



8 REO tips for Buying Foreclosures

How to Write Offers to Buy REO Foreclosures

by Elizabeth Weintraub, About.com

Lots of savvy home buyers want to hit the jackpot and buy that REO home, many of which are often under-priced. When banks price REOs under the comparable sales, multiple offers are often the response. This means the buyer could be up against stiff competition for that bank-owned home.

It's not unusual for some REO homes to receive 15 or 20 offers. Sometimes the bank will throw out all but two offers and then ask the selected buyers to resubmit what is called "Highest and Final" offer. Sometimes the bank simply accepts the best offer at inception.

In the quest to make the offer shine above all the rest and be the winning offer, here are a few tips to help select the right price and terms:

1) Get the Property History

If possible, find out the bank's purchase price on the Trustee's Deed. Generally, it is noted on the document itself, which you can get from the tax rolls or a title company. Compare that price to the price the bank is asking.

Look at the amount of loans that were once secured to the property. Somewhere between the original mortgage balance(s) and the foreclosure sale price is the amount the bank will accept, if the home is under-priced.

2) Determine Comparable Sales

In many cases, the list price has little bearing on the value of the home. The market value carries the most weight. If you are up against competing offers, other buyers will offer more than list price.

- Look at the last three months of comparable sales, a mini CMA, for that neighborhood to determine how much this REO is worth. Try to use only those homes that most closely match the REO regarding square footage, number of bedrooms, baths, amenities and condition.
- Look at the pending sales. Call the listing agents of those pending sales to try to find out the accepted offer price. Some will share that information and some will not.
- Look at the active listings. Those are most likely the listings other buyers will use to formulate a price because they are the only homes those buyers actually tour.

3) Analyze Listing Agent's REO Solds

Most REO agents work for one or two banks. Some listing agents are exclusive listing agents for REOs, and they do not list any other type of property. Since REO agents deal in volume, they typically apply the same pricing principles to all their REO listings.

- Look up the listing agent in MLS.
- Run a search using that listing agent's name to find the last three to six months of that agent's listings.
- Pull the history of those listings to determine the list-price to sales-price ratio. If most of those listings are selling for, say, 5% over list price, then you may need to offer 6% over list price, and vice versa.

4) Ask About Number of Offers

If there are no offers on the REO home, the buyer can probably offer less than list price and get the offer accepted. However, if there are more than two offers, the buyer will most likely need to offer above the asking price.

If there are 20 offers, bear in mind that some of those offers might be all cash. Banks like all cash offers. If the buyer is obtaining financing, then they may need to increase the price on your offer to be considered.

5) Submit Pre-approval Letters

It goes without saying that you do not want a pre-qual letter. You want a pre-approval letter. Get pre-approved from your choice of lender in advance.

Moreover, get pre-approved by the lender who owns the property. Do not necessarily expect to use this lender for your loan, but submit the pre-approval letter from this lender, along with the letter from your own lender. Banks don't trust other lender pre-approvals as much as they trust their own departments.

6) Consider Not Asking for Repairs

Sometimes banks will pay for repairs, but typically will not agree to do so at the offer stage. If there are problems found during a home inspection, renegotiate after the offer has been accepted.

7) Shorten the Inspection Period

If other buyers ask for 17 days, for example, to conduct inspections, and you ask for 10, you will be deemed the more serious buyer.

8) Offer to Split Fees

Some banks will not pay transfer fees, for example. If the buyer offers to split those fees, the bank will feel more amenable to accepting the offer. -- Same thing for escrow fees.

Many banks negotiate discount fees for title insurance. If the bank will pay for the owner's policy, the ALTA policy might cost a bit more. But it's still a good idea to let the bank choose title if you want your offer accepted.

Consider the Appraisal Consequences

If the offer is over list price, bear in mind that the appraisal will need to substantiate that price. If you find yourself dealing with a low appraisal, you have options, so don't despair. Remember, the bank will most likely run into this problem with the next buyer who obtains financing.