosure home on a per property basis. Ask your real estate agent to pull the tax records in order to determine the amount mortgaged prior to the foreclosure. Do not try to bid less than the bank owes on a foreclosure home until it has been on the market for three to six months.

Do not be afraid of bidding below the mortgaged amount for the foreclosure home. A discount of 10-15% is the most you can expect, and the bank may still not be able to be this flexible regarding sales price. If you do not offer full price for the foreclosure home, be prepared to lose the foreclosure property to another homebuyer.

HUD Foreclosure Homes

Housing and Urban Development (HUD) is the largest single resource for real estate foreclosures in the country due to the fact that everyone qualifies for an FHA loan. (In contrast, the VA requires that you be a true veteran in order to initiate a veteran loan, thereby limiting the number of qualified loan applicants.) FHA loans also provide a lower down payment than conventional loan programs, as most first-time homebuyers opt for reduced down payments. Whereas the first-time homebuyer would be responsible for five percent down with a conventional loan program, an FHA loan requires only three percent down.

HUD/FHA Government Foreclosure Bidding Formula

Per the HUD/FHA government foreclosure bidding formula, you can bid five percent below the asking price at a maximum. If you bid less than five percent, the bid will not be accepted and your bid for the foreclosure home will be thrown out. If you require closing cost assistance, you must ask for it during the bidding process and this figure must be allowed in your final tabulation. HUD allows for a maximum of five percent for closing cost help, and in some states that amount is far less. Ask your real estate agent or mortgage lender for guidance.

VA Foreclosure Bidding Formula

A similar formula exists for VA foreclosure homes. The Veterans Association has the ability to be a little more flexible regarding sales price as the amount owed on the foreclosure home can play a larger role with regard to repairs. Whereas HUD allows no more than a five percent price reduction, the VA will sometimes take as much as ten percent off the price of the foreclosure home. The VA will also allow for six percent closing cost help. While one percent may not sound like a lot, it becomes fairly impressive when one percent of the price of the foreclosure home equals several thousand dollars.

Get educated, get a good real estate agent and get into a low-priced foreclosure home.