Buying bank owned properties and foreclosures
There is a lot of interest in buying bank owned properties these days. A lot of information, some good and some bad, is floating around about the subject. Often the information offered is for sale, with the promise that you can make a lot of money with little effort once you know "the secret formula". The fact is that there are no secrets, and to make money does require effort.

What's an REO?

REO stands for "Real Estate Owned". These are properties that have gone through foreclosure and are now owned by the bank or **mortgage** company. This is not the same as a property up for **foreclosure** auction. When buying a property during a foreclosure sale, you must pay at least the loan balance plus any interest and other fees accumulated during the foreclosure process. You must also be prepared to pay with cash in hand. And on top of all that, you'll receive the property 100% "as is". That could include existing liens and even current occupants that need to be evicted. A REO, by contrast, is a much "cleaner" and attractive transaction. The REO property did not find a buyer during foreclosure auction. The bank now owns it. The bank will see to the removal of tax liens, evict occupants if needed and generally prepare for the issuance of a title insurance policy to the buyer at closing. Do be aware that REO's may be exempt from normal disclosure requirements. In California, for example, banks are exempt from giving a Transfer Disclosure Statement, a document that normally requires sellers to tell you about any defects they are aware of.

Is it a bargain?
It's commonly assumed that any REO must be a bargain and an opportunity for easy money. This sometimes is not true. You have to be very careful about buying a REO if your intent is to make money off of it. While it's true that the bank is typically anxious to sell it quickly, they are also strongly motivated to get as much as they can for it. When considering the value of a REO, you need to look closely at comparable sales in the neighborhood and be sure to take into account the time and cost of any repairs or remodeling needed to prepare the house for resale. The bargains with money making potential exist, and many people do very well buying foreclosures. But there are also many REO's that are not good buys and not likely to turn a profit.

Ready to make an offer?

Most banks have a REO department that I will work with to negotiate the deal on your behalf. As with making any offer on real estate, you'll make your offer more attractive if you can include documentation of your ability to pay, such as a pre-approval letter from a lender. After you've made your offer, you can expect the bank to make a counter offer. Then it will be up to you to decide whether to accept their counter, or offer a counter to the counter offer. Realize, you'll be dealing with a process that probably involves multiple people at the bank, and they don't work evenings or weekends. It's not unusual for the process of offers and counter offers to take days or even weeks.

What is a SHORT SALE?
This is a situation where a seller owes more to the bank than what he can get on the market. These are typically people facing foreclosure. The bank is in a position to accept an offer to avoid foreclosure proceedings, which is very costly for them. Some times, this can

be a very good prospect for you as a buyer. You have a seller who wants to avoid foreclosure and get rid of their financial burden, and you have a bank willing to accept the deal. As with REOs, every offer must be approved by the bank, so again, there is a built in delay in the transaction process.