

NORTHGATE REALTY BROKERS

**REO
Made
Simple**



**Short Sales
Foreclosures
Bank Owned**

How to Buy Bank-Owned REO Properties



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What is a Bank Owned Property?

A bank owned property or an REO (real estate owned) is a property that has been through the foreclosure process and is now owned by the bank. Upon foreclosure, a property is auctioned on the county court house steps. In most cases, properties do not sell at auction as most auctions require that the property be purchased with cash at the time of sale. In addition, at auction a property is sold in “as is” condition. There is no opportunity to inspect the property before purchase.

There are pros and cons to buying bank owned properties. They often sell below market price-and that often makes them a great buy. However, most banks have strict guidelines about how the sale of the property will be handled and often do not waiver from these guidelines.

What types of financing will banks accept?

Banks will generally review your offer in its entirety with any type of financing. Credits requested will be considered, but be sure that your lender will allow the requested credit. Down payment assistance is typically not offered by these banks. Certain banks may require that you finance the purchase through their lending department as a condition of the offer or may simply require that you are pre-approved through their lending department.

Are there any special forms that should accompany my offer?

Yes, typically the bank will require a pre-approval letter and proof of down payment or purchase funds (usually in the form of a bank statement). In addition, many banks have specific purchase addendums or disclosure forms which they require buyers to sign so be prepared to complete extra paperwork. Also, keep in mind that banks will not consider emotional letters as part of your offer.

How does the bank respond to multiple offers?

Each bank may handle this situation differently. However, the bank will usually assume that the listing agent has asked for the highest and best offer from each potential buyer. The bank may respond with a counter offer to each potential buyer. In addition to purchase price, the bank will also be evaluating each offer on the buyer’s ability to close the transaction in a timely fashion and any contingencies the buyer is stipulating in the contract.

Will the bank accept a contingent offer?

No, banks are looking for the cleanest deals possible with the least amount of contingencies. Their goal is to sell the property as quickly as possible and remove the liability from their balance sheet. If you need to sell your current residence before purchasing a new one, then we should meet to discuss your buying strategy.

When will I hear back from the bank regarding my offer?

In some cases, patience will be necessary. Some banks will respond within 48 hours, others may take up to 7-10 days to respond.

What condition will the property be in? And what about repairs?

In the vast majority of cases, the property will be sold in “as is” condition, meaning what you see is what you get. As a rule, the bank will only consider repairs that are lender required. Remember, the bank is a lender and is very familiar with repairs that might be required by a lending institution. Cosmetic or wear-and-tear repairs are usually not approved. Non lender required repairs may sometimes be approved by raising the sales price and then having the bank issue a credit to the buyer. In most cases, these repairs would not be authorized to be completed prior to closing.

Will the bank clear Section One items?

That may depend on the bank and the lender. Section One items are repairs notated on a termite inspection. In some cases, these kinds of repairs are required to be completed by the buyer’s lender. As a general rule, the bank wants to sell the property in its current condition. In a multiple offer situation, the bank may accept the offer with no contingencies upon these types of repairs.

Will the bank pay for inspections, home warranties, escrow fees, etc. ?

As the seller in the transaction, the bank will typically pay for traditional seller expenses. Buyers will need to pay for all desired inspections.

Why should I do inspections?

Inspections are crucial for bank owned properties as they are sold in “as is” condition. The seller, the bank in this case, has never visited the property and will not have any knowledge of its history. You will want to complete a thorough inspection of the property by hiring professional inspectors. They will examine every aspect of the property and uncover potential costly repairs, defects, or safety issues which could adversely impact the value and your financial investment in the property. Inspections will help avoid the purchase of a property that may seem look like a terrific bargain, but may need significant repairs to be habitable.

Will utilities be on for inspections?

Yes, utilities will be turned on for inspections, but service is usually terminated after inspections are completed and contingencies are removed. Keep in mind that this will mean that the lawn and landscaping may not be watered for an extended period of time.

What kind of disclosures can I expect from the bank?

None of the traditionally mandated disclosures will be available. The seller/bank of an REO property is exempt from providing disclosures since they have never lived in the property. Again, this is the reason inspections are so important. Also, keep in mind that the bank may not have all door keys, mailbox keys, garage door openers, or HOA common area keys. Many banks key their properties using a master key system. Once the property closes and you take possession, you will want to have all locks at the property changed.

Who will choose the closing attorney?

In a traditional sale, the buyer chooses the closing attorney, but with an REO transaction, it is very common for the bank to control the closing and choose the attorney. Remember, as with all transactions, the closing attorney is obligated to manage the transaction fairly and equitably, showing no favor to either side. The buyer will receive a clean title to the property and be able to purchase title insurance.

What are the typical time frames for closing?

21-45 days is a very typical time frame. Be certain that you will be able to close within the agreed upon time frame as some banks will charge buyers a per diem fines for any delay in the close of escrow that is caused by the buyers specifically.

Can I back out of the contract if something comes up during the inspection process?

Absolutely, the buyer can back out of the transaction without penalty as long as it is done within the time frames specified in the contract.

So what's the bottom line on buying a bank owned property?

There are many bank owned bargains in the real estate market today. If you understand the way the seller in these cases handles the transaction-and you feel comfortable with this-purchasing this type of property may be ideal for you. Many of these properties are in great condition and simply need cosmetic touches to transform them from a house to a home.

How to get a list and schedule a showing for a bank owned property?

Your NORTHGATE real estate professional can compile a list specific to your criteria and devise a buying strategy for you.