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How To Buy REOs, Bank Owned And Foreclosure Homes

An REO property is a home which has been acquired by a lending institution through a foreclosure process. Basically they are homes which mortgage companies have taken possession of after an unsuccessful foreclosure auction. Foreclosure auctions on homes are nearly always unsuccessful because the minimum bid on these properties has to cover the outstanding balances owed to any lien holder to the property. This would include the loan balance, any accrued interest, fees for attorneys and costs incurred during foreclosure. All these things nearly always amount to more than the property is worth. Once the minimum bid at a foreclosure auction is not met possession of the property goes to the mortgage holder in the form of an REO.

Once the bank owns the [property](#) the mortgage is no longer in place. Then the bank will handle any eviction process, occasionally make basic repairs, negotiate any tax liens and make take care of home owner association dues. Recently banks have moved away from paying the fees for closing and are making these fees the responsibility of the home buyer.

You really do need to understand that mortgage institutions are not interested in just dumping the property on the market. They are still interested in making the process as profitable as possible or limiting their losses. They don't just give the property away for pennies on the dollar. When you find a REO property and make an offer, the bank will generally come back with a counter offer. You can generally count on some negotiations to get to a price that both sides agree with. Banks have an obligation to their shareholders, auditors and investors that they are working to get the best possible price for their assets. You should be prepared for a game of offer and counter offer.

A deal with a bank is not your typical [real estate](#) transaction. You can expect it to take a longer amount of time than normal and delays are a real possibility. Each time a document is generated in an offer several individuals need to review and approve it to be effective. It is common to get a preliminary approval of an offer which still needs to get final approval from a higher up. Things like this are some of the many things that make negotiating on REO property unique.

Most often mortgage institutions will want to sell the property as is so you will want to make sure that you conduct good inspections of the property to understand its condition. Banks will often refuse to make repairs on the property so you will want to take this into account when you make an offer. In some instances banks may renegotiate if after the inspection you find that the repairs will be substantial. The mortgage institution may feel that lowering the price is a better option than putting the property back on the market again.

In those instances where the bank will not move on the price and you get a rejection, you should consider watching the property for another month and if it is still available you can resubmit your initial offer again with adjusted dates. After an additional month with the home not selling they may be more inclined to take your offer.

A couple things you should have your agent find out prior to making your offer are:

Do they have any inspection reports you can look at?

Is it being sold as-is with a as-is form?

How long can it take for the bank to respond?

In what way will offers be presented?

You should realize that when dealing with a bank nothing will happen in the evenings or on weekends. The offers to bank owned homes are typically faxed or electronically delivered with no actual face to face interaction. To speed the process along provide a lenders pre-qualification letter with your offer. If you let them know you're serious by having your financing in place they will take your offer seriously.

An REO is a good way to buy a property in distress without having to deal with a seller. There is only you, your agent, the agent for the bank and the bank's representative who are negotiating.

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