



# How To Find An REO Bargain — And Avoid 7 Costly Mistakes

**F**oreclosed properties — what we call “real estate owned” (REO) — are an excellent way to get a great deal on a home today. Although buyers can also find bargain prices on pre-foreclosure sales or homes sold at foreclosure auctions, most buyers find it easier and less risky to purchase REOs from the lending institutions and government authorities that repossess the homes. (**Note:** REOs also can refer to properties purchased by corporations from their transferring employees. This report focuses on REOs resulting from foreclosure proceedings.)

## Why Buy An REO?

REO homes are most attractive to buyers looking for bargains. They know lenders and government organizations don't really want to own homes and would rather move their “non-performing assets” off the books as quickly as possible.

Still, being responsible to stockholders or taxpayers means institutional owners will try to recover as much of their investment in a foreclosed home as possible — unpaid loan amount, transaction costs, property taxes, maintenance costs, etc. Negotiating is key to getting a true bargain price on an REO!

REO foreclosurers offer some distinct advantages to buyers.

- **Opportunity for professional inspection.** Being able to thoroughly inspect an REO can help ensure

against unexpected problems and expensive repairs. Inspections are often not an option at earlier stages of foreclosure, when properties are frequently sold “as is.”

- **Easier financing.** The lender or government agency may offer an attractive financing package, perhaps including a lower interest rate or smaller down payment requirement than might be available on the open market. Chances are also better that outside lenders will consider financing an REO, since their appraisers get a chance to look at these properties. REO buyers can also negotiate for a financing contingency in their contract with the seller.

- **No eviction problems.** By the time institutional owners put their properties on the market as REOs,

## The Process Of Foreclosure

The term “foreclosure” can be confusing; it really refers to a three-stage process:

- 1. Pre-foreclosure** — initial stage when homeowner misses payments (becoming “delinquent”), then defaults on mortgage, and lender begins foreclosure proceedings (Notice of Default).

- 2. Auction (often referred to as a “trustee's sale” or “step sale”)** — the stage at which the property is put up for auction by lender; proceeds repay lender (and homeowner, if any money is left over).

- 3. Post-foreclosure** — when properties that didn't sell at auction are repossessed, becoming REO by a lender or government agency, such as the Federal Housing Authority (FHA) or Veterans Affairs (VA).

former owners or tenants typically have already moved out. Again, this may not be the case with pre-foreclosure and auction sales.

- **Better condition.** Homes in default and sold at auction may not be in great shape, either due to neglect by their cash-strapped former owners or damage caused by disgruntled residents or vandals. Lenders and government organizations selling REOs, however, sometimes make repairs, returning properties to livable condition — or discount the prices to sell more quickly.

- **Listings with brokers.** Most REOs are listed for sale with a real estate broker/REALTOR® who is bound by law and ethics to represent the property truthfully. (In some states, however, lenders are exempt from some disclosure rules. Ask us.)

## Costly Mistakes To Avoid

Understanding some of the costliest mistakes to avoid goes a long way to finding a great REO bargain in today's market.

- Mistake 1. All REOs are bargains.** Understand that the institution selling the property (lender, government, corporation, etc.) wants to clear its inventory. The home's condition is not their concern. Be prepared to do your homework — and rely on a professional real estate specialist to avoid any land mines.

- Mistake 2. Overbidding.** REO buyers must know area home values, condition of nearby properties, neighborhood trends, street noise, airplane traffic, and zoning issues that affect the property's value. Sometimes foreclosures are priced below market value to attract multiple bids and “drive up” the sales price. We'll help you bid right.

- Mistake 3. No inspection necessary.** Some REO buyers think a professional home inspection is too

To Purchase Call (703) 698-7750