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HOW TO BUY A FORECLOSURE IN 2021

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2020 has been a brutal year for many homeowners. Due to the economic shutdowns and massive loss of jobs, many people have been unable to keep up with their mortgage payments. According to a recent report by [Black Knight](https://investor.blackknightinc.com/investors/press-releases/press-release-details/2020/Black-Knights-First-Look-Mortgage-Delinquencies-Decline-for-Fifth-Consecutive-Month-in-October-Record-Low-Rates-Push-Prepayment-Activity-to-16-Year-High/default.aspx), there are around 3.4 million delinquent mortgages in the US housing market. Thankfully, the federal government issued a [foreclosure and eviction moratorium](https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Extends-Foreclosure-and-REO-Eviction-Moratoriums-12022020.aspx) to protect property owners. This moratorium is set to expire on January 31st, 2021. Unless the Biden administration extends the federal forbearance in the coming year, a wave of [foreclosed homes for sale](https://www.mashvisor.com/) is expected to hit the market starting in February.

While it’s not likely this will cause a full-blown [housing market crash](https://www.mashvisor.com/blog/housing-market-crash-2021/), it will mean that new real estate opportunities for investors will be injected into the market next year. So get ahead of the competition now by learning how to buy a foreclosed home in 2021.

The Advantages of Buying a Foreclosure

Before we look at [how to buy a foreclosure](https://www.mashvisor.com/), let us consider some of the advantages of [buying foreclosures](https://www.mashvisor.com/):

* Discounted prices – Since sellers are motivated to make a fast sale, they are willing to lower their prices in order to attract buyers. And since many foreclosures are [distressed properties](https://www.mashvisor.com/blog/find-distressed-properties-for-sale/), they can be sold for as low as 50% below market value.
* Quick purchase – The process of [buying houses in foreclosure](https://www.mashvisor.com/) is usually faster than the traditional method of buying property. Lenders simply want to get rid of the properties as fast as possible in order to recover their unpaid debt.
* Less competition – [Finding a foreclosed property](https://www.mashvisor.com/) is usually more difficult than finding traditionally listed properties. In addition, foreclosures are usually sold to cash bidders. Since very few buyers can afford to pay cash for a property, there is little competition in foreclosure auctions.
* Clear home title – When [buying an income property](https://www.mashvisor.com/) using the traditional method, the title of the home might come with unpaid taxes and liens from the previous owner. However, the title of a foreclosed home is usually clear. The lender sorts out all the issues with the property’s title before the sale.

How to Buy a Foreclosure: 5 Steps

Here are 5 basic steps to follow:

Decide how much you can afford

*Figuring out what you can and can’t afford is step #1 of how to buy a foreclosure.*

Budgeting is very important when buying an investment property. Though you can buy a foreclosed home below market value, do the math to see if you can actually afford it. If you buy a property that is out of your budget, you will end up struggling to make the monthly mortgage payments.

Start by listing the monthly income and expenses for your household. This will show you how much you can afford to spare for monthly mortgage payments. Also, take time to calculate your [debt-to-income (DTI) ratio](https://www.mashvisor.com/blog/debt-to-income-ratio-for-a-mortgage/) to see how much of your gross monthly income will go towards your debt payment. If your monthly debt payments will take up more than 43% of your gross monthly earnings, you might not qualify for a home loan.

Finally, remember that the foreclosed property might require extensive renovations and repairs. Figure out how much you can afford to pay for upgrading the property.

Get pre-approved for a mortgage

Before you start looking for a foreclosure, you need to get pre-approved for a mortgage if you can’t pay for the investment property using cash. In the preapproval process, the lender verifies your income and runs your credit to determine how much of a loan you qualify for. When you have a pre-approval letter, sellers of foreclosure homes will take you more seriously. If multiple buyers put in bids for an income property, those that have already been preapproved for a mortgage will have an upper hand.

Find foreclosures for sale

*How can I find foreclosures near me?*

Once you’ve been preapproved for a loan, think of [how to find foreclosures](https://www.mashvisor.com/blog/how-to-find-foreclosures). Here are some of the places where you can find foreclosures:

* Newspapers – Typically, you will find foreclosed properties advertised in local newspapers. However, competition from other potential buyers is likely to be stiff for such properties.
* Real estate agents – Agents are usually the first to know when foreclosed homes hit the listing services. Preferably, look for a [real estate agent](https://www.mashvisor.com/blog/how-find-real-estate-agent-investment-properties/) that specializes in foreclosures.
* Mortgage lenders – You could choose to work directly with the property seller (the lender). However, competition for bank foreclosures can be very intense.
* Government agencies – Visit [HomePath.com](http://homepath.com/) to find foreclosures owned by FannieMae, and [HomeSteps.com](http://homesteps.com/) to find foreclosures owned by Freddie Mac. You could also check HomeSales.gov for homes being sold by the federal government.
* Real estate sites – You can find listings of homes in foreclosure from sites like [Foreclosure.com](http://foreclosure.com/), [Equator.com](http://equator.com/), and [RealtyTrac.com](http://realtytrac.com/). Mashvisor’s Property Marketplace is another great place to find foreclosures and other [off market properties](https://www.mashvisor.com/blog/off-market-properties/) that are [cash flow properties](https://www.mashvisor.com/blog/positive-cash-flow-properties/). This marketplace allows you to narrow down your search using filters such as miles, budget, location, property type, and rental strategy. Mashvisor also provides an investment property calculator that helps you analyze the performance of any [rental property](https://www.mashvisor.com/).

Make a competitive offer

Since foreclosed homes are sold below market value, you might be tempted to [make a ridiculously low offer](https://www.mashvisor.com/blog/how-much-to-offer-on-a-house/). Such an offer is likely to be rejected by the seller. To make a competitive offer, it would be advisable to work with an experienced real estate agent. The agent can conduct a comparative market analysis (CMA) to find out how much comparable properties have been sold for recently. Be sure to include a contingency that says the sale will only be finalized once a home inspection has been done.

Get a home inspection

[Buying a foreclosed home](https://www.mashvisor.com/blog/buying-foreclosed-homes-smart-investment) as-is means that you are solely responsible for all the repairs. This is why a home inspection is a crucial step in [how to buy a foreclosure](https://www.mashvisor.com/). Once the inspection is done, you will get a detailed report with the inspector’s findings. If the inspection reveals any problems that you cannot afford to fix, then it would be advisable to walk away. However, please note that buying a foreclosed home at auction will not offer you an opportunity to schedule a home inspection.