What is a foreclosure property?

Buying a foreclosed home is one-way potential homeowners can save a bit of money — a foreclosed home is likely to be selling for cheaper than other homes on the market, so you may be able to get a good deal and keep your mortgage payments generally low. While there are a few things you should know about buying a foreclosed home, for the most part the process is very similar to buying any other property. For help on working a foreclosure purchase into your budget and other financial questions, consider working with a financial advisor.

What Is a Foreclosure?

A mortgage forms a lien against a property, giving the lender the legal right to move in and take ownership if the borrower defaults. Once they have taken control of the home, the lender will then almost always sell the property to recoup their losses. This process is called "foreclosure." Investors and other buyers can then purchase these homes, often at auctions or right from the bank or government agency that owns them.

How Does Foreclosure Work?

Foreclosures are likely to occur when the homeowner has failed to make agreed-upon payments on the mortgage. However, the reasons behind nonpayment can vary. Sometimes job or income loss is the culprit. Other times, medical bills or credit card debt may make it impossible for you to stay afloat. Foreclosure can also be the result of bankruptcy, divorce, or disability.

In some states, there must be a legal process in court before the home can be taken. Other states offer options that don't require a court to get involved.

A lender can't legally foreclose on a home until the person who owns it is at least 120 days behind on their mortgage payments.

Pros and Cons of Buying Foreclosed Property

Many buyers who consider buying a foreclosed property do so to save money. Not all bank-owned and foreclosed homes are a bargain, but many are priced at less than market value due to their state of repair. They also might be priced to sell quickly because of the lender's need to recoup their losses.

The U.S. Department of Housing and Urban Development (HUD) even has some homes listed at $1.

Foreclosed homes are often in poor shape. Many will need repairs that the seller does not want to make or cannot. Most foreclosed homes are sold as-is. Most home auctions require cash to buy, so you might not be able to finance the purchase via a normal mortgage loan.

Editable Canva template