Auction System
Preview Of What You Will Learn

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You Will Be Able To:

• Understand the various types of auctions that exist in the industry and be prepared to purchase auction properties if presented with the opportunity
For years, auctions have been a convenient, private, and efficient means for moving inventory in a hurry. Auctions are unlike any other place that you can buy real estate. They can be a quick and profitable way for qualified buyers and eager sellers to come together and make a deal. As a public sale of a property, auctions also draw energetic crowds who are eager for a good deal. Generally, there are three different types of auctions: an absolute auction, a minimum bid auction, and a reserve auction. Each have different set rules and time frames to control the process. There are copious advantages for both sides of the transaction, but also a fair share of risk. The key to success here is to understand the basics, and having a solid team on board to help you cross the finish line. Of course, you’ll also need a system.

Many investors who are new to the auction process can be apprehensive about the unfamiliar terms and guidelines. This guide is intended to help you understand the importance of the various types of auctions in this industry and their rules. We will go over not only what auctions are available, but also how to successfully purchase auction properties. Auctions can be very tricky and also have many variables during the purchasing process. You will need to be fully aware of what you are getting into so you don’t get in over your head. In this guide, we will break down the pros and cons along the way so that you are able to make an educated decision on which types of auctions work well for you and your business.

There are still plenty of distressed properties out there and great real estate investing opportunities if you are creative, open to collaboration, and know where to look...
Within the real estate world exists a wide variety of auctions where you can bid on discounted properties. Depending on the cause of the auction, there are different rules and regulations, different strategies, and different outcomes. The rules of engagement also change from state to state. It is very difficult to go over each and every possible auction out there, so there will have to be some research done on your part. In this section, we will review the pros and cons of buying from auctions, and what you can expect from the properties you acquire.

**Pros & Cons of Buying at Auctions**

Auctions are certainly a tricky part of the business. Most people who are successful at auctions have either been at it for some time, or have a team member who knows the ropes. With that being said, there are certainly a lot of benefits you can capitalize on while becoming accustomed to purchasing at auctions. There are also many risks involved if you don't do your due diligence. One of the biggest tips we can provide you is to make sure you have someone with you at all times who understands your local auction process. You always want to protect yourself, no matter how you purchase or close on a property. Whether this is your agent or your attorney, have someone there to represent you in the transaction. This will allow you to reap the benefits and avoid the risks. While auction properties aren't always great deals, the potential to get a great deal is such a big draw that, for many people, it compensates for the numerous potential drawbacks of buying an auction property.

**Benefits of Buying at an Auction**

Real estate auctions are certainly an option worthy of your consideration. In many locations there are hundreds of homes auctioned everyday, five days a week, making the opportunities plentiful.

*Here are some of the major benefits of buying at an auction:*

- Properties can sometimes be purchased below market value through competitive bidding.
- Sometimes you can see many offerings in the same place and at the same time.
- You are able to avoid long negotiation periods.
- You are competing fairly and on the same terms as all other buyers.
- You are certain that the seller is committed to sell.
- You will spend less time trying to purchase a property.
Buyer Beware

If you are new to auctions, you certainly want to proceed with caution. There are several items about the auction process that you need to be aware of. There is a reason why not everyone participates in auctions - they’re risky. The only way to minimize risk is to educate and prepare yourself for what those risks may be.

Here are a few of the major risks you want to look out for:

• **Auction properties are sold in as-is condition** and sometimes you don’t have the ability to enter the home to inspect it. You could end up with anything from a $500 fix, to a total loss with title or environmental issues.

• In some states, **you aren’t qualified to bid without the full amount required** at the time of the auction. You will need some amount of cash no matter what, in order to secure your bid. Down payments and methods of purchasing often depend on the property and the auctioned house.

• Even if you win the auction, in some cases, you will not be able to purchase the property. Often times, **the bank doesn’t have to accept the winning bid** - one example is subject to lender confirmation foreclosure auctions. Similarly, the auction could have a hidden reserve price that sets the limit on the minimum acceptable price.

• In some cases, the (former) owner will be occupying the property, meaning **you may have to go through the eviction process** - a process that can be unpleasant at best, and lengthy and expensive at worst.

• If you contract with an agent to represent you at an auction, typically, **you will be paying their commission as your buyer’s agent**.

• **Title searches will be a must before you place your bids** and can run you $150-$200 per search. However, we do not recommend conducting your own search, as it is too easy to make a large mistake and jeopardize your business.
Setting Expectations

Before a property reaches an auction, several things need to take place. A house will typically reach the auction when a homeowner doesn’t pay his or her mortgage for several months. This causes the bank to file a notice of default. If the homeowner fails to pay the balance due or negotiate a solution with the lender, the home can be put up for auction. The other main way a home can wind up at an auction is if the owner doesn’t pay property taxes or becomes very delinquent, in which case the relevant authority can start foreclosure proceedings. In either situation, the homeowner is not voluntarily giving up their property. This means that most of the time when you purchase an auction home, there will still be occupants...some very angry occupants. It’s important that you prepare yourself for this possibility when you step on the property for the first time.

The bottom line is that properties being auctioned off aren’t always hidden gems. If a property ends up being sold at auction, it means that the owner was having trouble. They may have had financial trouble, or the house may have delayed maintenance problems. The property may even be completely trashed. If the previous owner was in financial trouble, there may be other liens against the home, such as tax liens, contractor liens, or a second mortgage. You can avoid this problem by working with the right people to ensure that the property has clear title.
Common Types of Auctions

Determining which type of auction you are going to attend will be imperative in terms of bidding and the overall success of your purchase. Because of the constant inconsistencies involved with auctions, you’ll have to approach each one as it’s own. Keep in mind that everything down to the location of auction will vary from state to state. While some states will have auctions at the courthouse steps, others will actually have the auction on the very front lawn of the property. For example, in the movie *Happy Gilmore*, Adam Sandler’s character is trying to get the money to stop his grandmother’s home from going to auction. When he doesn’t get the money in time to pay the back taxes to the IRS and stop the auction, he has to bid on the house on her very front lawn.

**Absolute Auction**

This is also known as the auction without reserve. Here, the sale will typically go to the highest bidder. Many sellers, including financial institutions and government agencies, have begun to use this method more often because it tends to generate the maximum response from the market place. When a sale is guaranteed, the buyer excitement and participation are heightened. An absolute auction can occur in various venues including the foreclosure marketplace, the online marketplace (such as eBay.com) or live auction events.

**Minimum Bid Auction**

With this type of auction, an auctioneer will accept bids at or above a published minimum price. The minimum price is stated in all advertisements of the auction and is announced at the auction. Having a minimum bid helps the seller reduce their risk of losing the house for a price lower than what it should be. Buyers also have a set knowledge of where they have to start.

**Reserve Auction**

This auction has an unpublished minimum bid; some states require that this be disclosed, while others do not. All reserve auctions are clearly noted with a message next to the current or opening price. This message will either say “reserve not met” or “reserve met.” The seller reserves the right to accept or reject the highest bid within a specified time frame, up to 72 hours after the conclusion of the auction. With a reserve auction, there is a predetermined amount, which is the lowest amount that the seller must sell a property for; however, the bidding can start wherever the bidders choose. If the reserve bid is not reached, then the seller can accept, reject, or counter the highest bid. This auction is not as popular amongst buyers who have to invest the time and effort when there is no certainty that they will be able to buy the property, even if they are the highest bidder.
Common Types of Auctions

Foreclosure Auction
A foreclosure auction occurs when a homeowner has defaulted on his or her loan and cannot come up with the money to make up the mortgage payments. The house then goes up for sale as part of a legal process, in which the auction is run by the court system. The sale is required to be promoted in the local newspaper and must take place within a given timeframe.

Banks do not want to keep foreclosed property for long periods of time and essentially want them off their books. It’s a bureaucratic and financial hassle - that’s mostly why they sell these properties cheaply. Foreclosure auctions force a property to be sold, thereby removing all existing deeds of trust on the property. This type of sale is an excellent way for investors to secure investment property. However, you must realize that those who will be bidding against you will be experts on the foreclosure process. You are swimming with sharks, so be careful.

Tax Auction
If a real estate owner does not pay the required taxes on a property, the county will offer the property up for sale at an auction as a “tax sale” to help generate the lost tax income. Tax auctions are unique in that you typically do not have a clear title. There are two types of tax sales: tax lien sale and tax deed sale. Both result in a flexible and secure investment with minimal market risk. Make sure you take caution and research a property involved in a tax lien or tax deed sale to minimize any risks that may arise.

Before you make your purchase:

- View the property
- Research its value
- Research the title for the current property
- Research tax, judgment and/or mortgage liens
- Research trust deeds

Helpful Tip!
Title companies don't always insure tax deed sales. You will want to make sure that you are able to obtain title insurance before you place a large down payment on a property.
Finally, know and understand which type of sale you are attending, whether it be a tax lien or tax deed sale. Each has specific rules to be followed. In addition, not all states allow tax lien and tax deed sales, so it is important to investigate your tax laws in your particular area before pursuing a sale.

<table>
<thead>
<tr>
<th>Tax Lien Sale</th>
<th>Tax Deed Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The county government sells their right to the tax lien on the real estate property, allowing the buyer to bid on the tax debt for a favorable return on investment.</td>
<td>• The county government sells full ownership and possession rights of the property to the investor.</td>
</tr>
<tr>
<td>• You are not bidding on the deed to the property, but rather the tax debt. Essentially, you are loaning money to the property owner to pay his or her taxes. This can be a profitable investment, as a property tax lien is usually sold for a small fraction of a property’s market value.</td>
<td>• The winning bidder purchases the deed to the property, becoming the new owner and obtaining all of the rights to the property.</td>
</tr>
<tr>
<td>• The investor has the right to receive interest penalty charges, many times at a high rate of 16 to 24 percent, until the delinquent property owner pays off the lien.</td>
<td>• The property is usually sold for the back tax amount plus any fees, interest charges, and court costs.</td>
</tr>
<tr>
<td></td>
<td>• Since property taxes are a small percentage of market value, investors purchasing a tax deed can acquire full property rights at a fraction of the market price.</td>
</tr>
</tbody>
</table>
9 Steps to Purchasing Auction Properties

Step #1: Know Your Finances

Before you start bidding on auction properties, it’s vital that you understand what your offer will be and arrange your financing ahead of time. This will help to determine much you can afford to spend, which will essentially narrow down your selection of properties.

Helpful Tip!

Many auction trustees will require that you have your bidding amount available in either cash or cashier's check, with you at the auction.

Step #2: Research Local Auction Properties

You can find real estate auctions by signing up for subscriber emails from auction companies, looking for foreclosure auction notices in your local newspaper, and searching public records online or at the courthouse. Here is a list of a few ways to find auctions:

- **PUBLIC RECORDS AND FORECLOSURE LISTINGS** - You can find public listings of foreclosure notices in the County Clerk’s office. You’ll want to look for a Notice of Default or a Notice of Sale. This will alert you that the property will likely be sold at auction soon.

- **ONLINE** - Real estate auction services such as Foreclosure.com list all of the properties that have been foreclosed and are awaiting auction. Be aware that although most of these sites will offer you a free trial, to get regular information or emails, you will need to pay to join the service.

- **BANKS AND LENDERS** - Large financial institutions often advertise their REO properties. You can check the lenders’ websites.
9 Steps to Purchasing Auction Properties

- **LOCAL NEWSPAPER** - For a bank to file a foreclosure, a notice must be published in the newspaper. Check the public notice section of your paper or business journal for a list of trustee sales and auctions.

- **GOVERNMENT DATABASES** - Properties going into foreclosure that are guaranteed by the government are often sold at auction. You can find those listing through agencies such as Fair Housing Administration (FHA), Veteran’s Administration (VA), U.S. Department of Agriculture (USDA), as well as others.

**Step # 3: Search and Scrub**

You will need a system to keep track of properties that interest you. A good tracking system is important since most successful auction buyers pursue several properties, sometimes over a period of several months. After you feel you have collected enough information on local properties, you should go through what you have and scrub your raw list for properties that you personally can work with. This way, you will only focus on the list of the properties you are seriously considering.

For instance, you’re going to want to figure out what areas you want to target, so you can narrow it down by city name and by zip code. Also, you will probably have a certain price point. For instance, you may know that in your area, the biggest buyer pool will purchase properties for $150,000 and under. Your goal may only be to buy, fix, and resell at $150,000 or below, so you can eliminate those that don’t meet those criteria.

**Step # 4: Run the Numbers**

As with any other investment you make, you will need to run the numbers and make sure this is a sound investment. Find out as much as you can about the estimated market value of the property and how much is owed on the property. You should also be going out to the property and conducting as much of an inspection as you can. Make sure to look not only at the house but the neighborhood as well. Gather all information necessary so that you can make a sound decision.
9 Steps to Purchasing Auction Properties

When looking to attend an auction, here is a resource you can use that can assist in organizing and systemizing this part of the process:

<table>
<thead>
<tr>
<th>Auction Property Questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Address: __________________________</td>
</tr>
<tr>
<td>Auctioneers Name: __________________________</td>
</tr>
<tr>
<td>Committee Name: __________________________</td>
</tr>
<tr>
<td>Owner(s) on Title: __________________________</td>
</tr>
<tr>
<td>Style of Home: __________________________ Sq. Feet: __________________________</td>
</tr>
<tr>
<td>Unit 1: Bed__ Bath__ Rent__ Unit 2: Bed__ Bath__ Rent__ Unit 3: Bed__ Bath__ Rent__ Unit 4: Bed__ Bath__ Rent__ Unit 5: Bed__ Bath__ Rent__ Unit 6: Bed__ Bath__ Rent__</td>
</tr>
<tr>
<td>Garage: __________________________ Lot Size: __________________________ Special Features: __________________________</td>
</tr>
<tr>
<td>Any Repairs Needed: __________________________</td>
</tr>
<tr>
<td>Repair Cost $: __________________________</td>
</tr>
<tr>
<td>Realtor: __________________________ Phone: __________________________ Listing Expires: __________________________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Debt &amp; Auction Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>is the auction currently going forward? __________________________</td>
</tr>
<tr>
<td>What is the deposit required to bid? __________________________</td>
</tr>
<tr>
<td>What is the current debt on the property? __________________________</td>
</tr>
<tr>
<td>Does that include all other 2nd &amp; 3rd Mortgages and lien holders? __________________________</td>
</tr>
<tr>
<td>Are there any other liens that are not being foreclosed out upon sale? __________________________</td>
</tr>
<tr>
<td>Water Liens? ________ Sewer Liens? ________ Condo/HOA Fees? ________</td>
</tr>
<tr>
<td>IRS Liens? ________ Real Estate Taxes? ________ Other? ________</td>
</tr>
<tr>
<td>Buyers Premium (if Auction Company is being Used) __________________________</td>
</tr>
<tr>
<td>is there a right of redemption for the homeowner after sale? __________________________</td>
</tr>
<tr>
<td>is the homeowner or tenants still living in the property? __________________________</td>
</tr>
<tr>
<td>Do you have any reason to believe the auction won't go forward? __________________________</td>
</tr>
<tr>
<td>How many calls have you received from interested parties? __________________________</td>
</tr>
</tbody>
</table>

| Evolver: __________________________ Exit Strategy: __________________________ |
| After Repair Value: __________________________ Confident Not Confident Opening Bid: __________________________ |
| As Is Value: __________________________ Confident Not Confident Max Bid: __________________________ |
| Repair Cost: __________________________ Confident Not Confident |
| Likely Purchase: __________________________ Confident Not Confident |
| Notes: __________________________ |
Step # 5: Complete a Title Search

Determine if the owner has any other liens on the property. Luckily, this information is all public for you to research. If there are outstanding liens on the property, the winning bidder at the auction may be responsible to satisfy all of those liens. It’s important that you thoroughly check for any liens and the priority of the liens before you place a bid at the auction. It’s best to have a real estate attorney or title company check for these liens.

Step # 6: Determine Your Maximum Bid

Based on all the factors used to determine whether or not the property is a worthy acquisition, you’ll need to determine how much you can and should bid at the auction. This number should be something that you’ve derived from the facts and figures in Step #1. As mentioned earlier, some states require bidders to bring the full amount to the auction. If you are in one of these states, determining your bid amount will be even more important because you will need to bring the full amount in either cash or cashier's check. In fact, you won’t even be able to bid if you don't have the requirements handy.

Step # 7: Confirm Auction Status

It’s important to get up-to-date auction information. After a property is scheduled for auction, the owner has a chance to spot the auction by paying the amount owed to the foreclosing lender. Although cancellations and postponements are announced at the time and location of the originally scheduled auction, you can call the trustee to find out any information beforehand.

Step # 8: Place Bid at Auction

The time has come to actually place your bid and try to purchase the property. Call the trustee the day of the auction just to make certain the auction has not been canceled or postponed. If it has, the trustee can provide a new auction date. If everything is still on schedule, make sure to arrive at the auction location early and locate the auctioneer as quickly as possible.

Although you may feel intimidated at your first auction, try to fit in as best you can so that the experienced bidders don’t stand out as the rookie. Take as many cues from the other auction participants as you can, but never let someone else dictate how you bid. A lot of the seasoned investors who frequent auctions do not appreciate new competition. While you are in the midst of the action, there are three situations that you will see: strong bidding, soft bidding, or no bidding.

Here is a break down of each:
9 Steps to Purchasing Auction Properties

**Strong Bidding**
Whenever there is strong bidding, the price reaches a level that is above the seller’s reserve price. The auctioneer may declare the property as “on the market” and keep the auction going (depending on prior arrangements made with the seller) or the auctioneer may pause and consult with the seller if the price is at a level that is acceptable. Once the bidding stops, the auctioneer will call the property three times, “going once, going twice, going three times”, and on the descent of the hammer the property is declared as “sold.” Once this stage is achieved, the purchaser is invited to sign the contract.

**Soft Bidding**
Soft bidding means the property reached a price that is below the seller’s reserved price. At this point, the auctioneer will generally ask the crowd to wait while he consults with the seller. The discussion at this point will be what the next step should be. Place seller’s bid, declare the property as on the market because it is close to the reserve (if buyers know the property is going to be sold they might bid), pass the property in to the current bidder and negotiate with them up to a level that is acceptable. This is the point where a buyer may feel under pressure and each of these options carry a different degree of risk, depending on the circumstances. It is very important to understand the implications of any decision that is made in the heat of the moment. If a sale cannot be achieved with either of these options, then the property would be put up for private sale at an agreed asking price.

**No Bidding**
If an auctioneer is unable to attract any bidding at all, he or she may place a bid at the seller’s agreed bid level and refer back for instructions. If a sale cannot be achieved, then the property would be put up for private sale at an agreed asking price.

**Step # 9: Take Ownership**
If you are the last and highest bidder when the auctioneer’s hammer falls, it means you are the successful buyer. This also means you are legally committed to paying the price you bid and completing the sale. Make sure you gather all of the necessary documents from the auctioneer to verify that you are the winning bidder.

Check with your attorney and the auctioneer to determine the next step for taking ownership of the property. In some states, ownership can be transferred immediately or within a few days. In others, you may need to wait over a month for a sale to be confirmed by court. Some states even have redemption periods. A redemption period is a set amount of time for the current owner to buy the property back from you. You should avoid doing any repairs or spending money on improvements during this period. Additionally, check to see if you are responsible for evicting the current residents, if necessary. You can contact a local real estate attorney or the county sheriff for more information about how to go about doing this.
Contact an attorney who specializes in real estate transactions for advice and assistance!

- Purchasing a house at auction is risky. You should not attempt it without an attorney’s help unless you or someone on your team has experience purchasing property at auction.

- Some properties may still be in foreclosure. In addition to the cost of the home, you may need to settle unpaid tax bills if you win. An attorney can help you find out all terms and outstanding debt attached to the property before the auction.

- Property liens and outstanding taxes may also exist on houses auctioned by owners or as part of an estate settlement. The auctioneer or property owner is legally responsible for disclosing this information to all interested parties prior to accepting bids.
Wrap Up

#1 RESEARCH HOW AUCTIONS WORK IN YOUR AREA

#2 FIND LOCAL AUCTION PROPERTIES

#3 SEARCH & SCRUB YOUR LISTS

#4 DETERMINE YOUR MAXIMUM BID

#5 PLACE BID AT THE AUCTION

#6 TITLE OWNERSHIP

BUYING AUCTION PROPERTIES
This information is for educational purposes. We don't believe in push-button profits—we believe in proven business systems, education, drive and hard work. We are committed to teaching you how to reach your goals. In promoting our educational programs, we illustrate success stories. We want you to know, students are not compensated for their testimonials. However, many of our most successful students join our team as Coaches and Trainers. As stipulated by law, we cannot and do not guarantee results or offer legal advice. As with any business, your results will vary and will be based on your drive, effort, follow-through and other variables beyond our control. We believe in full transparency, and a high standard of integrity, that is why we encourage you to read our full earnings and income disclaimer by visiting www.fortunebuilders.com/earnings-income-disclaimers/