

Turn Key Special Report:

Working with Foreclosures, Banks and REO Agents

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You have heard all of the hype surrounding real estate investing, and you're ready to get started. You know that there is money to be made - you've seen the late night infomercials, and you even know some people who are investing in real estate successfully.

But how do you find deals that will make you money? One of the best areas to make money in real estate is by buying and selling foreclosures. . Properties that have been foreclosed on by a bank or financial institution. They are what's know as REOs—Real Estate Owned. REO. Property which is in the possession of a lender as a result of foreclosure or forfeiture.

When a person buys a house they generally go to the bank or a mortgage company and get a loan. When the bank agrees to lend you money to purchase your property, you sign a mortgage, which contains a promissory note. This promissory note states that if you don't pay the bank back the money they lent you, they will take back your house which is their collateral.

The foreclosure process is simply the process of the bank taking back its collateral for the loan they made.

Houses Are Foreclosing At Record Speed

Foreclosures have reached epidemic status. According to the Mortgage Brokerage Association there were 200,000 foreclosures nationwide in 1986. It's estimated that the total number of foreclosures across the United States for 2003 will be 500,000!

The opportunity for an investor to make money in the foreclosure market locally is staggering.

But Why Are People Foreclosing?

Interests rates are lower than they have been in 40 years and banks have lots of money they want to lend you to buy your home. They are often willing to lend you 85% of your homes value as a first mortgage and then lend you the remaining 15% as a second mortgage. The homeowner has now purchased a home with mortgage payments that are quite high. Possibly high enough that if anything changes in their financial life they may not be able to afford to make these payments.

Unfortunately, many things can cause someone's financial world to crumble. Divorce remains the number one reason for foreclosure. It took two incomes to make that mortgage payment before and now with the divorce there is only one income.

Other causes that force people to stop paying their bills and eventually foreclose include bankruptcy, credit card debt, unemployment, job transfer, health problems, and balloon payments to name just a few.

The Different Stages of Foreclosure

The foreclosure cycle in the United States has three stages that correspond to the time when the distressed property is for sale.

- 1. Pre-foreclosure**
- 2. Auction/trustee sale**
- 3. Real Estate Owned (REO)**

Some investors specialize in purchasing during one specific phase of the cycle while others will invest during any of them. Each has its advantages and disadvantages.

Stage 1: Pre-Foreclosure

Pre-foreclosure is the first step in the foreclosure process. Simply stated, the homeowner has fallen behind enough payments that the bank is getting nervous. You owe them money and you haven't been making your payments. It begins when you receive a certified letter telling you that if you don't bring your payments current and give the bank the money you owe them by a specified date, the sheriff will come over and evict you from your home.

And yes, that's exactly what happens.

Remember the bank makes money by lending you money, not holding property. The bank doesn't want your house, but it will take it from you if you don't pay back your loan.

During pre-foreclosure an investor can approach the homeowner and offer to help them by purchasing their home, which will stop the foreclosure.

There is great opportunity here because during pre-foreclosure the investor has little risk, no liability, and many times, no need for money or credit.

The only real risk is the need to know what mortgages, liens, and judgments are coming with the property you are buying. This is your biggest risk when working the pre-foreclosure market but is easily handled with a little research. Remember all liens loans and judgments are public record and are recorded at the county courthouse. You can do the research yourself or ask your attorney if he'll do a preliminary title search for you. If you have a good working relationship they will often do this at little or no charge.

Buying before the auction (Stage 2) gives you the advantage of time. Time to inspect the property, research its liens and other judgments and also find out its value and to sell quickly.

Stage 2: The Auction

Stage 2 in the foreclosure process is the auction (sometimes referred to as the trustee sale). If the homeowner does not pay the lender what they owe them by the date specified (by the lender), the property goes up for auction at the county court house. This stage is the banks chance to let an investor buy the property and pay them for it so they don't have to take it back. Remember the bank doesn't want the property back- it wants its money. The house was there collateral and they are happy to sell it someone else, often at a discount if they need to.

As an investor, you can often purchase property at the auction for a discount but you have to have accurate knowledge of property values before you bid. Properties at these sales are normally sold at a discount from retail prices, but they are sold "as is."

You should also know something about the property you are about to purchase. Have you been inside? What's its condition? What kind of repairs will be required? Be careful- the 50% you saved at the sale could easily be spent repairing the outdated and neglected interior, replacing the old roof, removing mold, exterminating termites and overhauling the heating and air system. And this will probably need to be done before you can rent or resell the property.

Some of the disadvantages of purchasing at the auction include the need for cash, and the fact that you are purchasing the property "as is," and usually don't know the condition of the interior or the extent of the needed repairs.

Some of the benefits to buying at the auction include the ability to often purchase at a discount, not needing to deal with the emotions of the seller, little negotiation skills are required and there are very few legal hassles.

Stage 3: REO, Real Estate Owned

The third and final stage of foreclosure happens when no one purchases the house at the auction, forcing the bank to buy the property back itself. Remember the bank didn't want the house back, but the property was the collateral for the money lent to the homeowner. The property now becomes Real Estate Owned, it's owned by the bank.

The bank can now sell it at any price, high or low. They want their money back and they are happy to make a profit doing so if they can. The investor must be careful when looking at bank owned property to know what the real value of the property is. If the bank can sell this property and make a profit it will.

If the property is in need of repair or if the market is such that the house will not sell at retail value, the banks will often accept significantly less for the property.

The benefits of purchasing REO property include the banks willingness to often accept deep discounts to free themselves of the property, and your ability to do your homework before you purchase.

Sometimes a lender cannot sell a foreclosed property through auction. This might happen if nobody bids on the property, either because the price was too high or because nobody attended the auction. Another possible reason is that nobody submitted a bid at least as high as the upset price (or, in some states, a bid at least as high as the lender's "credit bid," which has the same effect as an upset price). Or, in the case of "friendly foreclosures," the borrower signs title to the property over to the bank and walks away from the property. No matter what the reason, if a lender does not sell the property through auction, the property becomes an REO.

REOs are a nightmare to lenders. Property taxes, city and county assessments, utility bills, and maintenance costs eat into the lender's profit. The threat of vandalism and illegal occupancy requires that lenders board up REO windows and doors. Oftentimes lenders must hire security services to watch over REOs to keep out trespassers. For these reasons, lenders are eager to sell REOs as quickly as

In markets where real estate is entering a slowdown, especially in those areas where **foreclosure** filings –notices of default are increasing, lenders face downward market pressures. Consider, lenders are not chartered to own and manage (REO) property; in fact, they face scrutiny and pressure from state and federal regulators to dispose of foreclosed **properties** quickly; therefore, banks will not hold property. They will sell at auction, no matter what the price is. This process takes time, but favors those investors who are diligent and knowledgeable regarding when and in what time to purchase **foreclosure** 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 more than you should.

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 should plan to 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.

Making an Offer

Before making an offer, have your agent contact the listing agent and 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. You should make your offer easy to accept.

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

5 reasons to buy bank owned (REO) Properties:

- No property title issues - once you close, you get clean title policy without exceptions.
- No back taxes - banks have paid everything at closing.
- House is vacant - I can go there as much as I want before I close.
- I do not have to argue about "correct" amount of equity with the homeowner.
- You can pick an area - and start buying every good deal in sight.

A great way to work with these REO Agents is to have an agent of your own. There are many courses and gurus that will tell you to find a real estate agent and you will make so much money you won't be able to stand it. But the key is to find the right agent. If you are to be successful in real estate investing or any endeavor at all, you must find the right people to do business with. You must find the right buyer's agent to work with you on finding properties. The buyer's agent that you work with must meet the following criteria:

1. Experience with working with investors
2. Ability to think "outside of the box"
3. Friendly
4. Aggressive

If you are going to employ the services of your own real estate agent (a buyer's agent) be sure to find one based on the following criteria:

Experience working with investors.

You wouldn't go to Burger King and ask for a bucket of chicken, would you? Yet many investors will attempt to work with an agent that is used to working with first time home owners and expect to have success. You must have someone in your corner that knows the territory and knows what to expect. The market for real estate investors is very different than that of a homeowner looking for a house in which to live. The real estate agent must understand not only the value of comparable sales and how needed repairs affect a sales price, but a myriad of other real estate investing specific criteria. You also want an agent that is used to Bank Owned (REO) properties, Government owned properties (HUDs), etc. or at least is willing to immerse himself in learning about how to work in this field.

Ability to think outside of the box

All profitable investors must be creative and go against conventional wisdom at times. You must have an agent that thinks like you and is not offended if you are making a creative offer or attempting to put together a creative transaction.

Friendly

This rule should apply to anyone you are going to do business with on a consistent basis. Real estate investing should lead to freedom and security and if you have to deal with someone who is not a joy to be around takes away from your freedom. Your agent should not only be friendly, but should genuinely appreciate your business. Friendly agents get better results; they develop a better rapport with sellers and seller's agents which will result in more closings. This will result in more money in your pocket.

Aggressive

Many times your buyer's agent must call the listing agent of a property several times in order to get a response. Your buyer's agent may also have to make several offers before one gets accepted. Your agent must be able to press and not get frustrated.

Once you have found an agent that fits this criteria, you want to grow and develop a long term relationship with them. You want to do your best to close on time once you have a property under contract with them. Once you have closed several deals with them you also should send them birthday cards, Christmas cards, take them out to dinner etc. to show them that you value their business.

A good real estate agent can make you a lot of money. Find a good one and grow your relationship with them and you will be well on your way to building your real estate empire!

A good real estate agent that can help you buy bank owned properties can help you build a real estate empire!

We wish you much success!

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