

# **A Layman's Guide to Buying a Bank Owned, Foreclosed or REO Property**

A Bank Owned property has gone through the foreclosure process, is owned by the bank, and no one lives in it. An REO property is another name for Bank Owned Property.

A foreclosed property is going through the foreclosure process and MAY have someone still living in it. After deadlines are met, it will usually become a Bank Owned Property.

Bank = Seller = Owner, interchangeable

You = Buyer, interchangeable

Although each company differs and each purchase differs, as a buyer you should expect any of the following to be part of the deal when you purchase a bank owned property:

- Some companies require you to apply for financing with the lending company of their choice. So, even though you may be pre approved with a company like Wells Fargo, the bank that owns the property MAY require you to apply and go through the same procedure of qualifying you to purchase their home so you will have their lending institution as your backup. The bank that owns the property MAY decide if they will accept your financing company requirements and procedures or not.
- Once you place an offer, responses from the bank can be as quick as 24-48 hours or they can take up to several weeks or more. There is no typical time frame. Once you place an offer you are stuck to that offer and can not go after any other homes until the current offer gets canceled.
- All bank owned and foreclosed homes are sold AS IS, WHERE IS. There are no warranties offered and nothing in the house or purchase is guaranteed to be in working order, to be in proper order, or to be without damage.
- It is very unlikely that the bank will make any repairs to the property. If there is a city inspection required then it is usually the buyers responsibility to correct and make the repairs as part of the purchase, at the buyers cost. If the repairs are not done by closing, then an escrow account will usually be set up to make sure the repairs are done. The escrow is funded by the buyer and is usually 1.5 to 2 times the estimated cost of repairs. This has to be agreed upon by sellers, buyers, lender, and the city.
- In all purchases you should have an inspection. Inspections are typically visual and not invasive. Invasive inspections are usually for homes that have suspected major problems like mold or foundation issues. Visual inspections detect most items of concern, but not all of them. A buyer must understand that no home is perfect, whether it is a foreclosed home or a non foreclosed home. Once an offer is accepted, you'll have up to 10 days to get your inspection completed, get the results, and then make a decision as to stick with the house or back out without penalty. If you wait until after the inspection period to back out, you will lose your earnest money.
- Some banks require a minimum down payment at closing time which MAY be more than 3%.
- Earnest money is usually 1% or 2% of the purchase price or at least \$1000, whichever is greater. In the event that there are several offers in on a property, the amount of earnest money could help you get the house. The amount of earnest money required is spelled out in the sellers documents and the buyer will know prior to submitting an offer as to what earnest money to give. Earnest money is usually given in the form of a check or a cashier's check at the time the offer is written. If an offer is accepted, the earnest money is held in an escrow account of the seller's realtor and that amount is applied toward the purchase price of the home.
- If there are multiple offers, the seller's agent will usually tell us. We are only made aware of multiple offers if the seller wants us to be made aware, however. Typically, you'll have one shot to you're your

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offer so make it your best reasonable offer. Offers are accepted continually throughout the listing and when the bank feels they have the right offer, they'll move on that one. It's all in their time frame.

- Some properties have no electricity or plumbing as the utilities have been turned off and the house winterized (winterizing is when anti freeze is added into the plumbing system so that the pipes do not burst in the winter). It will be at the buyers cost to have the utilities activated, inspected, and returned to their original condition (during the inspection period). This is usually several hundred dollars to a thousand dollars (on top of the inspection cost which is around \$450).
- Generally, the seller will issue an owners title policy at their cost which protects the buyer against any claims on the property.
- If you do not close on the date of closing as agreed there is usually a per day penalty (per diem) which the buyer gets hit with as a penalty for not adhering to the contract. The per diem amount is about \$100 per day, after the date of the original closing if no closing takes place as a result of the buyer's fault.
- The buyer is usually required to use the sellers closing company (this helps keep the sellers costs down).
- Lowball offers are usually rejected. The house is priced the way it is as a result of several independent brokers price opinions, an appraisal and an automated system to determine value. The sellers know the condition of the house and the state of the market and have priced it accordingly.
- Personal property is NEVER included in the sale of a foreclosed home and should never be assumed that it is, in all cases. This includes items such as washer, dryer, microwave, dishwasher, and water softener. This list is NOT all inclusive. Just because some of these items may be present during the showing and up until the closing date, does not mean they are included nor does not mean they will be present after the sale. Plan on purchasing all items separately and getting rid of old unwanted items in the property at your cost.
- Closing dates for purchasing are 30-45 days from the date the offer is written, or accepted, to accommodate the banks schedule.
- These homes are often targets of vandalism and break-ins. The sellers will usually correct any damage from vandals at their cost.
- The seller will usually pay outstanding bills, like water and electricity and sometimes assessments. Each seller is different as to how this is handled. It will always be based on their rules.
- Any repairs requested of the seller should be accompanied by repair estimates that are obtained by the buyer from the buyer's contractor.
- No time limits may be written in to the purchase agreement such as, "This offer expires at midnight if not responded to". The bank will get to it when they get to it on their time frame. The buyer simply waits for the reply.
- There are usually no disclosures with the property. The bank has never lived in the house so they typically have nothing to disclose. Buyer will be required to sign a waiver of disclosure.
- Verbal offers are never accepted and will not be responded to.
- Each seller's realtor has written set of explicit instructions to follow and will be given to the buyer's realtor before submitting an offer. These instructions must be met and followed in order for a purchase agreement to be successfully negotiated.
- The seller can accept, reject or counter your offer. If your offer is accepted, you move forth as outlined in the purchase agreement and get your inspection done. If your offer is rejected, you can submit

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another offer or walk away. If the bank makes a counter offer to your offer, then you can accept their counter, counter back, or walk away.

- Offers contingent on anything other than acceptable appraisal, meeting lender commitments, and clear title are usually not accepted.
- A Lender's Questionnaire OR a Buyers Financial Disclosure MAY be required by the seller to be submitted with your offer.
- A prequalification is never accepted to submit an offer, a pre approval is. This requires more in depth information to be given to the buyer's lender. The lender will then issue the pre approval after they have reviewed the buyers' situation and finances. The seller may require specific items to be listed in the buyer's pre approval letter. This may require a new pre approval letter with each purchase agreement and will be completed by the buyer's loan officer.
- All offers are subject to seller's acceptance and agreement.
- Seller will usually pay for taxes up to and including the day of closing.
- The seller will usually require the buyer to sign a HOLD HARMLESS agreement releasing the seller of any and all liability.
- The seller will usually require the buyer to sign a blanket disclosure regarding moisture, mold, or other damage that may or may not be present in the house.
- Remember, each home, each bank, and each purchase agreement requirements are different. The sellers will usually have their specific requirements spelled out beforehand to help me guide you in the process.
- The bottom line is that you if you want to purchase a bank owned, foreclosed home, then you MUST be willing to accept any or all of these items listed above. If you do not accept these or are not comfortable with them then do not waste your time or mine.
- If you are willing to jump through the seller's hoops and adhere to their rules, then you may be able to get a nice home at reasonable price.
- These are the reasons why foreclosed, bank owned prices are a lot lower than homes that are non foreclosed home.
- NOTE: This list is not all inclusive but represents the majority of concerns and frequently asked questions.

I am ready, willing and able to assist you when you are ready to take action. Please forward this document to those you know that could use this information and my services.

## [More Buyers Resources](#)

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