

INVESTING: MAKING YOUR DOLLARS WORK FOR YOU

REOS: WAYS TO INVEST IN BANK OWNED PROPERTIES

Banks now own more properties than at any other time in history. Some estimates put the total at over 500,000 homes. The banks need to sell these homes, as they are losing money each day in holding costs.

In case you're not familiar with the term REO, it stands for "Real Estate Owned." Simply put, these are homes that the bank foreclosed upon and that failed to sell for an acceptable price at an auction. Therefore, ***the bank has become the owner of the property.***

You've probably seen many of these properties without even realizing it. If you've ever passed by a vacant home with a few sheets of paper or stickers on the windows, those are typically repossessed homes. Get out and take a look at the paperwork next time.

Intelligent investors can make a lot of money through REOs.

▶ **WHERE TO FIND REOS**

In most cities, there are a couple of real estate agents that specialize in these properties. Most banks prefer to deal with a limited number of brokers. These brokers shouldn't be too difficult to find. Any friendly real estate agent can do a simple property search and provide you a list of REOs.

You could also call your local banks and make an inquiry. They'll direct you to the local broker they use.

▶ **DIFFERENCES BETWEEN REO AND TYPICAL PURCHASE TRANSACTIONS**

There are some differences when purchasing a property from a bank, since you're dealing with a company rather than an individual.

These differences include:

1. **Lack of information.** Getting information about the upkeep and costs of a REO is a challenge.

- ▶ For example, if you want to know the cost of the past utilities or when the roof was last replaced it will be difficult, if not impossible, to find out.
 - ▶ ***You'll have to do your homework in order to make smart decisions before purchasing.***
2. **The process can be slow.** Banks are typically slow when it comes to handling their end of the transaction in an REO purchase. This is a little ironic, considering that banks usually put you on a tight schedule.
- ▶ The required closing period is usually 40-45 days. That means you have to get financing or find a buyer quickly so you don't risk losing your deposit.
3. ***The required deposit is larger. The good faith deposit for an REO is usually around 5%, and it's not refundable under any circumstances.***
- ▶ Even if you discover the home is infested with termites or find barrels of toxic waste in the basement, you're still not getting your money back.
 - ▶ Be sure you want the property before making an offer.

4. **The contract cannot be assigned, technically.** Banks are very careful to word the contract in a way that excludes the possibility of assigning the contract to someone else.
 - ▶ Investors love to assign contracts, since it's usually the easiest (and cheapest) way to flip a property. There is a way around the bank's language, though.

▶ **FIND YOUR BUYERS FIRST**

Flipping an REO is very time-constricted. You have to move quickly to find a buyer. Remember that your buyer might need some time to get financing and close the deal.

There are two great ways to find buyers:

1. **Get a list of cash transactions from your real estate agent.** An agent can easily pull up a list of cash transactions for the last 6 months. This will provide you with the name of the buyer, and you'll also be able to see what part of town the investor favors.
 - ▶ ***Not all cash-buyers are investors, but the vast majority of them will be.***

2. **Use Craigslist.com.** Take a look at all of the houses that are for rent. Who's offering to rent those homes? That's right, real estate investors.
 - ▶ Call or email every landlord you come across, explain that you're a wholesaler, and ask them what types of homes they like to purchase. Get a long list of potential buyers.

Get Specific Information

Acquire the necessary information from your buyers:

- ▶ What part of town do they like?
- ▶ How many bedrooms and bathrooms do they require? Do they prefer homes with garages? Do they like fenced yards? Do they want homes with or without a basement?
- ▶ How much they are willing to pay versus the ARV (after repair value)? This will help you to make appropriate offers to the bank.

- ▶ How quickly can they close?
- ▶ Are they going to use cash or financing?

▶ **SET UP A LIMITED LIABILITY CORPORATION**

Since the sales contract cannot be assigned to your end-buyer, you'll need to be clever. The easiest solution is to set up a Limited Liability Corporation (LLC) and use it when dealing with the bank.

While you cannot assign your contract, you can sell your LLC to another person. The sales contract is an asset of your company.

You can simply sell your company to your end-buyer for an amount equivalent to your assignment fee. The banks aren't happy about it, but there's nothing they can do to stop you from proceeding in this way.

▶ GET OUT THERE AND MAKE OFFERS

While it's not entirely necessary, ***the whole process will go a lot smoother if you know you have one or more buyers that would be interested in the property.*** It can take many homes and a lot of offers to make a deal. It really is a numbers game.

The broker responsible for the listing can probably point you in the right direction. He will probably have a good idea about which properties and banks offer the best opportunities at any given time.

▶ FIND A BUYER FOR YOUR PROPERTY

Now that you have a property under contract, you need to contact your buyers and unload the property. The easiest way to do this is to take some pictures of the property and send out a mass email.

This email should include every bit of information you have about the property. ***The more information you provide, the fewer questions you'll have to answer.***

If you have a great property at a great price, you are likely to get a 'yes' within hours, especially after you've established a relationship with your buyers.

You want most of your work centered on the task of actually finding the deals, not selling them. Unloading your deals should be the fast and easy part.

If you aren't able to secure a buyer from your list, start aggressively advertising. Put signs in the yard and ads on Craigslist. Do everything you can to move the property. If you're offering a great deal, someone will be thrilled to purchase from you. It's usually a lot easier than you anticipate.

▶ **GET YOUR CHECK**

Getting paid is the most important part.

1. **Get an earnest money deposit.** Don't let a buyer tie-up your property without a deposit. The deposit should be non-refundable. Explain to them that you're on a tight timetable and that you're all professionals. Remember that the earnest money goes towards the purchase of your LLC.

2. **Get the rest of your money at closing.** In some localities, the title company will handle all the money issues and you'll simply get your check at closing. In other areas, you'll have to sell the LLC to your buyer prior to the closing.

▶ REPEAT

It can take some time, but ***if you can establish a reputation for being able to close, many doors will open for you.*** Many investors get in the position where they're able to purchase 100 or more properties at a time from the bank. Of course, you need to be able to move them.

It's entirely possible to make a great living by doing these steps over and over again. Take your time and get fully educated about your local market. Build your buyers list before you start making offers. Banks have properties to sell. Be the solution to their REO problem.