

Secrets of Buying REO Property

In our last three columns, we've looked at buying property at the foreclosure auction, as well as before the foreclosure auction. Today let's take it one step further, let's look at buying REO (real estate owned) property. REOs are also known as "bank owned" property.

At the foreclosure auction the courthouse crier shouts out, "Going once, going twice, going three times. I have no other bids. The property goes back to the lender."

After hearing this, we are often asked, "What happens to the property if no one bids?" It's a question we are a little reluctant to answer. Why? The process is a little complicated which makes it tough to explain.

Today, let's take a look at what happens when one bids on a property and it becomes REO property.

When Kim and I first moved to Bartow County in 1999, there were about twenty foreclosures advertised in the paper each month. The number is now rapidly approaching one hundred. This is a huge increase.

One other problem, 90% of the homes going to auction these days have no or very little equity. This means investors **aren't** bidding on 90% of the properties being auctioned. Therefore, banks and mortgage companies are getting an incredible number of homes back. By the way, this is a national problem, not just a Georgia problem.

A real estate investor's first job is to solve peoples' real estate problems. This is true whether "people" means homeowners or lenders.

Let's look at this situation from the **lender's** point of view. The lender is in the money loaning business, not the hammer swinging and property managing business. If they get a property back after a foreclosure auction, it is not considered an asset, it is considered a liability.

Example: A lender gets a house back after a foreclosure auction. The property is worth \$105,000. The loan was for \$100,000. The lender is out \$100,000 until it gets the property sold.

Question, if the lender sells this \$100,000 property, will they recover all of the \$105,000 they lent? No way. There are many costs to consider, such as: rehabbing, insurance, utilities, real estate commissions, etc.

But it gets even worse for the lender. The federal government does not like bad debt on a lenders books'. Therefore, when the lender gets a property back, the lender must deposit up to three times the amount of this bad debt into an escrow account. This is money the lender cannot loan to other home buyers.

In this example, the lender has a bad debt of \$105,000, plus up to \$315,000 in an escrow account. In other words, the lender has up to \$420,000 of their assets tied up in this one property.

But it gets even worse for the lender. The house is sitting vacant. Don't you think every fourteen year old boy in the neighborhood is aware that this house is vacant? What do fourteen year old boys love to do to vacant houses?

Just two weeks ago we looked at a vacant REO property owed by a local bank whose initials are UNB. There were four kids up in a tree in the property's front yard, plus an empty in-ground pool in the back yard. Talk about an unpleasant liability situation.

You can see that REO properties can cost lenders tens of thousands of dollars, plus REOs are a huge liability issue. Talk about having a real estate problem!

To help solve the lender's real estate problem, what if you faxed them a sixty cents on the dollar offer? Do you see how the lender may be overjoyed to be rid of this REO property?

What is the secret to buying REO property? Fax the lender your offer, and then keep following up with them until they say either "yes" or "drop dead".

With the huge increase in the number of properties lenders are getting back, REOs are quickly becoming the best way to buy foreclosure property.

If you want to learn more about real estate investing, or would like a ***FREE*** copy of our 28 page monthly newsletter, or would like information about our 1,400 member real estate investors group that meets monthly at the Holiday Inn in Cartersville, then please visit our website at **www.REIoutpost.com**.