

Interested in buying "distressed" real estate? Here's what you need to know.

Due to the housing bust and the overall economic downturn, a large portion of the available inventory in today's housing market is made up of distressed real estate--foreclosures, short sales and real estate owned (REO) properties.

For at least the next five years, or perhaps even longer, borrowers who *can* qualify for a home loan will encounter a lot of this "distressed" real estate out in the marketplace. While you can buy distressed real estate at below-market prices, it also brings a unique set of circumstances that you may not encounter in a more typical home buying scenario.

The articles below are designed to educate you on what you need to know, what you need to look out for and what mistakes to avoid when purchasing **foreclosure**, **short sale** or **REO** properties.

"Buying a foreclosure? It's more than just cheap real estate"



With many markets saturated with foreclosed properties, more prospective homebuyers are taking a closer look at these types of properties than ever before. Purchasing a foreclosure isn't just a simple matter of scoring a dirt-cheap bargain, however. *What should you worry about--or not--when buying a foreclosed property?*

Foreclosures being sold by banks have long been an attractive opportunity for real estate investors. But today, these homes are so plentiful in some markets that many consumers are purchasing them as primary residences.

The big attraction of purchasing a foreclosure is the expectation that it can be bought at bargain-basement prices. Whether that expectation holds true depends largely on local market conditions and what Keith Gumbinger, vice president of HSH.com, calls the "desperation factor" of the bank that needs to sell the property. (*Read More*)

"Here's how to buy & finance a short sale property"



Short sales differ from most home purchases in almost every way. At every step, from shopping to negotiating to mortgage financing, short sale properties are just harder to deal with. Here's what you need to know.

A "short sale" indicates that the sales price of the property is less than the amount the former homeowner owed against it. With so many American homes underwater, it's a common sight in real estate listings these days. But a short sale does not mean a screaming deal for the homebuyer--at

least, not necessarily. Just because the **mortgage lender** is probably taking a loss doesn't mean that the property is priced way below market value.

"People want to get houses for half price, and that's not going to happen," says Tina Uchytel, a Nevada-based REALTOR.

In general, short sales *do* offer some discount from the market value of the property--anywhere between 5 percent to just over 30 percent, according to RealtyTrac's first-quarter 2010 figures. If short sales didn't come with some discount, there would be no reason for buyers to deal with the myriad headaches that these transactions can present. Make no mistake, short sales come with headaches, so you need to know what to expect.

"Buying an REO property: Know what to expect"



A Real Estate Owned property (REO) is a property that has reverted to the **mortgage lender** after an unsuccessful foreclosure auction. REOs are a large part of the housing market these days. In September 2010, distressed properties--many of them REOs--accounted for nearly 48 percent of home-purchase transactions, according to the Campbell Inside Mortgage Finance Survey.

Many banks have an entire department set up to sell REOs. Bank-owned properties can offer great deals for buyers, as they often sell for less than a typical resale home, but there are several things you need to know before investing in an REO property.

Even though REOs can be a bargain, that doesn't mean you should jump in with your eyes closed. "REO buyers need to do their homework so they understand the property, the market, the neighborhood, and the process," says Tom Kelly, a spokesperson for Chase Bank.

5 keys to buying a bank-owned property

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Here's what you need to know as a potential buyer of REO property in today's market.

How to find REOs

Real estate agents can pull up REO offerings for you. Most **mortgage lenders** want their REO properties listed on the multiple listing service (MLS) so that any real estate agent can show them to potential buyers. Many banks also have websites specifically dedicated to their REO listings (go to a bank's website and look for links).

Here are a few major listings to get your browsing started:

- Fannie Mae REO: <http://www.homepath.com>
- Bank of America REO: <http://bankofamerica.reo.com/search/propertysearch.aspx>
- Countrywide REO: <http://bankofamerica.reo.com>
- HSBC REO: <http://www.us.hsbc.com/1/2/3/personal/home-loans/properties>

Get your own appraisal

Discounts on REOs vary greatly, depending on whether the homes are severely damaged and where they're located in the country. Although damaged REOs might sell for a relatively minor discount -- 5 percent to 7 percent off comparable private sales of non-damaged homes -- some might offer as much as a 30 percent discount.

But being listed as an REO doesn't mean that a property will automatically be a bargain. Banks are in business to make money, so of course they're going to price homes as competitively as possible. This is why it's important to always ask for an appraisal on the home you plan to purchase, advises Cliff Roe of Cliff Roe Realty, an REO specialist in Seminole, Florida. But keep in mind that an appraisal is going to cost you a few hundred dollars.

Get it inspected

REOs are sold "as-is," and that's why you need a home inspection before committing to a purchase. A thorough inspection is even more important for an REO than for a standard property.

"REOs tend to be sitting for six months to two years," says Roe, "so while you're getting a bargain on price, it's just compensation for the work you'll have to put back in."

A good home inspection should only cost you a few hundred dollars and can save you a lot of heartache. (Find a home inspector online at the American Society of Home Inspector's website, <http://www.ashi.org>.) An inspection might turn up minor damage and neglect, such as stains, missing appliances, or an unkempt yard. It may also uncover the need to address larger problems, such as holes in walls or major leaks.

The good news: According to Roe, only a small percentage of REO homes have major damage, and many repair issues are apparent as soon as you walk in.

Be financially savvy

"We encourage potential buyers to get prequalified for a loan so that the seller knows the borrower will be able to close," says Kelly.

If you want to buy an REO property, will you have trouble getting a mortgage? If the property you're considering is in good condition, you shouldn't have more trouble qualifying simply on the basis of the

home being REO, and likewise, you won't pay higher **mortgage rates** just because the lender knows you want to buy REO.

However, a significantly damaged property may close off some options for financing, because few mortgage financing programs exist for these types of homes.

"Federal Housing Administration (**FHA**) has 'purchase and rehab' mortgages available, and Fannie Mae was offering a 'HomeStyle' mortgage, which was similar," says Keith Gumbinger, vice president of HSH.com. If the damage to the REO property rules out some options, you may need to come up with cash or finance your purchase through hard money loans.

Closing may take awhile

Bidding on an REO isn't quite like making an offer on a privately-owned home, where you hear back from an owner fairly quickly. Instead, you'll submit your bid then you'll wait for a response with a counteroffer. Since a bank is a business, you may end up dealing with more than one person or department, and it can take a while to get all of the paperwork processed.

"The process can be frustrating and take more time," says Gumbinger. On the other hand, because the home is an REO, the bank will already have taken care of any liens on the property, so your title search should be a breeze.

It's possible to turn a fixer-upper into your own personal castle, as long as you are patient and don't expect that an REO listing means an automatic windfall.

For more help in understanding what is right for you and your financial choices please reach out to my office at 602-361-0707 or **email me** my team and I look forward to being of service.