What is an REO or bank-owned property?

REOs are properties that are returned to the bank once they have gone through an unsuccessful **foreclosure auction**. Generally speaking, when a property goes to a foreclosure auction, the amount due on the home includes the amount due on the mortgage, as well as any late fees, attorney fees, tax liens, and any other costs associated with the foreclosure process. In most cases today, the foreclosure auction receives no bids, which is why it is returned to the bank for the bank to sell.

Once the property is returned to the bank a few things then happen. Now that the bank owns the property, a mortgage no longer exists. The bank will negotiate with those who hold liens on the property – like the IRS, outstanding property taxes, and homeowners association dues, etc., to have the liens removed. This should insure a clear title when the property is sold. The bank will also handle the eviction process clearing the way for an easier sale. There is no guarantee for each REO listing that the bank has completed the process and that the title is free and clear. This is important to check when pursuing an REO property.

How do I find REO properties for purchase?

There may be some **REO properties** that are already listed in our local MLS. If it is not publicly listed, it is sometimes possible to contact the bank directly. This can be done either by calling the bank and talking to the loss mitigation department, REO Department, or asset management department – the department names will vary. With the influx of **bank-owned homes** currently on the market, it may take a while to get in touch with someone that can help you. There are also foreclosure auction sites where buyers can bid online. Just keep in mind that you should be prepared and able to buy the property you are inquiring about. In all cases it is recommended that you have a buyer's agent who is looking out for your best interests and helping you to determine the total cost of the transaction

Is the price negotiable?

While everything is negotiable, when a bank lists its REO properties, the bank has done extensive valuation work on the property and determined the fair market value. Often times banks list the properties for less than they are worth to elicit multiple offers and wind up requesting buyers submit their, "highest and best" offers. If an REO property sits on the market for a while, the bank generally will become more flexible in its pricing. Bottom line, banks are not in business to give their REO properties away.

How does the offer process work?

Making an offer on a REO begins with the same contract that a buyer would use when placing an offer on a regular house. In addition to the Hawaii Association of Realtors (HAR) Purchase Contract, almost every bank has their own set of addenda. Some banks prefer to have the terms all completed on their own forms when making the initial offer, while others prefer to evaluate the offer on the Purchase Contract only, and then provide the counter-offer terms on their addendum. Each bank is different on these procedures. Knowing how an individual bank works, and then proceeding along their desired system will increase the likelihood of your offers acceptance. Many of the larger banks have an online system where offers are uploaded and submitted electronically. Banks generally take longer to accept an offer than a normal seller. This is especially true when the home is priced low for the area and there are multiple offers. Buyers need to be patient, and understand that when there are numerous people bidding on the same house, that only one will "win". **Having the "Best" offer is not always the highest price.** Knowing what the risks are to a bank is very important in a multi-offer property.

Are there any benefits to paying cash vs. getting a mortgage?

This depends on the owner of the REO property. For Government Sanctioned Entities (GSEs) like Fannie Mae or Freddie Mac, they give priority to owner occupants and have their own bonuses and lending incentives in place for the homeowner, so cash is not necessarily an advantage. With most non GSE banks and lender, CASH IS KING. If a buyer writes an offer on a property for $300,000 with 20% down and another buyer at the same time submits an ALL CASH offer for $268,000 with a 21 day close, the banks and their asset managers will most frequently, but not always, give preference to the ALL CASH offer.

Must i be pre-approved for a loan?
It is absolutely imperative that the buyer be pre-approved for a loan BEFORE, viewing available bank-owned properties. Banks take into consideration when evaluating offers: the amount of any down payment, the type of loan and the borrowing strength of the buyer. Some banks may consider a lower purchase price if the buyer will be obtaining a loan through the same bank that currently owns the property. This is especially important when there are multiple buyers making offers on the same property. It is also important to be pre-approved so that as a buyer you're only evaluating and considering homes that you could actually afford to purchase.

What about contingencies like an inspection?

Getting an inspection is essential and may help your negotiating position. If you decide to put in a lower bid, make sure you can substantiate your reasons for doing so by providing repair estimates, pictures and other documentation as needed. In many cases, the previous owners of the property were already struggling to make the payments and most likely did not have the funds to do regular maintenance on the property. When making the offer, you can add an inspection contingency that will allow you time to have any inspections done and the ability to walk away should the cost to repair be too great. In some cases, the lender may decide to negotiate or give a credit at closing because they don't want to have to repeat the process with the next potential buyer. Most properties are sold "as is" but that doesn't mean you should let yourself get stuck buying a money pit if you can help it.

Will there be a seller's disclosure?

Usually not. Additionally, the bank or its asset management company will provide their own contracts that state that the sale is "AS-IS" and absolving the bank from any liabilities resulting from the purchase of the property. In an REO transaction, the buyer must be very meticulous about doing their own due diligence on all issues from title to condition, to neighborhood information that may be important to the future value of the property.

What about my Earnest Money Deposit?

One of the biggest differences between a traditional sale and a REO purchase deals with the deposit. The Earnest Money Deposit is the initial money that is placed into escrow by the Buyer. It is intended to show that the Buyer is "serious" about buying the property. Under the standard 12-page Purchase Contract from the Hawaii Association of Realtors the deposit is usually returned to the Buyer if the home does not close because of a financing or other problem that causes the Buyer to change their mind about closing on the home. When buying a bank owned home, the bank' contract usually allows the bank to keep the deposit once the timeframes for the various contingencies pass per the contract addendum. It is absolutely critical for a Buyer to understand the timeframes, and for them to comply with the dates listed in the bank's contract. The **amount of deposit may also have an impact on the banks evaluation** of multiple offers on the same house.