

Common Challenges in buying Stressed Assets in Auction/Otherwise

1. Different Rules for Auctions in Sarfaesi, DRT, NCLT & different auction platforms
2. Auction properties are generally sold on as is where is basis and financial institutions(FI) do not take responsibility of the title as FI do not become the owners of the property and it is the responsibility of the prospective buyer to discharge the outstanding dues such as local taxes, society maintenance etc.
3. You can't get inside the property before the auction to inspect it for structural problems and repairs. Many foreclosure auction properties are in bad shape because the owners couldn't afford the upkeep. And sometimes angry home owners purposely damage the property to punish the foreclosing lender.
4. You don't know if there are liens on the home. Some auctions don't give you clean title to the property, meaning liens from the government or other entities may not be removed during the foreclosure auction process. You'd have to pay off those liens if you won the property.
5. You have to pay funds and pay it quickly. Most auctions require bidders to come up with the full purchase price in cash within 15 days extendable to 90 days which is subject to approval of lenders.
6. You have to arrange own funds as difficult to get loans on auction assets.
7. You're in love with a Asset that you're aware is headed to auction, but you're afraid to bid on it at the auction because you know nothing about the process.
8. The property has been vulnerable from being vacant
9. You could pay too much- If you only consider the price of the assets and not the repairs involved, you could easily lose money on the deal. Investors need to consider the after-repair value (ARV) of the home as well as the acquisition cost.
10. Others are interested-Whenever there is a great deal, you can bet that you won't be the only investor interested. You will likely be competing with experienced or institutional real estate investors for a good deal.
11. Property titles-Generally, it is assumed that the property titles are clear because banks have already lent against it. However, this may not be true. With competition picking up, there are several instances of banks lending against properties with not so clear titles. For instance, for buildings that don't even have occupation certificates. Even if the banks might have taken full precaution at the time of giving loans, illegality might have happened later.
12. Other outstanding dues-Though a bank will recover its dues fully from the bid amount, the bid winner has to bear all the related liabilities on that property like pending society dues, electricity bills, property tax, etc. Sometimes, these dues can be substantial.This is because people default on housing loan EMIs last. There is high probability that the borrower might have defaulted on other expenses before that.