



RED OAK  
REALTY

## Red Oak Realty REO PROPERTY ADVISORY FOR BUYERS

“REO” stands for “real estate owned” which is how banks and other lenders categorize real property that they have taken back on either a foreclosure or a “deed in lieu” of foreclosure. As a buyer of an REO property, you should be aware of several issues that make this type of transaction different from a usual real estate purchase.

1. The lender/seller may have little or no knowledge of the property. They do not have to complete a Transfer Disclosure Statement (“TDS”), as do most sellers. While lender/sellers still do have to disclose any conditions or defects affecting the value or desirability of the property (just not on a TDS), and make other required disclosures, those disclosures may be of little value in light of a lender’s limited knowledge of the property.
2. The lender/seller may take a long time to respond to your offer to purchase and, in the meantime, even consider or accept other offers.
3. The lender/seller may give you a verbal “acceptance” of your offer. Such acceptances are generally not binding, in the absence of other writings sufficient to constitute an agreement to sell. If you are in doubt as to whether you have a binding agreement, you should consult your own real estate attorney.
4. If you commence incurring expenses, such as for inspection reports or for loan applications, prior to receiving a signed purchase agreement, you may be risking the loss of that money, which may not be recoverable from the lender/seller.
5. REO lender/sellers usually will attach a lengthy Addendum to the standard form purchase agreement, or may even require the use of their own contract form. These addenda and contracts have been drafted by the attorneys for the lender/seller and generally are drafted to favor the lender/seller. It is strongly recommended by your agent that you review this Addendum or contract with an attorney, because real estate licensees are not qualified or competent to give you advice on legal documents drafted by attorneys for other parties.
6. If you receive such a lender/seller Addendum or contract, read it thoroughly for understanding since it will affect your contractual rights. Some clauses may limit to take away your legal rights in certain circumstances, or limit your recovery against the lender/seller. Some clauses may impose per diem charges for delays in closing. Other clauses may require you to hold the lender/seller harmless and release the lender/seller from certain potential liabilities. Again, your agent strongly recommends that you get any questions you may have answered by your attorney.

7. Many lender/sellers refuse to pay all or many of the expenses of escrow and closing that may typically be paid by sellers, or customarily be split by sellers and buyers. Such expenses may include title insurance, escrow fees, transfer taxes, home warranty plans, costs of repairs to the property, etc. While such items may normally be the subject of negotiation in a real estate transaction, you may encounter a lender/seller who refuses to negotiate or to pay for these items. This should be calculated into your overall cost of purchasing the property when making your offer.

8. Inspections: Most of these lender/seller Addenda and contracts contain an "As Is" clause. Because the lender/seller has limited knowledge of the property, it is highly recommended that you have all inspections necessary for you to understand the condition of, and any matter affecting, the property. These should be in the form of inspection contingencies if allowed by the lender/seller. Or, some lender/sellers will allow only informational inspections. If an informational inspection during escrow discloses adverse information not previously disclosed, you are advised to seek guidance regarding this matter from your attorney.

9. Review the Preliminary Title Report for liens, encumbrances and assessments. Many of these will have been expunged or paid off during the foreclosure, or deed-in-lieu, process by which the lender/seller came to own the property. Yet, certain rights of others against the property may continue after the sale to you. You should discuss this possibility and the Preliminary Title Report with your attorney.

**I/We acknowledge receipt of this Advisory**

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Buyer

Date: \_\_\_\_\_, 200\_\_

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Buyer

Date: \_\_\_\_\_, 200\_\_