

## Frequently Asked Questions About REO Properties

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### 1. What is an REO?

REO stands for "Real Estate Owned". These are properties that have gone through foreclosure, were not sold at auction, and are now owned by the bank or mortgage company. REOs typically get listed with a real estate agent who specializes in the selling and marketing of REO Property. The property is marketed via traditional methods and the sale is similar to buying any other house you see on the market with a few differences:

- REO properties are sold "as-is, where-is" and "as disclosed" most of the time
- Typically there are no "I need to sell my house first" contingencies allowed
- Some banks do not allow changes to the Purchase and Sale Contract and or their Seller's Addendum
- To submit an offer, the buyer must have a full Pre-Approval Letter and/or verification of funds
- Sometimes there is a minimum deposit amount
- Bank may charge you a per diem rate if you don't close escrow when you say you will
- Most REOs are fixer-uppers or needs some type of cosmetic repair.

Do be aware that REOs 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. For this reason it is absolutely imperative that you do a thorough inspection with a licensed and bonded contractor before purchasing any REO. You must be extra diligent in all your inspections, because you have no recourse after you buy it.

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## 2. Is it a bargain?

It is commonly assumed that any REO must be a bargain and an opportunity for easy money. This simply isn't 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 REOs that are not good buys and not likely to turn a profit.

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## 3. Where can I find out where all the REO properties are?

Contact Us and let us know that you want to be on the weekly e-mail list for receiving distressed properties in Alameda and Contra Costa County.

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## 4. Do I bid auction style?

NO! These are not auctions. These properties are being sold via traditional methods just like any other house you see on the market with some small differences. See the "[So What is an REO?](#)" link for further information.

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## 5. What about Foreclosures?

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. 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. An 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.

If you think you may want to visit the foreclosure auction and try your luck there, no problem! Please note that most foreclosure auctions **BEGIN** with the balance of the mortgage, plus any liens, penalties, interest, late fees, attorney fees, auction fees, etc. Should you wait until it becomes REO? That's for you to decide. Do your research prior to the auction. This is your chance to gather all the data you need to make an informed decision on whether you should bid *and* how much you should bid. Feel free to **contact us** if you would like copies of the current Notice of Default and Notice of Trustee Sales in Alameda and Contra Costa counties.

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## 6. Can I still use the financing I'm qualified for?

Yes, you can finance your REO purchase.

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## 7. Do I have to pay you a commission?

No! The Seller (In this case, the Bank) pays our commission.

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## 8. When can I schedule an appointment to see one of the REO Houses you have listed?

If you see something you like, don't hesitate. REOs tends to go quicker than typical homes for sale because there is a lot of investor interest. If you see something, you can click on "Request a Showing" in the left margin of the property website, send me

an email, or call me direct at (510) 550-4920. I will tour the property with you or give showing instructions to your agent.

It's in your best interest to get pre-approved through a lender prior to viewing the home because most, if not all, banks require lender pre-approval and/or verification of funds for us to even submit an offer. If you need assistance finding a lender or want to get pre-approved, call us and we will help.

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## **9. How Do I Make an Offer?**

Most banks have a REO department that you'll work with in buying an REO property from them. Typically the REO department will use a listing agent to get their REO properties listed on the local MLS. Before making your offer, you'll want to contact either the listing agent or REO department at the bank and find out as much as you can about what they know about the condition of the property and what their process is for receiving offers. Since banks almost always sell REO properties "as is", you'll want to be sure and include an inspection contingency in your offer that gives you time to check for hidden damage and terminate the offer if you choose. 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.

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## **10. Are there any Seller Transfer Disclosures for the property?**

None. The Seller has never lived in the property and therefore can not disclose what it does not know. There is no former occupant we can contact to obtain information about the home. Generally, the bank Seller does not obtain an inspection of the home.

In those instances where the bank Seller has performed an inspection of one or all components of the home, we will provide you copies of the bank's inspection *for informational purposes only*. For example, if we have been required to obtain a termite or wood destroying organism inspection we will provide you with a copy once an offer has been received and before a final contract is negotiated. If we have

inspections of the roof, air conditioning, or other components of the home, we will provide those once an offer has been received but before a final contract is negotiated.

These inspection reports should not take the place of you the buyer retaining your own inspector.

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### **11. Is the Seller Negotiable?**

This really depends on the bank that is selling the home. There are situations where a home may not be receiving market attention (i.e. it is on market more than 60 days and not sold) and then the Seller is likely to be negotiable.

In the end, it is really no different than buying John and Jane Doe's house. If you want to make an offer the day they put their home on the market they are not likely to be negotiable. If you find their home after it has been on market a few months you are likely to find them negotiable.

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### **12. Will the Seller pay closing costs? Can I ask for repairs to the property?**

Corporate sellers are generally bottom-line oriented. In other words, they are looking at the net sale to the company. For example, if you are offering \$400,000 on a property and requesting \$10,000 in closing costs, then to the Seller it is a \$390,000 offer.

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### **13. How are negotiations handled?**

Once you have determined you wish to make an offer on a bank owned home, you instruct us (or your own agent) to write an offer. The offer is then presented to the Bank. The Bank will give us a verbal acceptance, a counteroffer or a rejection.

In the case of an acceptance or counter offer, it is verbal from the Bank and is transmitted verbally to you or your agent. All negotiations are conducted verbally until a final agreement is reached between you and the Bank.

Once that agreement is reached either the original contract offer is amended or a new contract is prepared containing the agreed upon terms. You the Buyer will sign or initial the contract and then the copy with your original signature is sent via overnight or hand delivered to this office and forwarded to the Seller.

It will take the Seller anywhere from three (3) to seven (7) business days to sign and return the fully executed [contract to us](#).

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#### **14. How do verbal counters work, exactly?**

After the initial offer is made in writing, counter offers are made verbally until agreement is reached. This is a slow process because the bank may be in a different time zone, or the responsible parties are tied up in meetings. It may be many days of verbal countering before a final agreement is signed by all parties. During that time, there is a danger that another offer will come in better than yours and the bank may accept it. This is especially likely to happen if negotiations go over a weekend. So my advice is: try to reach agreement with the minimum amount of counters and always present your highest and best offer.

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#### **15. Do Cash Buyers Obtain Better Deals?**

Yes and No. The close of escrow date is more important than the means the buyer is paying for the home. For example, a cash buyer that needs thirty days from contract to closing is not as desirable as a financing buyer that can close within 14 days. Furthermore, many cash buyers are really obtaining financing - generally some cash and possibly a line of credit - they are just making an offer without a financing contingency. Remember, we are required by the Bank to verify the means and the buyer's ability to pay for the home. Financing buyer's should instruct their mortgage broker to provide the strongest letter of pre-approval.

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#### **16. I am a Broker. Can I still earn commission on the Selling side if I purchase the property myself?**

Unfortunately, no. There will be no selling office commission paid if the buyer is also the broker, so please take this into consideration when making your offer. In addition, commission will only be paid on the sales price LESS any concessions made by the Seller (For Example: If sale price \$400,000 with seller crediting \$5,000 towards buyer's closing costs, commission will be based on \$395,000).

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