

FORECLOSURES AND REO PURCHASING

Purchasing an **REO** (Real Estate Owned) property has its own set of unique circumstances, guidelines and concerns for the buyer and the buyer's agent. This information sheet is meant to be used as a guide regarding the process involved in contract negotiations for the purchase of an REO or "bank/investor-owned" property. The information provided herein is not applicable in all/every situation.

When a buyer is considering the purchase of an REO property, the first step is to obtain a pre-approval letter from a lender. In addition to the buyer knowing that he/she can afford to purchase, this pre-approval document must be submitted with the offer. If the buyer is not obtaining financing and will have a cash transaction, a proof of funds document is required.

Earnest Money: In the offer to purchase, any amount of earnest money can be suggested, but the investor/sellers will usually seek a minimum of \$500 to \$1,000 in earnest money depending on the value of the property. If a cash offer, the seller/investor may ask for additional earnest money. Earnest money needs to be submitted in the form of a cashier's check, money order, or certified check. No personal checks are accepted.

Asset Manager: The person representing the interests of the seller/investor and who handles all the details of the property including contract negotiations.

Communications: All communications from the buyer and the buyer's agent must go through the listing agent. Asset managers representing the REO property typically deal with hundreds of properties at a time and they require communication on all of their properties to come from and through the listing agent.

Addenda: Some asset management companies will have their own addenda or verbiage that needs to be submitted with the original offer. Others may have some addenda that incorporate all the agreed upon terms and are filled out once an agreement is reached.

Clear Title & Title Work: After foreclosure, the seller/investor ensures that the property title is free and clear of all encumbrances when it is transferred to the new owner, including payment of any back real estate taxes and back utility bills, when they may be attached to the tax roll. Most sellers/investors will choose their own title company; however, in some cases, the real estate agents involved will order title work. In rare instances, the title search work before closing may reveal a judgment that remains unpaid, which can delay the selling process significantly while the title company and/or seller clears the matter for a free and clear title.

No Sale Contingencies: Offers to purchase an REO property cannot have a sale/sub-sale contingency.

Response Times/Timelines: REO asset managers are typically very timely in their responses to offers and counter offers. However, they often need other people's or department's approvals if they are in the final phases of accepting an offer. The buyer/buyer's agent will need to be patient if the response time-frame is not as rapid as the buyer/buyer's agent would like. When the listing agent receives a response from the asset manager for the buyer, those responses will be promptly communicated to the buyer/buyer's agent. Timelines set in the original Offer to Purchase must be watched carefully by the buyer/buyer's agent as delayed responses by an asset manager/investor do not automatically change the dates in the contract to the benefit of the buyer. Timeline changes may be handled by way of counter offers and amendments along the way.

Repairs: Most REO properties are sold in "as is" condition and it is unlikely that the bank or seller/investor will do any repairs. In some cases, especially if a property cannot be financed because of "conditions", a seller/investor may "repair" the property to sell it.

As is/Where is Addendum: Most REO properties will require the buyer to sign the seller/investor's "As is/Where is" Addendum written by the seller/investor's attorney. Buyers should review this addendum carefully or have an attorney review the provisions of this addendum. In addition, buyers may not make any changes to the addendum as this will typically void the entire contract. Items included in the addendum that require changes to meet the buyer's needs must be addressed using a separate amendment to the sales contract signed by both buyer and seller.

Inspection Contingency: Inspection contingencies are allowed when purchasing REO properties. Since the seller/investor typically has no knowledge of property defects, buyers are encouraged to get whatever inspections (at buyer's expense) they require to feel comfortable in purchasing the property. Typically these inspections are for informational purposes only but in some cases, defects found upon inspection could be used to void the contract. If the property must be de-winterized and re-winterized to meet the inspection contingency requested by the buyer, this must be addressed in the Offer to Purchase.

Winterizations: Winterizing of the properties does not guarantee the proper function of any of the mechanical systems. Winterizing is done to prevent damage to the systems. There are no guarantees, so a home inspection is very important. Buyers need to be aware that they may be required to pay all costs of de-winterization and re-winterization for inspection purposes.

"Highest, Best and Final" Offer: At any time in the purchasing process, the asset manager may ask any and all buyers for their "highest, best and final" offer. Asset managers typically do not put forward multiple counter offers to multiple buyers. When in the "highest, best and final" scenario, listing agents will clearly communicate this to the buyers/buyers' agents, and all buyers should put forth their best offer.

Seller-paid items: Some investor/sellers will allow seller paid credits and some will not. There is no specific standard on this; it depends on investor guidelines.

Acceptance of Offers: Offers are not considered binding and accepted until the asset manager has corporate approval and both buyer and seller have signed the contracts. Until a signed copy is delivered (signed by both parties), the offer is considered "approved pending corporate approval."

Closing delays: Most REO addenda will require a penalty for delaying closing on the part of the buyer at a cost of \$100 per day. Buyers should make sure the contract they sign reflects the true date they can close on the property. Of course, closing dates can possibly be amended if accepted by the seller/investor.

Home Warranty: Some REO companies will pay for a home warranty and some will not.

Additional provisions or conditions may apply at any time during an REO purchase. Adashun Jones Real Estate makes no warranty as to the accuracy of this information sheet. The information sheet is provided simply as an educational tool for REO buyers.