

# What Your Agent Won't Tell You About HUD Foreclosures...

How to Save Thousands on HUD Auction Homes



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## Table of Contents

What's All the Fuss About HUD Foreclosures? .....	3
The Basics: 6 Steps to Buying a HUD Foreclosure .....	4
Qualifying to Purchase HUD Foreclosures .....	8
Finding a HUD Approved Real Estate Agent .....	10
HUD Auction Secrets: Buy Foreclosures for Thousands Off Listing .....	13
Learn More About HUD Auctions .....	16

# What's All the Fuss about HUD Foreclosure Auctions?

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Every year the U.S. Department of Housing and Urban Development forecloses on thousands of homes. These overstock properties are then sold via auction, usually for ***significantly less than their market value***.

Owner-occupants have the unique first opportunity to purchase HUD foreclosures. After a designated period, absentee-owners and investors are permitted to submit an offer.

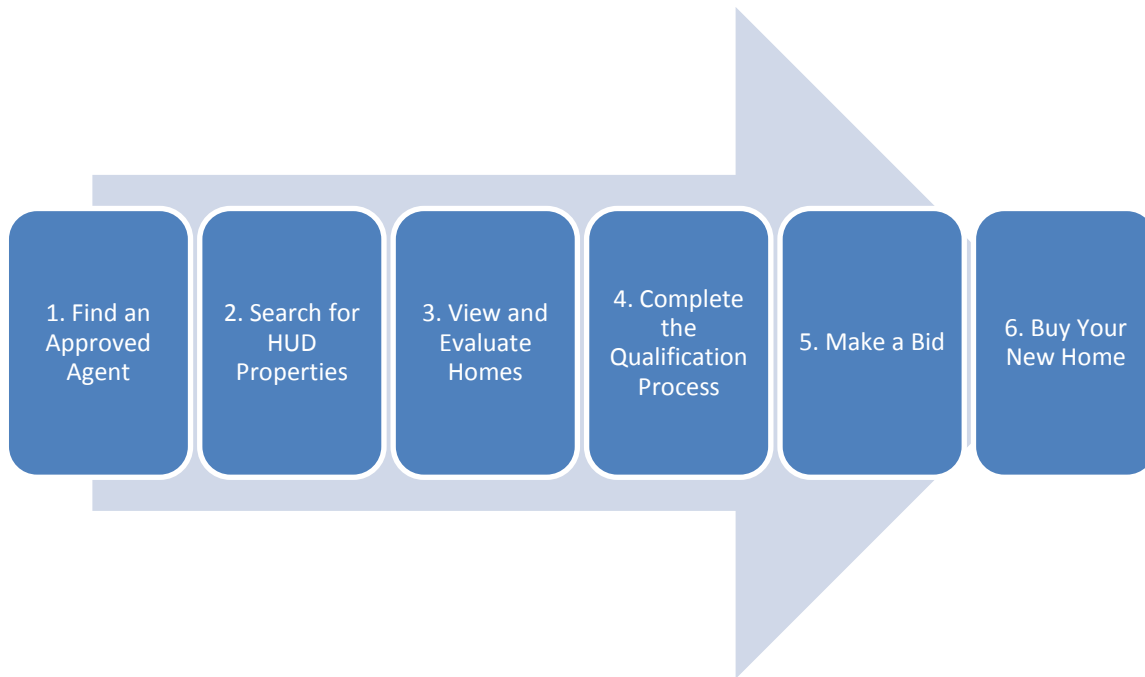
Few home buyers understand the process of bidding on a HUD foreclosure – most potential homeowners are more comfortable with a straight-forward sale. That means ***your competition is limited***. Those who are willing to figure out the system are often able to ***save tens of thousands on homes*** and investment properties.

In this ebook, I walk you through the process of purchasing a HUD foreclosure. I also discuss three little-known “secrets” to scoring a foreclosed home for even less than the starting bid.

If you find the information in this ebook helpful, please take a look at my blog [www.HudAuctionWatch.com](http://www.HudAuctionWatch.com) for more money-saving tips.

# The Basics: 6 Steps to Buying a HUD Foreclosure

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Every year, hundreds of HUD foreclosure properties are purchased at prices far below market value. If you're interested in buying property on the cheap and aren't intimidated by homes that need a little elbow-grease, buying HUD foreclosure properties may be an enticing option.

When a home-owner with an FHA-insured loan defaults on his mortgage, the property is acquired by HUD (the U.S. Department of Housing and Urban Development). HUD then sells the house to the general public in order to recoup some of the loss incurred by the foreclosure.

Buying a HUD foreclosure home is surprisingly different than buying a home in the traditional method. HUD uses a unique auction system and has specific requirements for buyers. If you want to buy a HUD foreclosure home, here's what you need to do:

## **Step 1 – Find a HUD Approved Agent**

There are two kinds of real estate agents that participate in HUD foreclosure sales: the listing agent and the buyer's agent. The government has hired real estate agents in each state to list and show HUD foreclosure homes.

When you drive by a HUD foreclosure home, you may notice that the yard sign displays an agent's phone number – this is the listing agent. Novice HUD buyers are sometimes deceived by listing agents who claim that they represent both the buyer (you) and the seller (HUD). You can choose to be represented by the listing agent, but you may also decide to bring in your own agent. Since the listing agent has primary fiduciary duties to the seller (i.e. they are legally obligated to be "on the sellers side"), it's generally a wise choice to select your own agent.

When choosing an agent, keep in mind that not all realtors are approved to show HUD foreclosure homes. In order to qualify, agents must be certified through their brokerage. Approved realtors are generally given a key or a lockbox code so that they can show any HUD foreclosure home without advance notice. See: [What You Need to Know About HUD Approved Realtors](#).

## **Step 2 – Search for HUD Foreclosure Homes**

Unfortunately, there is not a national database of HUD foreclosure homes. In order to get up-to-date listings, you will need to search through a database run by the firm chosen to list houses in your state. The quality of these websites varies – however, they generally suffice. If your state's database is not working, you may want to call the listing office to ask about available properties.

To find a link to your state's HUD foreclosure database, see: [Where to Find HUD Homes for Sale](#).

## **Step 3 – View and Evaluate HUD Foreclosure Homes**

Once you have access to your state's database of HUD foreclosure homes, you'll want to evaluate the properties you find. Since HUD foreclosure homes are sold via online auction, you have a limited amount of time to make your decision. Each property will list a starting price and a date that the first bids will be considered.

Each HUD foreclosure listing is also accompanied by a property report in PDF form. You'll want to read these carefully: the property report contains important information about the condition of the home and the amount of money you'll need to spend to get it up to code (if any). Prior to putting a property up for auction, HUD does a thorough inspection. The property report will include information on the condition of the roof, the plumbing, the

appliances, the carpeting, the heating, and more. The report will also list any damage done to the home.

If you are interested in a HUD foreclosure property you find online, ask your agent to take you for a viewing. HUD foreclosure homes have no occupants, so you will be free to explore the premises. Keep in mind that few HUD foreclosures are turn-key. Some of the properties just need a couple coats of paint. But, many are in need of extensive repair due to owners that were neglectful or spiteful because of the eviction. All HUD homes are sold "as-is."

Evaluate HUD foreclosure homes carefully – once you make a bid, you cannot retract your offer. See: [How to Evaluate HUD Properties](#).

#### **Step 4 – Qualify to Buy HUD Foreclosures and Gather Required Documents**

Buyers are required to meet specific qualifications before submitting a HUD foreclosure bid. Along with your bid, you must submit the following:

- A pre-qualification or pre-approval letter from a lender. You can get a pre-qualification letter by calling a lender, giving some basic over-the-phone information, and receiving a fax or email. A pre-approval letter is more reliable and requires that the lender actually check your credit score and request documentation to prove your income, etc.
- An earnest money deposit. You must give your realtor a certified check or money order for the amount requested by HUD (generally \$500-\$1000 depending upon the property's purchase price). If you cannot get financing for the home or back out for any other reason, HUD will keep this money.

Make sure you get these two items ahead of time; you cannot bid for a HUD foreclosure without them. See: [How to Qualify for Buying HUD Repos](#).

*“Buying a HUD foreclosure property can be a hassle. But, if you play your cards right, you could sign a purchase agreement for thousands less than the home’s market value.”*

## **Step 5 – Make a Bid**

Before the deadline listed on the auction page, submit a HUD foreclosure bid with your agent. If you are an owner-occupant (you will personally live in the home for twelve months or more), you can bid in the initial round. On the date specified, your bid will be compared to any other bids that were submitted. The home will go to the highest bidder (assuming that the bid meets HUD's minimum price requirements).

If no one bids as an owner-occupant in the first round, the auction will be open to everyone including investors. After about ten days, the bids will be reviewed again. If no bids are accepted, the auction will be open to daily bidding. At the end of each business day, bids will be reviewed for acceptance. At this point HUD may choose to lower the starting price – the highest bidder meeting the minimum price requirement takes the house.

## **Step 6 – Buy Your HUD Foreclosure Home**

Once your bid is accepted, you have 45 days to complete the sale. During this period, you will need to secure financing through a lender. Get started on this right away – unexpected glitches often arise, and HUD is not required to grant a time extension. It is also recommended that you have a private inspection done on the HUD foreclosure home, to make sure there are not any unexpected problems. To close the sale, you will sign papers at an escrow company's local office.

These six steps cover the basics of purchasing HUD homes. Buying a HUD foreclosure property can be a hassle. But, if you play your cards right, you could sign a purchase agreement for thousands less than the home's market value.

# Qualifying to Purchase HUD Foreclosure Homes

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In order to buy HUD repos, you need to meet certain qualifications. Preparing in advance can help you be ready when your “dream house” goes up for auction. Here’s what the government requires you to provide before bidding on HUD repos:

**1. The ability to pay.** When bidding on HUD repos, you must submit either a pre-qualification letter or a pre-approval letter from your lender.

Getting a *pre-qualification letter* is a simple process. Just call your lender and provide some basic information (your income, your estimated credit score, etc.) The lender will then email or fax you a basic letter. This pre-qualification letter shows that you should be able to qualify for a mortgage, assuming that you provided factual information.

Acquiring a *pre-approval letter* is more complicated. The lender will verify the information you provide and check your credit score. You must give the lender documentation proving your employment, the source of your down payment, and other financial matters. You don't have to have a pre-approval letter when bidding on HUD repos, but it can help you feel assured that you will be able to qualify for a loan when the time comes.

**2. An earnest money deposit.** Before bidding on HUD repos, you must give your agent the required earnest money in the form of a certified check or money order. Generally, the earnest money for a HUD foreclosure is between \$500 and \$1000.

If your bid is accepted and you do not meet your obligation to purchase the property (i.e. your financing falls through), HUD will not return your earnest money.

**3. An application packet.** Your real estate agent will help you fill out the HUD repos application packet with information such as your bid amount and some basic personal information. You will be obligated to sign disclosures including standard notices about radon gas, mold, and lead-based paint.

**4. Proof of intended owner occupancy.** If you want to bid in the first round, you must be an owner-occupant. That means you must willing and able to live in the HUD repo you purchase for at least twelve months. In your application packet, you will find an owner-occupancy agreement; falsely agreeing to these terms could lead to a fine or even jail time.

If you are bidding after the auction is open to investors, you do not need to be an owner-occupant.

## **Is a Low Income Required to Qualify for HUD Repos?**

No. When a borrower defaults on an FHA-insured loan, HUD becomes the new owner. In order to recoup the costs of the foreclosure, HUD repos are auctioned off to the public. Because of their competitive pricing, HUD repos are often affordable to buyers with lower-incomes. However, anyone can bid on a HUD repo – no matter what their income.

# Finding a HUD Approved Real Estate Agent

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HUD approved Realtors are the only agents that can represent you in a HUD transaction. Here's what you need to know about selecting and working with HUD approved realtors:

*“When determining who wins an auction, HUD compares the final bid prices minus the commission deductions. If two bidders offer the same amount, the property will go to the one with a smaller commission deduction.”*

## **What's so special about “HUD Approved Agents”?**

HUD approved realtors have received training on the HUD auction process. Bidding on a HUD home is different than a typical real estate transaction, and agents need to know the basics. The training is relatively simple and generally entails a few hours of video instruction at the agent's brokerage. HUD approved realtors are the only agents who can place a bid for you. They are also the only people who have the key or lockbox code to HUD properties.

## **What's the difference between the listing agent and the buyer's agent?**

HUD hires listing agents (seller's agents) to manage the foreclosure properties they are auctioning. When you drive by a HUD property, the phone number on the yard sign typically belongs to the listing agent. The brokerage hired to list HUD properties in your state is paid a flat fee; the listing agent will also receive a percentage of the sale price if your bid is accepted.

You may choose to have the listing agent represent you or you may choose to find your own HUD approved realtor. Generally, it is best to find your own agent. In most states, the listing agent has primary fiduciary duties to the seller (i.e. the listing agent will be “on the seller's side”).

The one benefit of using the listing agent is that he/she probably knows the most about the property. Many bidders use the listing agent as their HUD approved realtor, so this agent may be able to give you an estimate of the property's popularity and an idea of the bidding range.

### Can I forego HUD approved realtors and buy the property on my own?

No. Unlike traditional home sales, there is no way to purchase HUD foreclosure properties on your own. You must have a HUD approved realtor.

### How much do HUD approved realtors take in commissions?

The government does not specify a commission amount for HUD approved realtors. The bidding documents have a blank line for commissions and indicate that the buyer's agent may take up to 5% of the selling price. The listing agent will also take a set percentage of the sale price.

### Who pays the commission fees for HUD approved realtors?

HUD claims that they pay commissions to the listing agent and the buyer's agent. However, the reality is a bit more complicated. When you make a bid, the agent's commissions are deducted from the bid price. You do not pay any extra for commissions. However, when determining who wins the auction, HUD compares the final bid prices, minus commission deductions. If another bidder offering the same amount as you has an agent with a lower commission, he/she will win the auction.

The bidding form below shows that the commission of both the buyer's agent and the listing agent are deducted from the "net amount due seller." This number is used to determine who wins the foreclosure auction.

3. The agreed purchase price of the property is .....	3, \$	66,000.00
Purchaser has paid \$ 1,000.00 as earnest money to be applied on the purchase price, and agrees to pay the balance of the purchase price, plus or minus prorations, at the time of closing, in cash to Seller. The earnest money deposit shall be held by .....		
4. <input type="checkbox"/> Purchaser is applying for FHA insured financing [ <input type="checkbox"/> 203(b), <input type="checkbox"/> 203(b) repair escrow, <input type="checkbox"/> 203(k)] with a cash down payment of \$ ..... due at closing and the balance secured by a mortgage in the amount of \$ ..... for ..... months (does not include FHA Mortgage Insurance Premium, prepaid expenses or closing costs Seller has agreed to fund into mortgage.)		
<input type="checkbox"/> Said mortgage involves a repair escrow amounting to \$ .....		
<input checked="" type="checkbox"/> Purchaser is paying cash or applying for conventional or other financing not involving FHA.		
5. Seller will pay reasonable and customary costs, but not more than actual costs, nor more than paid by a typical Seller in the area, of obtaining financing and/or closing (excluding broker's commission) in an amount not to exceed .....	5, \$	1,980.00
6a. Upon sales closing, Seller agrees to pay to the broker identified below a commission (including selling bonus, if offered by seller) of .....	6a, \$	3,300.00
6b. If broker identified below is not the broad listing broker, broad listing broker will receive a commission of: .....	6b, \$	
7. The net amount due Seller is (Purchase price [Item 3] less Items 5 and 6) .....	7, \$	60,720.00

Consider this example: two sellers make bids at \$66,000. Seller A pays his listing agent a commission of \$1,080 (3%). Seller B pays his listing agent \$3,300 (5%). In this scenario, seller A would win the auction.

Although you are not technically paying the agents, their commissions are deducted from your bid amount – the only ways to counterbalance that are to raise your bidding price or pay a lower commission.

### **Can I find a HUD approved realtor to work for a flat fee or a lower commission?**

Some HUD approved realtors will work for a reduced commission. This is especially true if the bidder has already done the majority of the work himself (searching through HUD homes, deciding on a property, collecting documents, etc) and the agent only needs to place the bid. A few HUD approved realtors will place a bid for as little as 1.5%, saving bidders thousands of dollars. One of the best ways to find a reduced-commission HUD realtor is to search for local agents already publicizing low commissions. Many of these “budget realtors” will be happy to work with you.

However, be aware that most traditional HUD realtors feel insulted by the proposition to work for less. If you need a HUD approved realtor to walk you through the process and show you a number of properties, you will probably need to pay full price.

# HUD Auction Secrets: How Insiders Buy HUD Foreclosures at Thousands Off the Listing Price

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There are three little-known “secrets” to buying HUD foreclosures for thousands off the auction starting price. Your real estate agent probably won’t mention them to you because they usually result in more work or a reduced commission. While first-time buyers should usually stick to the traditional process, more experienced bidders and risk-takers can tackle these HUD foreclosure strategies to save a bundle on personal or investment properties.

Here’s what your agent probably won’t tell you about the purchasing process:

## **Secret #1 – You can make low-ball bids on HUD foreclosures.**

If you are the sole bidder on a HUD foreclosure, you will be awarded the property – even if your bid is slightly below the auction starting price. Most

HUD offices will automatically accept low-ball bids if they are within a certain percentage of the asking price (usually between 85% and 88%). This strategy usually works best for those bidding as owner-occupants. It is not uncommon for some of the less-popular HUD foreclosures to have no bids in the initial round.

Keep in mind that making low-ball offers on HUD foreclosures is always risky. If anyone else bids on the property, you will probably lose.

### **Secret #2 – Some agents offer discounted commissions on HUD foreclosures.**

The amount you pay to your agent is deducted from the final bid price (the price that HUD uses to determine the auction winner). By paying a lower commission to your realtor, you can decrease your bid. (See earlier chapter: [What You Need to Know About HUD Approved Realtors](#)).

HUD allows the buyer's agent to take up to 5% of the bid amount. If you find a discount agent, you can negotiate a smaller commission – especially if you're an experienced buyer who can do most of the work alone. Some realtors have been known to take as little as 1.5% to place bids on HUD foreclosures.

A reduced commission could save you thousands, but keep in mind that this practice is discouraged by the majority of realtors. Don't expect most agents to respond pleasantly when asked about taking a commission cut – that's their pay you're talking about. The best way to negotiate a low commission is to find an agent who is already advertising discounted work. They'll be more likely to respond in the affirmative, especially if you don't require a lot of "hand-holding."

### **Secret #3 – The government will pay for repairs on some HUD foreclosures.**

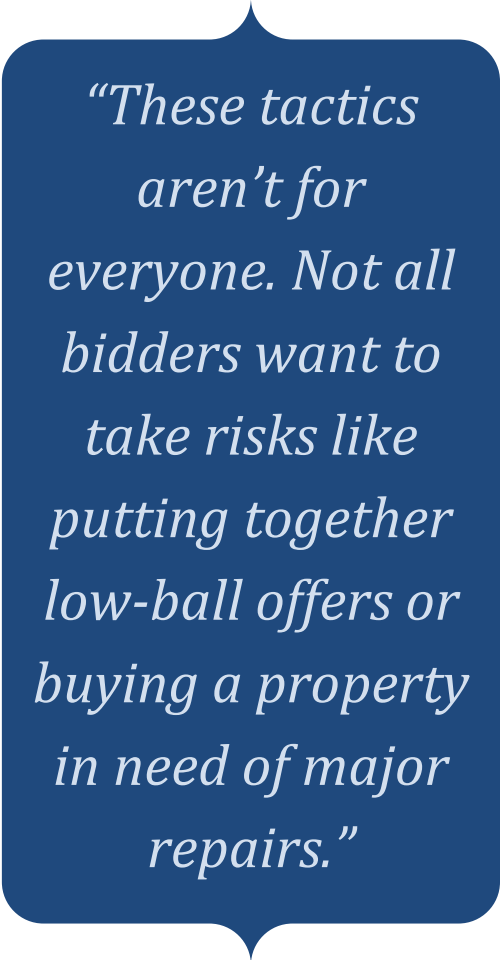
Although the government makes a big deal of claiming that HUD foreclosures are sold "as-is," there are a couple ways to get money for repairs. Some HUD foreclosures come with an escrow account to pay for major fix-ups. The winning bidder may then use the account to get the property up to code.

Buyers may also get financing through HUD's 203(k) program. Unlike traditional financing, these low-interest loans cover both the cost of the property and the estimated cost of repairs. HUD's website explains:

"When a homebuyer wants to purchase a house in need of repair or modernization, the homebuyer usually has to obtain financing first to purchase the dwelling; additional financing to do the rehabilitation construction; and a permanent mortgage when the work is completed to pay off the interim loans with a permanent mortgage. Often the interim financing (the acquisition and construction loans) involves relatively high interest rates and short amortization periods. The Section 203(k) program was designed to address this situation. The borrower can get just one mortgage loan, at a long-term fixed (or adjustable) rate, to finance both the acquisition and the rehabilitation of the property. To provide funds for the rehabilitation, the mortgage amount is based on the projected value of the property with the work completed, taking into account the cost of the work."

Getting a 203(k) loan is an easy way to pay for repairs and is often a good choice for buyers who make a profit by "flipping" HUD foreclosures every few years.

Keep in mind that these tactics aren't for everyone. Not all bidders want to take risks like putting together low-ball offers or buying a property in need of major repairs. Many bidders need a qualified agent to walk them through the process – even if that means paying a full commission. If you are new to real estate, it may be best to start simple. But, if you know how the system works, these tactics can be extremely useful. By using these three strategies, many experienced buyers have saved tens of thousands.



*"These tactics aren't for everyone. Not all bidders want to take risks like putting together low-ball offers or buying a property in need of major repairs."*

## Learn More About HUD Foreclosures

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If you found this ebook overview useful, take a look at my site [www.HudAuctionWatch.com](http://www.HudAuctionWatch.com). You'll find questions to commonly asked questions, an updated database of HUD listing links, and a blog with the latest foreclosure news.

Buying a HUD foreclosure isn't the easiest real estate transaction – but hopefully you're on your way to getting a great deal by following the steps and strategies I've outlined here.