

## **Buying Bank Owned Properties (REO) – Buying Foreclosures at Trustee Sales – Buying Pre-Foreclosures, “Short Sales”**

### **So you'd like to buy a bank owned property?**

You've watched the late-night infomercials and you're ready to do the bank "a favor" and take a problem off their hands. Plus, you expect to make "a killing" in the process. Sounds great and it might just happen, but first you should take a look at some facts and get prepared.

### **REO vs. Foreclosure**

An REO (Real Estate Owned – Bank owned) is a property that goes back to the mortgage company after an unsuccessful foreclosure auction. You see, most foreclosure auctions do not even result in bids. After all, if there was enough equity in the property to satisfy the loan, the owner would have probably sold the property and paid off the bank. That is why the property ends up at a foreclosure or trustee sale.

### **Trustee Sale**

When a home owner falls about 60 days behind on their payments, the Mortgage Loan Servicer files a Notice of Default with the county and delivers a copy to the home owner. This starts a 90 day clock for the home owner to bring their mortgage current. If they do not cure the default within that 90 day period the Mortgage Loan Servicer files a Notice of Trustee Sale which is usually 21 days later.

At the prescribed date, place and time The trustee runs the foreclosure sale. The Foreclosure sales begin with a minimum bid that includes the loan balance, any accrued interest, plus attorney's fees and any costs association with the foreclosure process. In order to bid at a foreclosure auction, you must have a cashier's check in your hand for the full amount of your bid. If you are the successful bidder, you receive the property in "as is" condition, which may include someone still living in the property that becomes your problem to evict. Most foreclosure buyers never get to see the inside. It is also common for the owner to take appliances, and strip the inside of the house and some times they destroy the inside out of anger. There may also be other liens against the property.

Since what is owed to the bank these days is almost always more than what the property is worth, very few foreclosure auctions result in a successful

Trustee sale. Then the property "reverts" to the bank. It becomes an REO, or "real estate owned" property.

### **REO Properties For Sale**

The bank now owns the property and the mortgage loan no longer exists. The bank will handle the eviction, if necessary, and may do some repairs. They will negotiate with the IRS for removal of tax liens and pay off any homeowner's association dues. As a purchaser of an REO property, the buyer will receive a title insurance policy and the opportunity to investigate the property.

A bank owned property might not be a great bargain. Do your homework before making an offer. Make sure that the price you pay (if you're successful) is comparable to other homes in the neighborhood. Consider the costs of renovation, including time to complete them. Don't get caught up in a 'bidding war' and pay over market value. It's an old myth that "foreclosures" are a bargain.

### **How Banks Sell REO's**

Each bank/lender works a little differently, but they all have similar goals. They want to get the best price possible and have no interest in "dumping" real estate cheaply. Generally, banks have an entire department set up to manage their REO inventory.

Once you make an offer to purchase, banks generally present a "counter-offer." It may be at a higher price than you expect, but they have to demonstrate to investors, shareholders and auditors that they attempted to get the highest price possible. You can also counter the counter-offer.

Your offer or counter-offer will probably have to be reviewed and approved by several individuals and companies. Even once an offer is accepted, the bank may insert wording like, "subject to corporate approval with 5 days."

### **Property Condition**

Banks always want to sell a property in "as is" condition. Most will provide a Section 1 pest certification, but not unless you include it in your offer and negotiate the point. They will allow you to get all the inspections you want (at your expense), but they may not agree to do any repairs.

Your offer should include an inspection contingency period that allows you to terminate the sale if the inspections reveal unanticipated damages that the bank will not correct.

Even though you agreed to "as is," always give the bank another opportunity to make repairs or give you a credit after you've completed your inspections. Sometimes they'll re-negotiate to save the transaction instead of putting the property back on the market, but don't take it for granted.

Banks do not want to see a lot of proprietary disclosures; they are exempt from the California Seller's Transfer Disclosure Statement (TDS-14). If there are real estate agents involved, either representing you or the bank, those

agents are required to provide you their disclosure statements.

Most banks will not provide financing on their REOs but it doesn't hurt to ask. Especially if the property has extensive damage and you are purchasing it "as is."

### **Making an Offer**

Before making an offer, you should ask the following:

- Are there any inspection reports?
- What work has the bank agreed to?
- Is there a special "as is" form?
- How long does it take the bank to accept an offer?
- How does your agent deliver the offer?

Offers are usually FAXED to the bank. The listing agent needs your originals. There is no formal presentation. Keep in mind: nothing happens evenings and weekends (banks are closed).

Since there is no face-to-face presentation to the bank, provide the listing agent with a pre-qualification or better yet, a pre-approval letter and buyer biography. Make your offer easy to accept. Since we are also a Mortgage Broker, we will handle your financing and supply a pre-approval letter.

Hopefully these tips will manage your expectations. Remember that REO's sell at pretty close to full market value and are not the deals presented on late night television.

If you are serious about purchasing a home and want a deal, we specialize at tracking Pre-foreclosure –“Short Sales” ; Foreclosures – You need All Cash - we will help you pick the home and take you to the auction – or help you purchase an REO from a bank.

### **We represent Buyers at Trustee Sales – CASH REQUIRED**

If you are an investor, have a minimum of \$500,000 cash available to invest, we will act as a buyers broker to help you find a Foreclosure and bid at a Trustee Sale.

### **Foreclosure Tracking**

We track all Foreclosures in the Ventura County and the West Half of the San Fernando Valley. We also perform Real Estate Appraisals (BPO's) for lenders on many of these properties so we will perform a BPO on any property you are interested in making a bid on.

### **SHORT SALES AND REO you can Finance**

If you are just looking for a deal and have good credit we can help you purchase a “**Short Sale**” and arrange the financing or **Purchase an REO** with up to 100% financing. At this time of the market cycle, Short Sales are a good place to start. Short sales are homes that have been purchased in the

last couple of years with 90% to 100% financing. The property values have gone down and the home owner is behind in payments. In order to avoid a Foreclosure on their credit report, they agree to sell their house during the Pre-Foreclosure Period, the 90 days prior to the Trustee Sale. The seller will not receive any money at the close of escrow since more is owed against the house than it is worth. The lenders don't want to wait to get the house back in foreclosure and know it will likely be destroyed. They also know they are going to lose money and they would rather take their LOSS NOW rather than later. This is your opportunity to make a good deal, the seller doesn't care, the lender wants to avoid another foreclosed property on their books. These Short Sales are some of the best deals we are seeing in the market now. If you want a deal, this is the first place to start looking. We can send you a list of all homes in your price range which are "**IN FORECLOSURE - NOD Filed**" and submit your short sale offer to the lender. There are a whole lot of issues in purchasing a short sale property, mostly it takes over 30 days just to hear if your offer is accepted or if the lender/seller are going to give you a counter offer. Register on the website or call us for a list of Short Sale properties.

### **TRUSTEE SALES – Big Profits, Big Risks**

About 20 years ago, I took a class on Foreclosures and our instructors favorite line was, Most people come here to learn how to "make a killing buying a foreclosure", hopefully after this class you wont get "killed buying a foreclosure".

Even the pros that have been buying foreclosures for 20 years sometimes get burned. Most Real Estate agents know practically nothing about "**Short Sales**" and how to get them approved, Foreclosures – **Buying at a Trustees Auction** or Purchasing **REO's directly from a bank**. Trust me, you will need all the help we can provide on your first few deals.

**Call us about your needs.**

**Ray & Carol McLaine 805-496-6445**