

SHOULD YOU BUY AN REO?

Buying an REO isn't for the faint-hearted, but if you're willing to work with the bank, asset manager or mortgage clearing company, good deals may abound in your area.

An REO simply means real-estate-owned; the foreclosed home has gone through a legal collections process ending in selling the home at a public auction. If the home doesn't sell, the bank takes it back and turns the management and disposition of the home over to an asset manager or mortgage clearing company to obtain the best price possible.

One advantage to buying an REO is that you don't have to pay cash, as you would at a bank auction. If the REO is listed with a real estate broker, you can obtain a bank loan to buy it, just as you would with any property. In fact, the bank who owns the property may be willing to make you a good loan.

It's to your negotiating advantage that the REO has already been presented to the auction market and had no takers. The bank will still try to get the home sold for what they already have in it, plus interest and foreclosure costs, giving you the opportunity to buy the property for less than the bank loaned to the defaulting homeowner.

REOs aren't slam-dunk profit centers, though. The disadvantage of buying an REO is that you buy "as is," which means the bank makes no guarantees. The home you want may have real issues, such as burst pipes, insect infestations, or other damage while the home sat unoccupied and untended. In some cases, the house may have been stripped of plumbing fixtures and copper wiring.

Before you buy an REO, take some pictures of areas that need repair and try to interview some contractors to get an idea of what it would cost to fix them. Many homes just need cosmetic work, a little paint and cleanup. Others have extensive damage, and you may require a home improvement loan.

Talk to your lender and see what you qualify to buy. If you qualify for \$200,000 and the home you want will cost \$140,000 but it needs \$50,000 worth of work, will the bank loan you the money for the improvements?

Ask about the FHA 203K home repair loan. It is a conforming loan, guaranteed by the government, that allows you to make updates and repairs, but if you need to move any walls or have serious foundation issues, you may have to go with an in-house bank loan at a higher interest rate.

Your decision to buy an REO boils down to this – can you bring the property up to neighborhood standards without spending more than current market values?

You'll have to weigh that against getting a home in move-in condition at a higher price.