



Sponsors



Working with Buyers Interested In REOs

Buying Real Estate Has Changed

Buying real estate may be the largest single investment - and one of the greatest satisfactions - of your lifetime.

Real estate represents a significant portion of most people's wealth, and this is especially true for many homeowners in the United States. The average American has nearly one-third of his or her net worth tied up in real estate, translating to a valuation of nearly \$20 trillion dollars for the entire market.

The real estate industry has changed over the past few years. We have to change and adjust with it. This is not just a simple case of driving clients around. The differences between buyers and sellers have taken on a life of their own, developing some peculiar expectations for how each party should be handled during a transaction. A good real estate agent has to determine the needs of their buyer clients, find suitable properties, and gather adequate information to better assist the buyer in making decisions.

Buying a house and looking for the deal of a lifetime is the desire of home buyers today. Many people who are considering buying a home are looking to foreclosed properties (REOs) for a deal. Each REO seller will have a different policy and procedures during the buying process. It's important to understand these differences of these types of home purchases.

In addition buyers will want to work with knowledgeable real estate professionals that have experience in working with various banks and lenders to assist them in making good decisions regarding their housing needs.

No two REO seller transactions are the same. You need to know as much about the property as you can. And you should keep in mind these property sellers are usually inflexible with regard to their established terms of the contract. As a result, your role includes doing whatever you can to ensure that the planned purchase by your buyer will actually close!

Let's chat about revising our mindset, review the talent and skills we should offer, update our knowledge regarding buyers and REO properties and implement a new approach that will enable you to make the step up from sales person to trusted advisor.

Understanding Buyers

It's true that buyers have access to much more information now than ever before, and they are doing more research on their own. As an industry, we mistakenly believe that buyers already understand the process of a real estate transaction. It would be more accurate to say that buyers know several pieces of the puzzle, but still want and need help understanding the details, especially the negotiating and contractual components, as well as guidance on how to bring all the pieces together. In today's real estate market, buyers will examine, score and know the dynamics of their home selection.

When a buyer makes up their mind to buy they will inquire through their family, friends, co-workers to begin their search for help and representation. Buyers will still want to engage by placing a call/text message/email to ask specific questions of someone that they trust, someone who really knows the market and the purchase details. Plus buyers will want to meet face to face at some point to interview you to see whether they can trust you as their "Trusted Advisor".

Working in the home ownership marketplace today requires much training, knowledge and wisdom. A real estate agent is vital to the purchase of real property and will provide a variety of services. Buyers will need to be educated in advance on specifics regarding their offer, negotiations, inspections, repairs, what "as is" really means and the closing process.

Real Estate Professionals

Real estate professionals who prepares the contract and assist with the seller addendums must be familiar with its terms because you will be held responsible for any mistakes or misrepresentations. You need to know the details. Obtaining the seller addendum(s) upfront prior to writing a contract is an important task in risk management in protecting your business. The buyer will need to have a full understanding and agree to all the terms and conditions of the purchase prior to signing the offer and an accepted contract.

In the REO arena, nothing is standing when purchasing a foreclosed property from a bank or lender. Today's Webinar is designed to discuss many details facing the buyer interested in purchasing an REO property.

Nowadays, any transaction can go sideways when you least expect it. Sharpening your skills as a buyer's representative is an ongoing process that comes with experience, education and a commitment to delivering the very best in real estate services.

Information shared today is not intended as legal or other professional services or advise. These materials have been prepared for general information purposes only. IF you have any additional questions or need advice, please contact your own lawyer or other local professional representative.

Let's Start at the Beginning

Keep in mind those REO listings agents are not set up to work with buyers, however they will provide instructions and forms to be used in the offer/contract process.

Working with the buyer and addressing their concerns is of the utmost importance and the first step in the buying process. This often requires meeting with the buyer(s) in advance to organize their home purchase. You are the real estate professional and will need to provide more information than the buyer knows existed. By researching, cataloging and delivering easy retrieval of information and resources for the buyer to use when they need it will exceed your client's expectations.

Working with the Buyer

- Interview the buyer for their needs, desires, purchase timeline, best method of communication and how often
- Does the buyer have a home to sell or rent?
- Has the buyer met with a "Mortgage Planner" or a finance consultant?
- Set expectations. Give a "Buyer Presentation" on the type of sellers they may work with and the market conditions, i.e. HUD Home, Fannie Mae or Freddie Mac REO home
- Schedule a pre and post home counseling session or workshop for a complete review of the buying process
- Make available additional resources, i.e., predatory lending, counseling websites, pamphlets, recommend books, etc.

Are you ready for a challenge?

Real estate professionals and companies that anticipate, can identify, have trusted resources and be solution oriented will smooth out all the rough edges in taking steps to solve challenges when they arise. It's all part of good planning, something that is essential for any agent today who wants to run a successful real estate business. Your main goal is getting the deal to the closing table on time with happy sellers and buyers.

Property challenges can include marketability, qualifying for financing, "AS IS" condition, disclosures, material facts, home inspections, federal laws and regulations, city and county maintenance, housing codes and ordinances, final walk-through visit and a lot more. After showing the property and prior to writing an offer, let's review a couple of common elements that cause major challenges during the contract period.

Property Challenges - Characteristics of "As Is" Properties in REO Transactions

Buying an REO property typically means you're purchasing in a total "as is" environment. No warranties or guarantees - either stated or even implied - are available.

Selling a property as is does not eliminate or release the seller's obligation to reveal specific information. The seller is still required by federal, state, and local governments to report and disclose any known defects to a potential buyer. A seller is also still required to give a prospective buyer the right to receive property information even if the seller is demanding that the property be sold as is.

Simply put, "as is" means the seller will not be obligated to make any repairs the home may need and that the buyer is accepting the home in its current condition. The seller will not correct or otherwise cure known defects that are disclosed to the buyer. This also extends to previously unknown defects that are discovered by the buyer or their inspectors.

A Few Key Points

- The buyer must sign as part of the sales contract the REO addendum referencing property sold “as is” and acknowledging the inspection procedure
- Property inspection is for informational purposes and to identify major defects only. The buyer should not bid if they are not satisfied as to the condition of the property as they see it.
- Inspections must be performed by a licensed and bonded professional
- “As Is” clauses have statements that convey that the buyer has no recourse back to the property seller after closing if they are unhappy with their purchase
- Review the inspection report with the buyer’s lender for underwriting requirements regarding the “as is” property condition
- After the inspection period expires, in many cases the earnest money becomes non-refundable and the contract is now a cash transaction
- No lender or inspection required repairs will be charged to the property seller
- No repairs to the house prior to closing
- Have an established network of sub-contractors for repairs
- A list of participating lenders that offer “buy and repair” finance programs

Property Condition

The past several years have posed unique challenges to real estate practitioners. Turning around a troubled property ranks among the greatest challenges that a real estate professional will encounter in their career. While there is no one-size-fits-all template for troubled properties or working as a consultant, we must be prepared to identify and provide solutions for some of the most common property challenges. Let’s talk about property condition.

One of the most critical aspects of purchasing a property is its physical condition. This is an area where a little knowledge will go a long way for you and the buyer.

Certain property conditions will be considered normal wear and tear, while others indicate a need for freshening up. Still other physical aspects fall into the category of health and safety issues. It is this latter category that concerns lenders and may affect the ability to obtain financing. It is important to identify property issues, i.e. lenders required repairs, livability conditions and propose a remedy either by requesting the seller to repair or recommend the buyer utilize a buy and repair finance program such as the FHA 203(k) Streamline and Energy Efficient Program. Fannie Mae has the HomePath Renovation Mortgage for their properties, Nationstar Mortgage introduces Freddie Mac HomeSteps Financing a pilot program for Georgia and Florida and VA has a finance program to allowing \$6,000 in energy efficient products to be added to the buyer’s loan amount.

While the buyer is previewing the property, you can interview the property looking for conditions that will prevent the property from qualifying for financing. What should you look for?

- Open walls – holes knocked into walls or other damage
- Missing fixtures or cabinets
- Damaged or non-existent flooring – exposed concrete or subfloor
- Roof with less than 5-years of remaining life
- A non-working pool or spa
- Cracked foundation or slab
- Extensive water damage or mold, mildew

- Moisture or water in the basement
- Inoperable, damaged or missing heating systems
- Damaged electrical or plumbing system
- Defective wood that would indicate termites
- Peeling paint on homes built before 1978
- Well and septic tank issues
- Safety issues, i.e. unsecured railing, steps, deck, broken windows, inoperable garage door

Property Condition Report

A property condition report is a due diligence tool that helps agents, buyers and lenders to understand the condition of the asset/home.

Resources

- HUD Minimum Property Standards (MPS)
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/ramh/mps/mhsmpp
- VA Property Eligibility, Minimum Property Requirements
http://www.benefits.va.gov/warms/pam26_7.asp
- USDA – Property Requirements
<http://www.rurdev.usda.gov/SupportDocuments/CA-SFH-GRHPropertyReq.pdf>
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

Property Value

REO housing is initially priced for sale at its present “as is” market value. Although administrative price reductions may be taken over time to facilitate sale of the property.

In developing a real property valuation you must collect, verify, and analyze all information necessary for credible value results and you must analyze selected comparable sales data as available to indicate a value conclusion.

Real estate professionals should have a great grasp of the market, particularly in the neighborhoods where their clients have properties in or where clients want to buy. Performing a CMA or a BPO prior to writing an offer can help in convincing the buyer to structure an offer that is winnable at the first level of review, can alert the REO seller that the market has changed and influence the sales contract decision maker.

Condition of Property Title

When buying real estate, it is important to assure that the buyer has the right to occupy, use or eventually resell it without interference. Over 80% of all REO properties have title issues.

Prior to writing an offer, you should determine the condition of the title to the property and learn if any non-dischargeable liens such as IRS tax liens still exist as soon as reasonable possible. The best time to remedy any title defects is when the property is being acquired. If a defect in title exists at the time of an offer, the delay or expense necessary to remedy it might defeat the transaction.

Problems with the legal title to a property can literally date back over a hundred years. In a traditional property purchase buyers normally receive a Warranty Deed, which warrants marketability of legal title.

However, in an REO sales transaction, the seller may provide a Special or Limited Warranty Deed, Quit Claim Deed, Personal Representative's Deed or other documents that have less or no warranty at all. Title problems can range from defective legal descriptions, missing documents, to errors in the drafting of documents.

Verification of Taxes, HOA and Condo Association Fees

Verification of these fees or dues must be researched early. Any outstanding fees must be disclosed in advance and paid in preparation for closing. In many cases, these fees will be a negotiated item during the offer process. Don't forget to obtain and have the buyer read and approve the Declaration of Covenants, Conditions and Restrictions in advance of an offer and no later than the expiration of the inspection period.

Condo Association Questionnaire – Red Flags

- About two-thirds of the association's budget should be operating expenses, i.e. water, lights, landscaping and the rest should be set aside for the reserve fund for exterior painting, roof replacement
- No more than 10% of owners should be late on their association fees
- If more than 50% of maintenance liabilities are not funded
- If the association has less than two months of reserve funds
- If the association is involved in any lawsuits
- No more than 10% of the total units can be owned by one entity, i.e. LLC, Corporation, Partnership
- No more than 30% of the units can be rental or investment owned. Local city/country ordinances may control and impose more restrictive requirements.
- If the buyer is using FHA financing, the community must be approved by HUD/FHA

The above is only a guideline. Underwriting guidelines and the investor involved may have more demanding requirements.

Writing an Offer

First of all there are no rules! Banks and lenders are not in the business to own real estate and they have no emotion in these transactions. Some may publish and restrict sales first to owner occupants for a period of time before any offering to an investor. They want to dissociate themselves from the property as quickly as possible and with the least loss as possible. This means if the numbers work (net to the seller) and they are satisfied that the buyer is qualified and they can perform and close, you will usually have a deal.

It is important to remember that REO seller's addendums will override your state contract language. Each paragraph of these addendums must be read in depth. You must be able to identify and explain to the buyer in the front end of an offer all REO seller expectations and required timeline performances.

Key Questions to Consider Prior to Writing an Offer

- How does the REO seller handle multiple offers?
- Will the REO seller accept a back-up offer?
- Does the REO seller have their own contract?
- Will the required addendums be provided prior to submission of an offer?
- What is required to be submitted with an offer? A pre-qualification letter, proof of cash to close, etc.
- Does the REO seller have a designated closing attorney/agent?
- Has there been any work done to the property prior to listing it for sale?
- Will the REO seller provide a clear termite letter?

- Will the REO seller entertain any repair request?
- Who pays for any lender required repairs as a result of an appraisal, city and county code violations?
- Will the seller contribute to closing cost?
- Will the REO seller pay for a home warranty plan?
- What is the REO seller's response time?
- On cash transactions, REO sellers may require closing 15 days or less, and no inspection or title contingencies

Guidelines in Submitting an Offer

Attention to detail and accuracy is required.

- Listings are placed on the local MLS prior to receiving offers
- Buyers(s) name on the title should be consistent throughout offer package paperwork
- Leave no blanks. Each page of the offer must be reviewed with initial(s) and/or signature(s) in the appropriate place.
- If the buyer is a LLC or Corporation, provide evidence that they have the authority to sign on behalf of the company and the contract must be written in the individual's name
- Do not alter the REO seller addendums in any way
- Legal size forms must remain legal size
- Offers are forwarded for review on an Offer Worksheet
- Buyers may be required to be pre-qualified by the REO sellers local retail branch
- Submit proof of funds for all cash offers. Either a letter from the bank or a current bank statement.
- Include any finance addendum or exhibits regarding FHA, VA loan or other finance program descriptions with your initial offer
- Use a Personal Property Agreement (Bill of Sale) Exhibit as a paper trail
- No contingencies to rent or sale a property
- Must be an arm's length transaction
- Double check that the buyer has submitted a complete offer package
- Allow 72 hours minimum for an answer from the REO seller' listing agent

Count on writing an offer at the maximum price at which the buyer is comfortable with, throwing it into the mix of multiple offers and hopefully it emerges as winner on the other end. Count on a few frustrations in the process:

- The listing agent may not actually verify with you that the offer has been received
- The REO seller may take up to a week to respond to the offers
- The REO seller does not work evenings, weekends and holidays

Note: Be aware that offers are now coming in higher than a property's ability to appraise; REO sellers are beginning to demand that offers be accepted ONLY if the appraisal contingency is removed.

If you know the expectations and flexibility of the REO seller prior to writing an offer which makes it easy for them, you have the best chance to structure your offer for acceptance.

Negotiation

Whenever NAR surveys buyers about desirable skills and qualities for their agent, an overwhelming majority of buyers (most recently 84 percent) believe that negotiation skills are very important. However, when asked about the actual skills and qualities they experienced during their transaction, buyers rate their agent's ability to negotiate on their behalf lowest, in terms of satisfaction scores. One essential element shared by successful negotiators is readily achievable by every agent—the discipline of approaching each negotiation carefully and systematically with the intention of developing a negotiating plan with your buyer in the front end. You might say to the buyer when they find the home choice that “you will validate the list price by performing a CMA or BPO in preparation of their offer”.

REO Contracts

Everything about an REO sales transaction is time sensitive. In most cases, time starts ticking when the real estate professional representing the REO seller calls, leaves a voice message, or by e-mail, fax or a text message informing you that the buyer's offer has been accepted.

Be aware of these various terms: "Contract Acceptance Date", "Agreement Date", "Verbal Acknowledgement Date", and "Binding Agreement Date". Missing a required performance date may jeopardize the buyer's earnest money or cancellation of the offer or contract.

Missing a specific deadline may obligate the buyer to a task beyond their capabilities. After deadlines expire, the contract may convert to a cash transaction and the buyer's earnest money will be non-refundable. If you do not have a clear understanding, ask the listing agent for clarification or consult a local real estate attorney for their interpretation. Create a calendar referencing all the dates.

The REO seller does not sign any document until the buyer signs first. It may take 10 days or longer to get a returned signed binding agreement back. Need additional documents signed by the ROE seller in the middle of the transaction? Count on more waits. And meantime, the per diem time clock is ticking away if you are not able to close on time.

REO Seller Contract Clauses

- Some REO sellers may require the buyer to activate and pay for temporary utility services for the inspection
- The buyer cannot expect the REO seller to repair or replace items on the inspection or appraisal report
- Closing cost paid by the REO seller varies
- Bank and lenders may not allow for power of attorney or a mail out closing
- The REO seller requires a preliminary HUD-1 usually 5-10 days prior to the scheduled closing date
- The buyer may be required to pay and change the locks on their new home on the day of closing
- Some REO sellers will not accept DocuSigned docs

The Million Dollar Question – “What kind of a price break can I expect to get because it’s an REO?”

Low offers are ignored. BPOs and appraisal updates are often order throughout the listing period. If the property is in good condition in a good neighborhood, expect multiple offers. If the property has been on the market for 60 days or more you may have more room in negotiating the purchase price.

Some Key Factors Considered

- How long has the property been on the market?
- How many offers are on the table?
- What is the bottom line acceptable net the REO seller?
- Is the property's current condition poor or fair?
- When was the last price reduction?
- Supply and demand
- An updated appraisal review may be ordered prior to responding

Disclosure

The REO seller cannot and will not disclose anything. They have never lived in the property and they have never seen the property. In fact, you know more than they do! Therefore, they will not be able to complete any mandatory state required disclosures.

I encourage you to always practice “documented disclosure” meaning that it’s not enough to disclose. You also have to prove that you disclosed key facts and alternatives to your buyers.

This is best accomplished with three key tools.

- Forms
- Check lists
- Systems

Conclusion

As a real estate agent, how can you make the most of your time with buyers but stay as productive as possible? How can you help your clients get ready for the buying process and ease their concerns?

- Set expectations
- Read the contract and seller addendums
- Confirm the buyers ability to purchase, i.e. loan approval, proof of cash
- Create a clear, concise and a full offer package
- Submit your best offer first
- Interview the property regarding condition, order an inspection prior to submitting an offer
- Verify any title issues, HOA problems, code violations
- Pledge serious earnest money of 3-5% of the offer price
- Commit to a higher down payment
- Submit a pre-approval letter referencing FICO scores, debt-to-income ratios, number of months of reserves

As you can see, buying at foreclosure or as an REO property, a house can be a bargain, a nightmare, or, more probably, somewhere in the middle. If you do your real estate homework regarding "as is" FMVs, interview the physical condition of the property, discover title issues, create a calendar, disclosure and communicate often you can enjoy some excellent benefits and profits by working with buyers purchasing an REO property.

Hope this helps! It is a great time to buy a home! Interest rates are still low, lenders are approving loans and we have inventory with low prices! Great deals are out there and most of our current transactions are REOs.

Notes:

Cathy McDaniel
Educator, Author
Cathy@cathymcdaniel.com
www.CathyMcDaniel.com
404-550-0775