



How to Buy at a Trustee Sale a.k.a. Real Estate Auction

Buying a property at a Real Estate Auction or Trustee Sale is a unique undertaking. Buying at auction can be highly lucrative or totally disastrous: it is therefore imperative that those who plan to place a bid understand exactly what they are in for. Let's talk about what it takes to place a bid: -

Deed of Trust

A trust deed is a written document used to secure a loan on real estate. Three parties are involved in the transaction; the trustor (the property owner/borrower), the beneficiary (the lender), and a neutral third party called the trustee. The trust deed transfers bare legal title of the property to the trustee to be held pending fulfillment of payment. The document basically says that if the borrower defaults on making payments as promised the lender has the right to take possession of the property in an effort to recuperate the outstanding monies owed.

Trustee Sale (A.K.A. Auction)

A trustee sale is a public sale conducted by the trustee, acting on behalf of the lender. When a borrower defaults, the lender orders the trustee to start the process of taking back the property – the foreclosure process. If the borrower is not able to fix the problem, the property ends up at the trustee sale and is sold to the highest bidder. If no one bids, or the opening bid is not met, the property is taken back by the bank and becomes an REO (bank owned property).

Site of the Sale

The trustee sale is conducted on the county court steps (yes, outside the building, on the actual steps) or in some cases, at the office of the trustee.

The Challenge

The challenges of buying a property through auction are: you generally have less than 24 hours to do your due diligence; you are not granted access to the inside of the property, often the property is still occupied by the previous owners or tenants, and you have to pay the full purchase price in cash the next business day.

Due Diligence

Typically, here is how it goes: you call the trustee the morning of the day prior to the auction and ask them for a list of what is going up for sale the next day (some counties have a morning and an afternoon sale; some just have a morning sale).

You peruse the list and identify possible prospects. You do your "paper" homework on those properties, meaning you make sure the properties you are interested in look good on paper. Be sure you find out what lien position is being auctioned (if you want to end up owning the property you want to bid on the 1st lien), and how much back taxes are owed.

At the end of the business day, call the trustee back and ask them to give you an updated list. The list will be significantly smaller because many properties will have been postponed.

Once you have your final list, go drive the properties and conduct a physical inspection. Lastly, put it all together and determine your maximum bid amount.

The Bidding

You show up at the auction with your cashier's check for \$10,000.00. Different auctioneers will be representing different trustees selling property all at once. You have to find out which auctioneer represents the trustee that is selling the property you want to bid on and register with them. Once you have registered just wait until your property is up for bid.

Once your property is on the auction block (or on the lap of your auctioneer sitting in a lawn chair), you start bidding. Bid in small increments and **STICK TO YOUR MAXIMUM BID**. If your maximum bid is surpassed, you get to start all over again the next day ☺

If your bid is successful, the auctioneer will give you a receipt for your "non-refundable" \$10,000.00 deposit, and all the paperwork. You will need to take a certified check for the balance to the trustee's office to finalize the purchase. Make sure you show up within the timeframe provided – usually before 5pm of the next business day. Congratulations, you are now the proud owner of a foreclosure property (or you just lost ten grand if you did not show up on time to pay the balance!).

Hire a Pro or Not

There are many different trustees and the process of calling all of them and scrubbing their list is very tedious and time consuming. On top of that, you have to call a title company to check lien positions and back taxes. There are professionals offering to do all of this for you, as well as physically attending the auction and bidding on your behalf. The fee for this service is between \$3,000.00 and \$5,000.00, to be paid only when you have a successful bid. I highly recommend hiring a professional to assist you with this process.

Conclusion

Needless to say, it takes a particular stomach or nervous system to buy at a trustee sale. Making a mistake can be devastating. Be sure that you are up for the challenge, and that you can live with the consequences. On the upside, if you are educated and disciplined, there is tremendous opportunity!

Good luck!

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As an investor himself, as well as a licensed Realtor®, Dimitri has over a decade of real estate experience. Dimitri's specialties include primary residences, second homes, investment properties, commercial properties and land. He has been recognized for being a Multi-million Dollar Producer, and is an accomplished Realtor® committed to superior results for his clients.

"Strive not to be a success but rather to be of value" Albert Einstein