



Buying Bank-Owned Property aka REO's

When you are in the market for a home, you are generally not concerned with whom the seller is, but if you put in an offer on a bank-owned property or REO "Real Estate Owned" (I know, the term makes no sense), the process is going to be a little different. Let's highlight some of the major differences:

No Common Sense

I don't know why, but banks for the most part don't demonstrate rational behavior. Let me illustrate this point with a story: our company decided to put in an offer for \$35,000.00 on an investment property that was listed by a bank for \$42,500.00. The bank countered at \$40,000.00. We then countered at \$37,000.00 and the bank declined our offer. A week later, the bank's listing agent called to inform me that the bank lowered the list price to \$35,000.00. We put in a new offer for \$30,000.00 and the bank accepted.... Go figure? In this case, their lack of common sense turned out greatly in our favor, but many times the banks will present irrational terms of sale they are not willing to bend on that don't work in our favor – be aware.

Control Freaks

When you put in an offer, the banks will counter with an addendum that supersedes your offer contract. For the most part, the addendums are six to twelve pages, but I have seen addendums as long as twenty four pages - full of "bank logic" legalese. The purpose of these addendums is to put the bank in control as much as legally possible - they don't care about you – understand what you are signing before you sign it!

FYI

So, do we really get a deal when we buy from a bank...? I think yes, but it's not a given, and it is not as *much* as commonly believed. Understand that the banks are doing everything within their power to mitigate their losses; they will not sell to you at a particular price if they know they can get more somewhere else. This then begs the question: is it really a deal? Also, keep in mind that most REO's need remodeling work – some need a lot of work. The good news for us is that the banks are not that good at selling houses: their bureaucracy causes many things to fall through the cracks, things that can and do work in our favor.

Conclusion

If you are hunting for a house, don't let a bank-owned property scare you, and, don't take for granted that buying from a bank is automatically a good deal. Be aware, do your homework, know what you sign for!

Good luck!

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As a real estate professional, licensed Realtor®, and investor, Dimitri has over a decade of real estate experience. Dimitri's experience covers primary residences, second homes, investment properties, commercial properties and land. He has been recognized for being a Multi-million Dollar Producer, and is an accomplished Realtor® committed to superior results for his clients.

"Strive not to be a success but rather to be of value" Albert Einstein