

Difference Between Auction and Foreclosure

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Key Difference -Auction vs Foreclosure

Auction and foreclosure are two transaction options where both buyers and sellers can obtain the maximum benefits. The key difference between auction and foreclosure is that auction is a process of buying and selling goods or services through bidding where the item is sold to the highest bidder whereas foreclosure is the procedure of a lender taking possession of a mortgaged property of a borrower in case he or she fails to make loan payments. A relationship exists between auction and foreclosure since a foreclosed property is sold at an auction.

What is an Auction?

An auction is a process of buying and selling goods or services through bidding where the item is sold to the highest bidder. In an auction, the seller obtains the opportunity to receive the best possible price by offering the product or service to a higher number of potential buyers. Paintings, property, precious stones are some of the most commonly auctioned items.

E.g. The highest price ever paid for a painting at an auction is \$179.4 million in 1995, which was for the painting Les femmes d'Alger, an artwork of Pablo Picasso.



Figure 01: Auction

Below are the different types of auctions.

Absolute Auction

Here, the good or service is sold to the highest bidder, irrespective of the price. Since there is no stated minimum price, the seller is faced with the disadvantage of not obtaining the desired price. **Absolute auction is also referred to as auction without reserve.**

Minimum Bid Auction

In a Minimum Bid Auction, the seller will accept bids at or above a published minimum price. This reduces the risk for the seller as the sales price will always be above a minimum acceptable level

Reserve Auction

Also known as **auction subject to confirmation**, a minimum bid is not published in this type of auction and the seller reserves the right to accept or reject the highest bid within a given time frame up to 72 hours after the auction closes.

What is a Foreclosure?

Foreclosure is the procedure of a lender taking possession of a mortgaged property of a borrower in case he or she fails to make loan payments. When a borrower keeps a property as a collateral (a pledged asset in the form of security for repayment of a loan), he or she is obliged to make monthly loan repayments to the lender (financial institution or an individual lender). If the borrower fails to meet the monthly payments beyond a certain time frame, the lender will start to foreclose. The farther behind the borrower falls, more difficult it will be to meet the upcoming payments.

The foreclosure laws vary among countries, therefore lenders have to go through necessary criteria to ensure foreclosure.

E.g. In the United States, 22 states require judicial foreclosure i.e. the lender must go through the courts to get permission to foreclose by proving the borrower is delinquent.

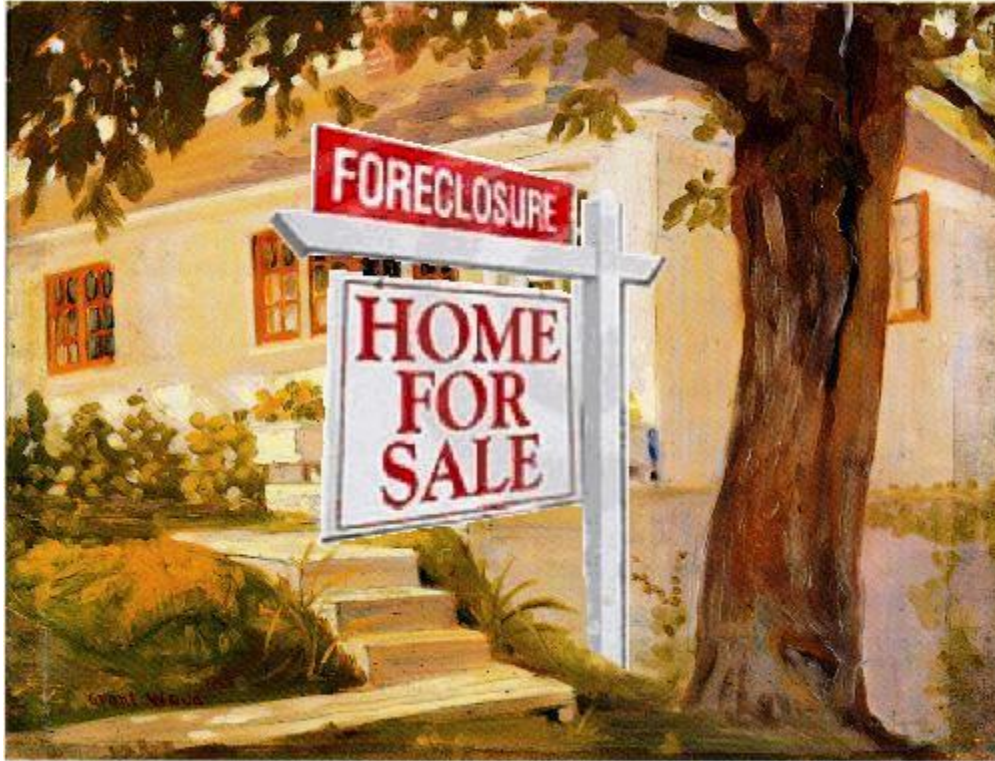


Figure 02: Property is auctioned and sold in a foreclosure.

If the foreclosure is approved by the courts, the property will be auctioned and sold to the highest bidder. In certain situations, the lender may agree to make some adjustments to the borrower's repayment schedule in order to delay or not carry out a foreclosure. This procedure is known as **mortgage modification**.

What are the similarities between Auction and Foreclosure?

- In both auction and foreclosure, the good/service or the property will be sold at the highest bid price.

What is the difference between Auction and Foreclosure?

Auction vs Foreclosure

Auction is a process of buying and selling goods or services through bidding where the item is sold to the highest bidder.

Foreclosure is the procedure of a lender taking possession of a mortgaged property of a borrower in case he or she fails to make loan payments.

Repayment of a Debt	
Repayment of a debt is not involved in an auction.	Foreclosure will occur due to not meeting obliged debt repayments.
Use	
Auctions take place to transfer the ownership goods and services in a wide range.	Foreclosure is mainly attributable to the property.

Summary – Auction vs Foreclosure

The difference between auction and foreclosure can be explained via a number of factors. While the goods and services are offered to the highest bidder in an auction, the lender takes over the possession of a mortgaged property when a borrower fails to make loan payments. Since a foreclosed property will be sold in an auction, the procedure for foreclosure can also be explained as a prerequisite for an auction.

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