



Bank Owned (REO) Homes, Facts for Buyers

This information has been prepared for buyers to educate themselves on how REO Purchase Offers work in the current environment.

The Role of the Asset Manager

Each bank has an Asset Manager who manages a portfolio of REO homes. It is the asset manager's job to turn the home/asset as soon as possible. Most all REO homes have multiple offers. It is common for a REO home to have 10 or more offers. The asset manager selects the offer that gives the best financial return.

Potential Buyers Must Demonstrate Financial Capacity

It is very important that a potential buyer is able to demonstrate that they are financially worthy and able to close the transaction. When a newly foreclosed home comes into the portfolio, the asset manager determines through several professional sources how the home should be priced. The home is priced to sell based on the best information available. Pricing is based on comparable homes which have sold in the area. The home is not priced for a give and take between the asset manager and potential buyers. Commonly, the buyer is requested to make their Best and Final Offer when a purchase contract is offered.

Homes are Purchased on an As Is Basis

REO homes are always purchased on an As Is basis. This means the buyer is responsible for any repairs. Many times the REO home will be trashed by the previous owner. It may be missing appliances, have exposed wiring, carpet/flooring that is missing, missing heating/air conditioning and wall/light fixtures. This becomes very important if the buyer plans on using an FHA loan to finance the purchase.

How an FHA Purchase Works

FHA is one of the more desirable loans for Buyers because they only require a 3.5% down payment. However, the home being purchased must meet health and safety requirements as identified by the FHA appraiser. Therefore, many of the missing items noted above need to be replaced or repaired before the loan is approved. A buyer should plan on having to pay for the repairs themselves. This repair process must be completed within the time frame stipulated in the Bank Addendum.

An FHA loan is generally viewed as not as desirable by the seller. Because of the FHA requirements, loans may be subject to delay. The seller would prefer not to deal with that. The most desirable payment term to the seller is an all cash purchase offer.

The Bank Addendum

The bank addendum is provided to the buyer if the asset manager decides to accept the buyers offer.

The bank addendum absolves the bank of any liability and states terms of the offer which supersede the language of the standard purchase agreement. Typically those include:

- An increase of the earnest money deposit
- A statement of the expected close date, if the close date is not met then there may be a per diem penalty for each day past the close. The penalty charges may be up to \$100 per day.
- A specific date when all inspections should be completed.
- If the buyer cancels the sale after the inspection completion (Contingency Period) date, the buyer may lose all the earnest money deposit.

How to Maximize Your Chance of Offer Acceptance

- Have your financing lined up with pre approval letters. Many times you will be required to have an approval from a specific lender or broker.
- Make sure you can show proof of funds for down payment and closing costs. Have the proper financial statements as demonstration of proof. It should be included in the offer.
- Give your best offer initially; REOs are not a “dicker” business with the asset manager.
- Know your total assets/cash. Make sure you have enough cash to cover your down payment and closing costs.
- Don’t ask for repairs to be covered in the offer. Remember, it is being sold “As Is”.