SHIFT TACTIC 11: DISTRESSED PROPERTIES: LISTING REOS

HELPING LENDERS SELL PROPERTIES

kw UNIVERSITY

Acknowledgments

The author gratefully acknowledges the assistance of busy agents, leadership, and KWRI leaders and staff who gave generously of their precious time to provide insights, data, quotes, and editing time to this project.

Many of the top distressed property specialist agents who participated have literally invented their businesses while building them. Some practiced in previous distressed markets. Others were newly arrived agents who have boldly pioneered much of what is taught here— about how to survive and thrive in unusual times.

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Chapter 1:
What You Will Learn

This guide is one of three in a series from Keller Williams University (KWU) called SHIFT Tactic 11: Distressed Properties. The course manuals in the series are:

1. *SHIFT* Tactic 11: Distressed Properties: Listing Short Sales
2. *SHIFT* Tactic 11: Distressed Properties: Listing REOs
3. *SHIFT* Tactic 11: Distressed Properties: Working with Buyers

SHIFT Tactic 11: Distressed Properties provides an overview of how the distressed property market—the "market of the moment"—works, and how to gain a foothold in short sale and REO (bank-owned property) and win all the business you want.

These markets can grow dramatically as they evolve with ever-changing market conditions. Now you will learn from the top agents who have succeeded in this market as they share their experiences and their wisdom.

Series Objectives

The three-guide series titled SHIFT Tactic 11: Distressed Properties is meant to help you learn how to pursue your real estate business differently—to succeed with buyers and sellers of distressed properties. These course manuals will show you:

- Skills you will need to excel in this market and how to develop them
- Mindset challenges you will face and how to deal with them
- Resource demands in the distressed property business
- Action steps to take now to propel your business forward

Canadian Distressed Properties

Research calls were made to Keller Williams associates and leadership in Canada. Their comments, and data generated in the SHIFT 2 Tour research in early 2009, showed that distressed properties represent a very small percentage of Canadian transactions—in the worst cases, less than 5 percent. Therefore, these courses focus entirely on U.S. markets.

Listing REOs Objectives

At the conclusion of this guide, *SHIFT Tactic 11: Distressed Properties: Listing REOs*, you will:

1. See the Opportunity: Understand the power and scope of the REO listing opportunity in distressed properties.
2. *Grasp the Market Background and Foreclosure Process:* Have a working understanding of distressed markets, how they came to be, and how they affect agents and consumers. Be able to effectively consult about this with anyone.
3. *Know What Changes to Expect:* Learn where to watch for information on new industry trends and government policies that will change your REO market.
4. *Know Lenders' and Asset Managers' Mindset and Motivation:* Understand where the institutional sellers are coming from—why they do what they do and how to work most effectively with them.
5. *Know the REO Listing and Selling Process:* Know all the steps—from qualifying the seller and preparing the short sale package to submitting the offer and package, negotiation, and closing.
6. *Know How to Work Effectively with Buyer Agents:* Learn the importance of educating and creating a winning mindset in cooperating with buyer agents.
7. *Know How to Improve Offer Acceptance and Close Rates:* Learn tips for helping to ensure offers are accepted and transactions closed.
8. *Know How to Lead Generate—with Networking and BPOs:* Learn how to get REO assignments from the agents who have gone before you.
9. *Make a Sound Choice:* What aspect of the distressed property business will you focus on—is working to win REO assignments and get them sold the best option for you?

"REO Reality and You" Exercises

At the end of chapters 4–8 of this guide, you're asked to complete an exercise called "REO Reality and You: Able, Ready, and Willing?" It's a quick reality check to make sure you've absorbed what the key challenges in the business are, and that you are prepared to meet them—or know what you'll need to do to be ready.

Graduate Study: Where to Look Next

These three guides are not the last word on any of these topics. They are offered as strong "undergraduate level" material. They help you define and build your foundation in distressed property. So where do you go to take your learning to the next level? Here are paths you can take after attending this course:

kw MAPS COACHING

To further hone and fine-tune your skills when the market shifts, visit KW MAPS Coaching on mykw.kw.com to find out what programs may be available for short sales and REOs.

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The Keller Williams Approved Vendor program provides third-party products and services to our associates at the best possible negotiated price that have the Keller Williams stamp of approval to create a competitive advantage over your competition. Visit www.maximizeyourmarketcenter.com to find out more.

KWConnect

KWConnect carries a monthly real estate market conditions and trends report for agents called "This Month in Real Estate." Keep an eye on this report for analysis of new developments in distressed property markets. "This Month in Real Estate" is available in both video and PowerPoint.

Distressed property markets, like all markets, are always changing. In distressed property markets, agents need to be especially watchful of changes.

WATCH OUT

Watch for this symbol (left) throughout the guides.
It flags an area where you need to monitor change carefully. Wherever possible, we'll point you to where you can get more information on the topic.

Guard your consultant and fiduciary role. Stay on top of the following:

- Law: Federal, state, and local laws governing foreclosure and possible solutions for homeowners facing foreclosure
- Industry Regulations: Your local real estate board and MLS's standards for listing, marketing, and closing distressed property sales
- Market Trends: Be especially watchful for important turns of events that impact market pricing and sales volume. For example, are defaults in your market increasing or decreasing?
- Your Business Mix: Default trends may be especially important to you if your business is built mainly on listing and selling short sales, or if you are balancing a mix of traditional and distressed property business

Tip!

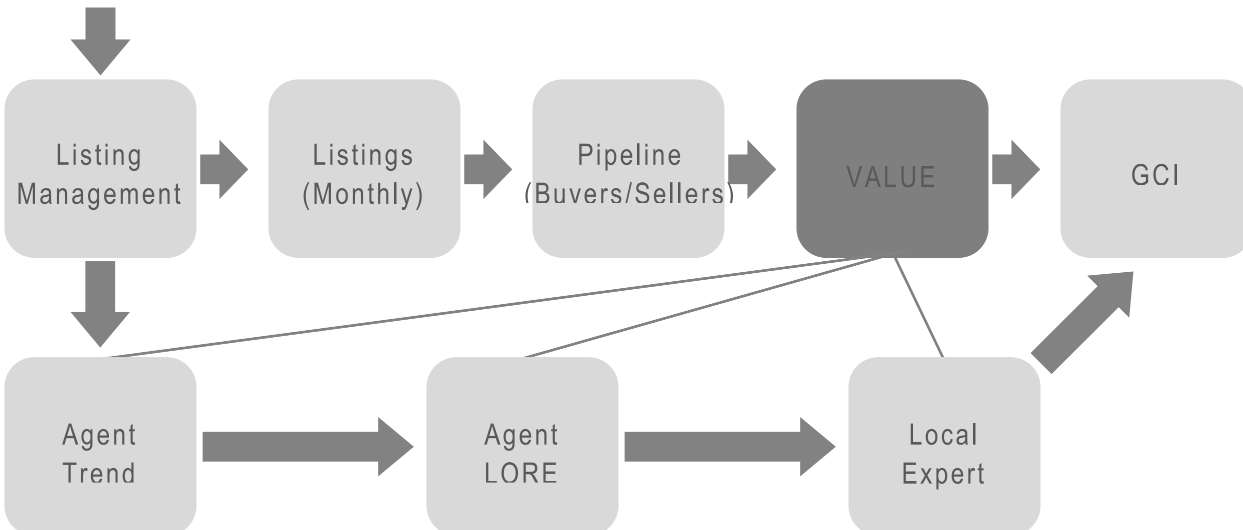
Watch for these tip indicators throughout the guide.

Reference

Course references appear when there is more information on the topic in other guides in this series, or in other courses offered through Keller Williams University.

Career Growth Initiative Power Tools:

The tools of the Career Growth Initiative are a synergistic system that fuel the Four Conversations with evidence.



Vision Tools

- **Listing Management:** A yearly plan for profitability through growth in market share.
- **Listings (Monthly):** Monthly tracking with adjustments to help you achieve your yearly goal.
- **Pipeline (Buyers/Sellers):** Identify on a daily basis whether your activities will turn your goals into reality.

Value and Validity Tools

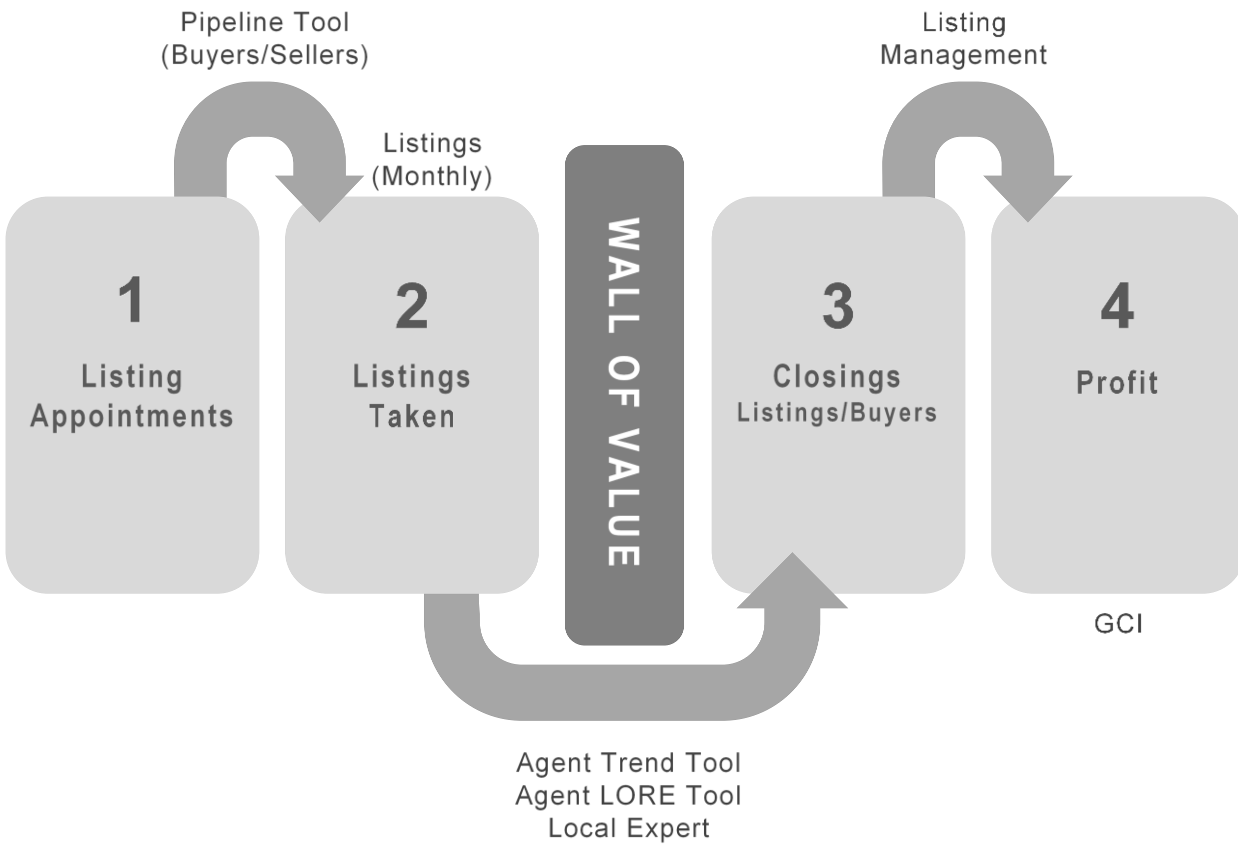
- **Agent Trend:** Report that tracks your growth in market share and critical levers in your business to assess performance and opportunities.
- **Agent Language of Real Estate (LORE):** Provides evidence of your value by comparing the growth of your business to that of your board, your subdivision, your Market Center, your Region, etc.
- **Local Expert:** The story of your expertise to underscore your validity to clients.

Thriving Tools

- GCI: Track your GCI against your expenses to identify your Break-even Day.

The Wall of Value

When you are able to quantify and communicate the benefits of the value you deliver, you will create a **Wall of Value** in your business that attracts listings and creates closings.



Communicate Value

Look for ways to share your Wall of Value to grow your business:

- Listing and Pre-Listing Presentations
- Buyer Consultations
- Marketing materials
- Conversations with allied resources

For more, go to the Career Growth Initiative page on KWConnect.com

Getting the Most Out of This Experience

There are often three types of people in a typical training class. Which one are you?

The Prisoner *Has to be there, doesn't want to be there, and doesn't know why they're there.*	The Vacationer *A day in training is better than a day on the job.*	The Explorer *Excited and curious about the new knowledge, skills, and tools they will discover in class.*
Doesn't engage	Spends as much time chatting as listening	Listens attentively, then participates fully in discussions and exercises
Spends class time catching up on their emails	There to have fun—distracts the class with irrelevant comments	Asks meaningful questions and contributes compelling aha's
Escapes by spending time in the hall on their phone	Returns late from break and lunch	Arrives to class on time and returns promptly from breaks
Holds on to limiting beliefs	Not purposeful in their learning goals	Adopts a posture of acceptance
Multi-tasks on their computer by working on side projects	OMG! Spends the day on their smartphone, texting and checking Facebook	Takes notes in their manual for future reference
Picks fights with trainer or other participants if they don't agree	Isn't paying attention	Respects the different learning styles and opinions of others

Notes

Chapter 2: Distressed Property Timeline

TRUTH

To be effective with buyers and listing agents, you must understand the timeline of distressed properties—from beginning to end—and what happens with homeowners, lenders, buyers, and agents along the way.

This chapter is included in all three guides in the SHIFT Tactic 11: Distressed Properties series. Why? Because these guides are stand-alone, and whichever course you pick up first, a good basic understanding of what happens to distressed properties is essential—from the time a homeowner faces a missed payment until the property is foreclosed and moved to a new owner in some way.

The fundamental process at work that creates distressed inventory is foreclosure. Foreclosure is a legal process that happens on a timeline. Some things happen before it begins; some happen after it ends. Foreclosure happens because homeowners—for a wide variety of reasons—stop paying back their loans, and their lender declares them in default. If they do not find another option, they lose their home.

Let's examine all parties and all steps involved in the process, from beginning to end. You'll get an appreciation for how distressed properties come to exist—both the legal side and the personal and emotional side of it. You'll also see where buyer interest arises.

Personal Shift—Through the Homeowner's Eyes

What's happening in distressed property markets today is, more than anything, about circumstances and recent history—markets always are. Knowing this world from the consumer's perspective is a key ingredient in becoming an expert. Understanding the human and economic root causes behind distressed property markets goes a long way toward building your credibility.

Four Primary Causes of Personal Shift

As has become common in this market, a homeowner has an event in their lives that causes a "personal shift." In any of these events or situations, foreclosure is a deeply personal experience. The primary causes of this personal shift, which lead to distressed situations, are:

1. Negative Equity from Market Shifts
2. Unemployment
3. Personal Crisis
4. Consumer Overconfidence

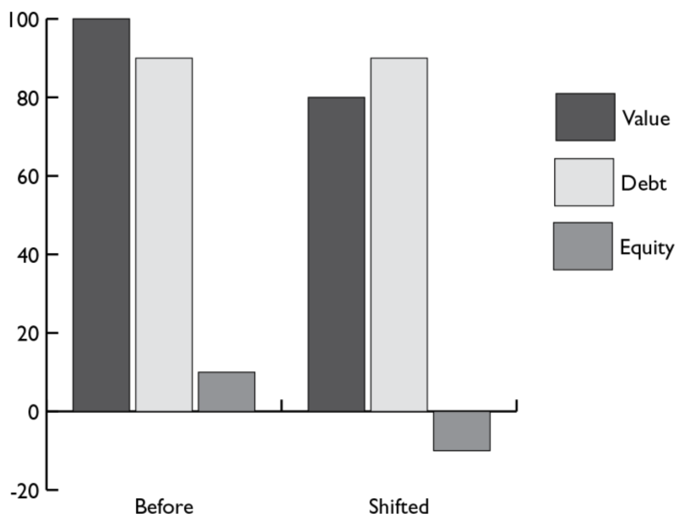
Let's explore the primary causes of personal shift one at a time.

1. Negative Equity from Market Shifts

A negative equity situation arises when a homeowner finds the market value of their property is less than the amount they owe on their mortgage. When a homeowner purchases with a very high percentage of debt, a relatively small downward shift in market value can wipe out their equity.

A homeowner with significant equity can borrow against that equity. When appreciating markets are increasing overall value (and equity), this seems to make sense. But declining markets reverse the process. Unlike refinancing—a personal financial decision—downward market movement leaves the homeowner with a sense of helplessness. Eventually, this feeling can turn to fear if the declining value situation becomes acute.

This bar chart illustrates how owner equity can disappear. In this illustration, the down payment was 10 percent and the market shifted down 20 percent. In the shifted market, the difference between value and debt has become negative equity.



Here's what changed in the chart example:

	Before	After
Value	Arbitrarily set at 100	Market declined 20%; value now 80
Debt	Set at 90—property was purchased with 10% cash down	Most mortgages pay interest first and principal later; debt is virtually the same in early years
Equity	Value was 100 minus 90 owed leaving 10 in equity	Turned from positive 10 to negative 10

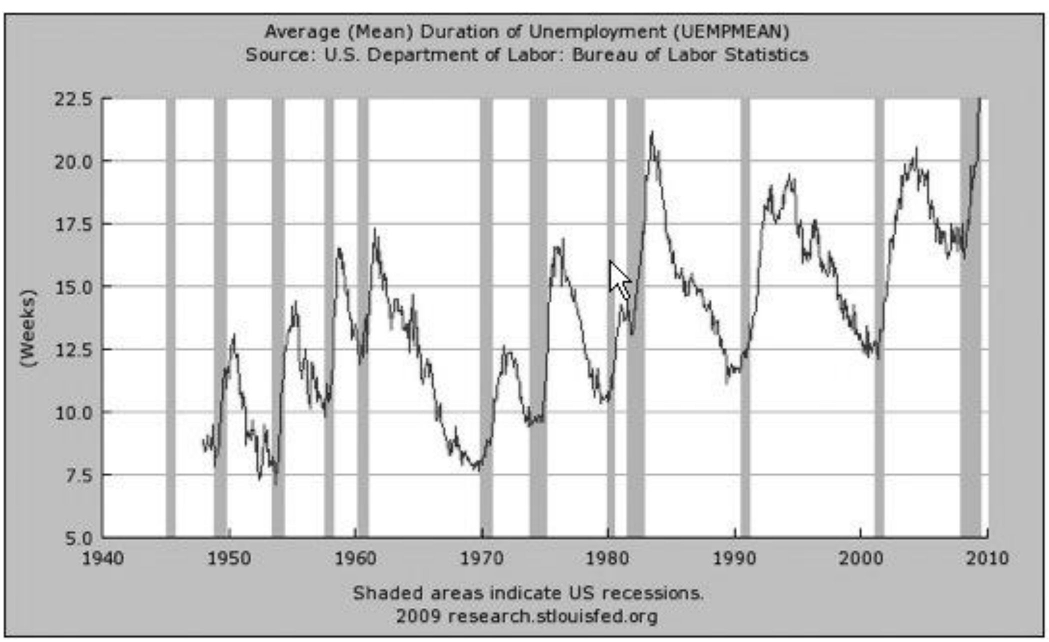
2. Unemployment Triggers Mortgage Delinquencies

Clearly, significant value declines can create negative equity and negative equity severely limits whether and how homeowners can sell. But why are borrowers defaulting in record numbers? The Wall Street Journal (May 29, 2009) offered this perspective:

Why do borrowers default? Many have assumed it's because mortgage payments are too high. But a new paper from the Federal Reserve Bank of Atlanta argues that unaffordable loans—with high mortgage payments relative to income from the time they're originated—are "unlikely to be the main reason that borrowers decide to default." Instead, unemployment and future home price declines are likely to play a bigger role. The paper looks at loans that are unaffordable from the time they're originated, and not at loans that may start with low "teaser" rates before jumping higher. Here's a summary of their findings.

Market Factor	Factor Movement	Impact on 90-Day Delinquency
Unemployment	1 point increase (i.e., 8% to 9%)	10%–20% more delinquencies
Debt-to-Income Ratio	10% increase	7%–11% more delinquencies
Home Prices	10% decline in home prices	50% greater probability of default

By the way, the U.S. Department of Labor reports the length of people's unemployed stretches (measured in weeks) is getting longer. Here's the picture from 1940 to 2010.



3. Personal Crises

On top of all this financial and economic shifting, personal crises happen, as always. Some are about health and family; some are triggered by the slowing economy. Common homeowner crises include:

- Unforeseen large medical expenses
- Unplanned job transfers
- Death in the family
- Divorce
- Job loss

All these events bring financial challenges that may force homeowners to become potential foreclosures in a shifted market.

4. Consumer Confidence Plays Both Ways

Much is being written and broadcast these days about what role confidence, or lack of it, plays in distressed markets and foreclosures. Here are two views you may hear in the marketplace.

1. **Naive Confidence Can Help**
   Much is being written in these times about the role of consumer confidence in down and distressed markets—and in market recovery. Experts seem to agree that there is some level of consumer confidence, or exuberance, which is the hallmark of recovering and rising markets. Writers in major news organizations have taken to calling this mindset "naive confidence"—the willingness to overlook risks in favor of rewards in markets.
2. **Overconfidence Can Hurt**
   In a shifted market that has become distressed property-focused, opinions abound about why any or all of the players made the choices they made that contributed to the result.

One example of this opinion appeared in The San Diego Union-Tribune and has been reprinted in other major daily newspapers. It appeared in the Austin American-Statesman on May 4, 2009. The commentary is based on a 2006 book by a San Diego State University professor, Jean Twenge, titled Generation Me. Quoting the book, "People were very overconfident about what size mortgage they could afford and the same thing affected the bankers who were giving the loans. Everybody was overconfident and didn't anticipate the downside, so when the downside came it was worse than anyone imagined."

Now that you have a better understanding from the homeowners' viewpoint, let's look at the complete timeline of events.

The Distressed Property Process—Foreclosure and More

Foreclosure is a process that happens over varying timelines, depending on local laws. Local timeline differences can have a big impact on important distressed sale details, so you must know your local foreclosure timeline and what governs it.

The process begins with the point where a homeowner first misses a payment—or knows they are about to do so—and ends after foreclosure, with the sale of bank-owned properties and the possible transfer of properties to the Federal Deposit Insurance Corporation (FDIC) when banks fail.

This process is described on a timeline and with definitions that appear on the following pages. It includes both pre-foreclosure and post-foreclosure events.

TRUTH

Knowing the overall foreclosure process is a great first step. And to do distressed property business in your community, you must know all the relevant local laws and rules as well.

Know Your State Laws and Regulations

WATCH OUT

The timeline of the process can be different in some states, so be sure to know your own state laws and regulations, and seek answers if you need them.

The foreclosure legal process can be completed in as little as 90–120 days. In others, it may extend to as long as twelve months or more.

The foreclosure process and state and local laws governing how it happens are a full-day class in their own right. Check around. Chances are local title companies, your local board, or real estate schools are offering a foreclosure course.

Tip!

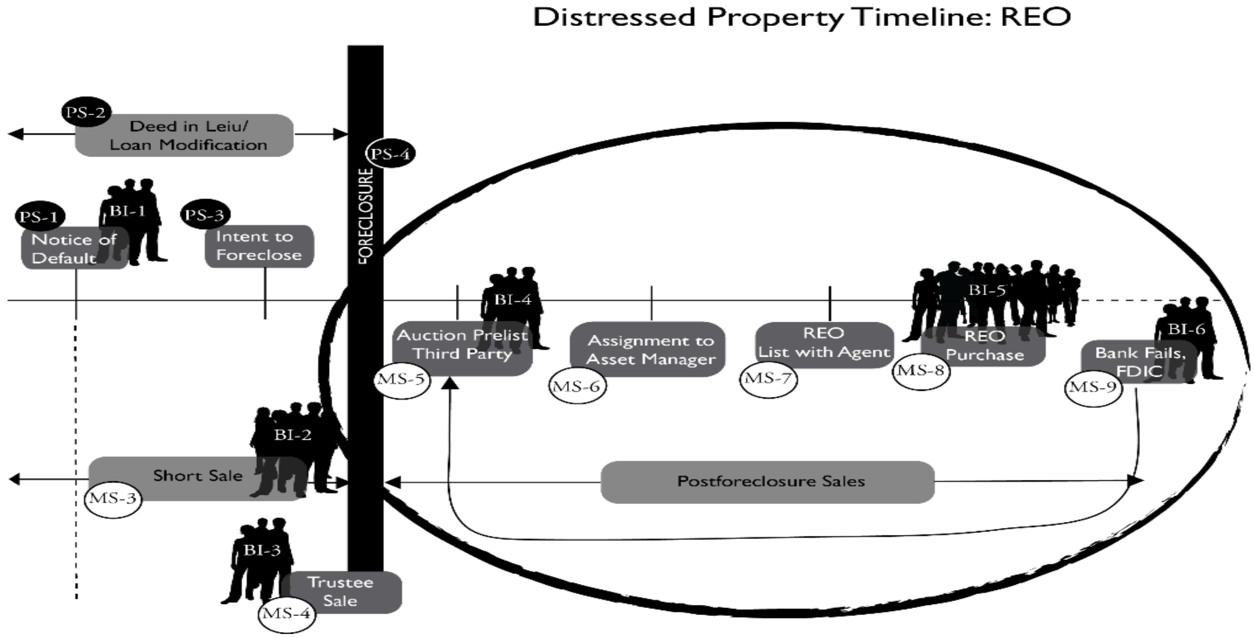
Always Seek Local Knowledge

If you decide to take a foreclosure course from a national vendor, be alert to whether they have modified it to include steps that are the right ones for your local market.

If they have not, you'll need to get that information from a highly reliable local source—your Team Leader, an expert agent in your Market Center, or a title company are your best bet.

Notes

The Distressed Property Timeline



How to Read the Timeline

The timeline chart summarizes the critical details you must learn to be a distressed property expert. Though this course focuses on REOs, this chapter addresses all steps in the timeline. Make note of how many steps' terminology or internal timelines vary, according to local law or regulation of some kind.

The description of the timeline establishes three categories for the items that appear:

1. **Personal Shift (PS)** – Things that involve or impact the homeowner directly. For example, the homeowner or individual seller faces a challenge such as a job loss, excessive medical bills, etc., that causes them to be unable to make their loan payment.
2. **Market Shift (MS)** – Things relating to the status of the property itself of the institution that holds the loan. For example, the market changes, home values decline, lending regulations change, inventory increases, etc.
3. **Buyer Interest (BI)** – Points of time when buyers become interested in making a purchase of distressed property. Arises at a number of different points along the way, indicated by the groups of buyers. When a property first shows up as a potential distressed property, you alert your buyers about its availability and then buyer interest occurs.

The items in each category are numbered PS, MS, BI, so you can refer back and forth to the diagram and the descriptions.

1. Personal Shift (PS)

These are things that involve or impact the homeowner personally.

PS-1: Missed Mortgage Payment(s)

The diagram assumes the homeowner occupies the home as their primary residence. The first sign of trouble comes when the homeowner misses a mortgage payment.

Homeowners miss payments for any number of reasons. Typically, it happens because of:

- Personal Crisis – job loss, unwanted and expensive job relocation, divorce, death in the family, or illness resulting in high medical bills
- Market Shift – market value declines to the point where the home is worth less than the owner's loan balance

TRUTH

When one or more payments are missed, homeowners have the right and responsibility to contact their lender to explore what can be done to make the situation right. Lenders often prefer not to foreclose if a better option can be found.

PS-2: Notice of Default

Depending on the lender, and local foreclosure laws, the homeowner will receive a Notice of Default within 60–90 days after one or more payments are missed. The notice is a formal letter from the lender advising the homeowner that their loan and ownership are in jeopardy. Default is what causes lenders to trigger the foreclosure process—in order to recover their losses, or get the homeowner quickly back on track.

PS-3: Deed in Lieu or Loan Modification

These are the homeowner's two main options when they are behind on payments. One course is swift, but risky. The other is slower, but can allow the homeowner to stay in their home.

- Deed in Lieu – This is very legal, but may also be very risky for the owner in default. Why? A deed in lieu of foreclosure does not necessarily clear away all other judgments against a property owner. The former owner may think they have escaped further demands only to find other parties (not part of the deed in lieu deal) coming after them for other money they owe.

  Deed in lieu of foreclosure agreements usually only happen if the parties can agree the property being signed over has value equal to the amount of the debt!

- Loan Modification – In 2009, the U.S. government introduced the Home Affordable Refinance Program (HARP). The program is designed to help homeowners with little equity, who are current on their mortgage payments to restructure their home loads. HARP works to keep more homeowners out of foreclosure and in their homes.
- Short Sale – This is the homeowner's other option—a good one that will be covered in the Market Shift and Buyer Interest sections that follow.

PS-4: Intent to Foreclose

The lender follows up with a written notice that they will foreclose by a certain date.

PS-5: Foreclosure

A representative of the lender posts a foreclosure notice on the outside of the property, which states that the lender has taken possession and all inquiries until further notice must be directed to them.

PS-6: Eviction

If no sale has been arranged, and if the homeowner has not walked away from the property before foreclosure, they will be forcibly evicted on order of the lender. A local sheriff or constable typically enforces the eviction.

PS-7: Redemption/Reinstatement

In some states there are provisions for homeowners to escape foreclosure by making repayment arrangements with the lender to "catch up" on the amount in arrears. That's redemption. In some states, there is also a reinstatement period that can actually extend beyond the foreclosure date and even beyond a trustee or sheriff's sale, or auction, of the property. In these rare situations, if the homeowner completes catch-up arrangements, a person who bought the home at auction may even have to give it back to the owner. The auction winner gets their money back.

2. Market Shift (MS)

These are things relating to the status of the property itself or of the institution that holds the loan.

MS-1: Conventional Loan

A mortgage deed is a contract that states the amount due on a loan to buy the property, the term of the loan, rate of interest charged, and how payments on the balance are to be made. It usually also says what will happen if the payments are not made! Conventional loans come in many different types and sizes—though not as many as before the current distressed property crisis.

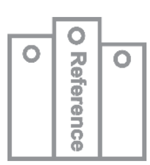
MS-2: FHA or VA Loan

Homeowners can also get mortgage loans from the U.S. government's Federal Housing Administration (FHA) or Veterans Administration (VA). The loans often have different (frequently tighter) requirements about down payments and property condition than conventional loans.

Another difference: FHA and VA will not approve a short sale unless the homeowner has actually defaulted. Some conventional lenders will approve a short sale without a default.

MS-3: Short Sale

A short sale is basically a negotiated settlement between the lender and homeowner in which the lender agrees to accept a buyer's offer for less than the homeowner's total loan balance.



Short sales are a major method for selling distressed property—the subject of an entire guide in this series. It's called *SHIFT Tactic 11: Distressed Properties: Listing Short Sales*. The guide you're reading now looks at both short sales and REO sales from the buyer side viewpoint.

MS-4: Trustee Sale

The trustee sale, or sheriff's sale, is a common vehicle for getting foreclosed properties sold to buyers—frequently to investors who are regulars at these auctions. The buyers typically must pay cash for their winning bid, either on the spot or very shortly afterward. The sales are often referred to as "courthouse steps" sales.

MS-5: Prelist Auction

This is another auction format—usually arranged by a lender that holds foreclosed property. A professional auctioneer is hired and property to be auctioned is listed for preview on the Internet. Sometimes the preview properties are held open briefly so interested parties can go inside.

MS-6: Assignment to Asset Manager

If there's no short sale or auction sale of any kind, the property will remain bank owned. The bank will typically turn the property over to either its own asset management arm or a third-party asset manager. Their job is to manage and market the property—you will sometimes hear the term "M and M Firm" used to describe them. They may list property directly for sale, yet they typically turn to specialized REO listing agents to list and sell lender-owned homes.

MS-7: REO Listing with Agent

Listing bank-owned real estate (REO) can be a big business for distressed property specialist agents, albeit with low profit margins. It is, along with auctions and short sales, one of the three main ways distressed properties are marketed and sold.

Reference

Listing REO properties is the subject of an entire guide in this series. It's called *SHIFT Tactic 11: Distressed Properties: Listing REOs*.

MS-8: REO Purchase

This is where you come in as an agent for the buyer. REO properties are listed on MLS and are sold, usually, with the same standard contract approved by your local real estate board or MLS—with some very important exceptions and additions.

MS-9: Bank Fails; FDIC Takes Possession

On relatively rare occasions, banks fail. If they are federally chartered, they are taken over by the chartering authority, under the direction of the FDIC. The FDIC then seeks real estate brokers to help sell the properties, or it may return to the prelist auction step and try to sell properties before seeking the help of brokers and agents.

3. Buyer Interest (BI)

Buyers have multiple opportunities along the way to learn about and look at distressed properties for sale. The timeline chart identifies six of these situations:

BI-1: Pre-foreclosure Sales

Buyers can search the Internet and local legal advertising and records to identify properties that have started down the foreclosure road, but are not yet foreclosed.

BI-2: Short Sales

Buyers will learn of short sales on the MLS in their area, or via national searches of MLS data. Most MLSs and real estate boards have requirements about agents identifying short sales as such when they are first listed.

Short sales, like REOs, have unique features. One of the main things: Short sale buyers, like the agents themselves, will not know initially what price the bank or lender's asset manager may accept for a sale. There are other complications too. Refer to the companion guide for more information on short sales, *SHIFT Tactic 11: Distressed Properties: Listing Short Sales*.

BI-3: Trustee Sale

This "courthouse steps" auction sale is open to the public. Investors, who seek to buy property before it gets further in the process, often frequent it. These are cash sales.

BI-4: Prelist Auction

This is another buyer opportunity. Prelist auctions can be large scale and well-attended if they are well-promoted by an experienced auction company.

BI-5: REO Listed with an Agent

Like short sales, these listings go on MLS and are typically noted as REO, real estate owned, bank owned, institutional sales, or some similar designation.

BI-6: FDIC Sales

If a bank that owns real estate fails, under its federal charter, the FDIC will assume control. The FDIC will then either hire a real estate broker and other firms to market or manage these properties, or it will go back to the prelist step first and try to sell that way before going the listing route.

STOP and DO

How Well Can You Explain the Timeline?

Using the timeline chart as a tool, get with a partner, and you as the agent explain the timeline clearly to your partner (who is the buyer). Switch roles and repeat.

The chart is detailed. How would you simplify or streamline it for a client? Which points would you emphasize for an REO client and why?

Critical Step of Point Selected	Reason You Selected It	Your "Headline" for the Client on This Point

Notes

Chapter 3: REO—What Is It?

Definition of REO

When a homeowner goes into default on their mortgage, the lender attempts to communicate with the homeowner to reach a resolution of the problem. If unsuccessful, the lender will initiate proceedings that lead to foreclosure—which frequently ends with the lender taking ownership of the property.

Before foreclosure happens, depending on state law, the homeowner has some recourse to try to reestablish their position as prescribed by their mortgage or deed of trust. During this pre-foreclosure period, the home may also be qualified as a short sale by the lender. Or, failing that, the property will be scheduled for foreclosure and sale at public auction.

If the property forecloses and is not sold for a better price at public auction, the lender's bid for the property is accepted and it becomes "bank-owned property," or REO (real estate owned by the lender). The term REO originates from the description of real estate owned on a bank's financial balance sheet. Other institutions that can own foreclosed real estate include credit unions, finance companies, and other businesses that make home loans.

Tip!

Be Aware of FHA (HUD) Foreclosures, IRS Foreclosures, and FDIC Properties

FHA Foreclosures: Properties that were financed with an FHA loan are foreclosed by the U.S. government and become owned by the U.S. Department of Housing and Urban Development (HUD). They become so-called "HUD properties."

IRS Foreclosures: The Internal Revenue Service lists its own repossessed properties (taken for failure to pay taxes). They are listed on the Internet at www.treas.gov/auctions. IRS sales are not necessarily clear of other liens and claims.

FDIC Properties: The Federal Deposit Insurance Corporation (FDIC) also receives property—from banks that fail.

More information on HUD and FDIC properties resides in another guide in this series titled "*SHIFT Tactic 11: Distressed Properties: Working with Buyers*."

Process: REO Is Just Plain Different

The fundamental realities that drive REO transactions make them significantly different from the traditional real estate deals that most agents have learned and are accustomed to.

The differences span just about every phase of the transaction—from how contracts must be written, how pricing happens, negotiation, HUD-1 approvals, and the closing itself.

Points of Difference with Traditional—REO, Short Sale, and HUD

The following is a summary of differences between traditional, REO, short sale, and HUD properties. There are variations, but these are the differences you can expect most of the time.

	Traditional	REO	Short Sale	HUD
Defaulting or defaulted loan	Conventional, FHA, or VA	Conventional	Conventional, FHA, or VA	FHA
Pricing	Listing agent, CMA, and seller	Bank sets value, based on listing agent BPO or an appraisal	BPO or appraisal contracted by bank; listing agent CMA	HUD
Marketing	Listing agent	Bank direct marketing and/or listing agent	Listing agent	HUD or HUD management and marketing vendor
Contracting	MLS contract	MLS contract with bank addendum, or bank contract only	MLS contract with bank addendum	HUD contract
Offers	By MLS contract	By MLS contract; sometimes bank contract	By MLS contract; sometimes bank contract	By online closed bidding
Financing docs required	24–48 hours before closing	24–48 hours before closing	24–48 hours before closing	7–10 days before closing
Acceptance	Seller	Bank	Seller and bank	HUD
Closing	Choice of title	Bank's title co.	Bank's title co.	HUD's title co.

Communicate About the Difference

One Las Vegas Market Center made arrangements with the Henderson, Nevada, office of the national title and escrow firm First American Title Insurance to share a tip sheet that does a good job of summarizing key differences between traditional transactions and REO sales.

It's also shown here to emphasize the point that—as you will see throughout the SHIFT Tactic 11: Distressed Properties series—communication plays a huge role in any success agents have, whether they are working the listing or buyer side.

Here's an up close look at one example: how REO closings happen, and what's required.

Transaction Comparison

	Resale Transaction	REO Transaction
Buyer & Seller	**Traditional Seller** •Usually an individual owner that has employed a professional real estate agent to sell the property. •Selling one home and is personally impacted by the sale.	**REO Seller** •Usually a large corporate lending institution, dealing with a huge volume of properties. •Typically employ a large staff and an Asset Management Company with no personal interest.
Contract	**Traditional Contract Delivery** •Buyer and seller directly responsible for negotiating, executing and signing. •Changes and addendums made directly.	**REO Contract Delivery** •Negotiating done by one department, then file is moved to another department to close. •Changes difficult and time consuming.
Commitment for Title Insurance	•Title Reports for Clark County and other Counties in the state of Nevada are produced at First American's Production Center (CPU). The turn time for a resale transaction is 1-2 days. The stated turn time for REO orders is 3 days.	
HOA	**HOA Typically Clear** •HOA information is normally known within 24 hours of opening. •HOA payments are usually up to date and clear well before closing.	**HOA Often in Collection** •HOA information is not normally known until out of state title report arrives. •HOA has often gone to collection attorney. •HOA demand document can take 10 days.
Deeds	**Locally Processed** •Deed is prepared and executed by the escrow officer and selling parties locally.	**Processed Out of State** •Asset management entity often must gain signature of the deed from financial institution. •If title is clear, deed can be returned within 72 hours, however delays often occur.
HUD Approval	**HUD Approval Quick & Easy** •HUD statement is prepared and submitted to agents for final approval well before closing. •Changes to contract and commissions are quickly approved by agents on a local level.	**HUD Approval Complex and Slow** •HUD statement must be approved by asset management company and submitted to bank for approval. •Commission and contract changes can cause delay, and can take 7-10 days.
Closing	**Traditional Signing** •Escrow officer signs parties, funding occurs, and sale is recorded.	**Complicated by Approval Process** •Lender doc changes require approvals of selling entities, causing closing delays. •Consider the possibility of closing delay, especially if buyer is moving.

First American
Title Insurance Company

2490 Paseo Verde Pkwy., Ste. 100, Henderson, NV 89074
Phone: (702) 731-4131 ~ Fax: (702) 855-0888 ~ www.firstam.com

Title and Escrow Perspective on REO Closings

Like many other things in the distressed property world, REO closings have unfamiliar qualities for agents without a lot of distressed property experience. The following are examples:

- The seller is an institution, not an individual, and it is probably located somewhere else.
- Title commitment or preliminary title reports must be scrutinized carefully for signs of possible trouble—liens, encumbrances, and even incorrect designated owners.
- HOA demands for payment must be dealt with early.
- The seller and their asset manager require up to seventy-two hours to review and process the final HUD-1—no last-minute changes are allowed.

What must agents know when they're involved in the contract-to-close phase of an REO deal? What will be different and unfamiliar? Unless you've listed and sold many of these properties, a tip sheet—like the one provided by First American Title Insurance Company—is helpful.

The REO world is filled with advisories—to agents and buyers. They're needed.

First American
Title Insurance Company

Good things to know about the REO-Bank Sale Closing Process:

1. **The Seller-** In an REO transaction the Seller is an out of state bank. The bank contracts a 3rd party asset management company which represents them in the transaction and approves the final escrow closing. All correspondence is done by email, below are a few items performed by Escrow to help you understand the closing process.

2. **Title Commitment (prelim)** – There may be unforeseen vesting and/or lien issues on the title report that will require Escrow and/or Bank Seller to correct before closing.

3. **HOA Demands** (payoffs)- Processing time to obtain HOA/Lien demands is between 5-10 days from the date ordered from the HOA management company. *(There may be a possible 5-10 additional processing days to obtain lien demand if lien is not of record.)*

4. **Loan Docs** – Once loan docs are **received**, Escrow can set an appointment for the buyer the following day.

5. **Home Warranty** – If Seller is paying for the buyer's HW, the demand is required before Seller will approve the HUD.

6. **HUD-1 Approval** – After the buyer signs the loan documents, the REO Seller and their 3rd party Asset Company may require 24 to 72 hours to approve the HUD after ALL demands received.

7. **FUNDING** – Escrow will coordinate with buyer's lender on the Bank's HUD approval before funding can occur. (Changes to the Seller's side of the HUD require additional Seller approval.)

*** As in any transaction, the more communication you have with your Escrow Team during the REO closing process the better the transaction will be for all parties. If you have any questions, please contact your First American Sales Representative. We look forward to earning your business.**

First American Title Insurance Company
2490 Paseo Verde Parkway, #100
Henderson, NV 89074
(702) 731-4131 ~ *www.firstam.com*

REO Benefits for Buyers

The best news about distressed property is that people buy it—all kinds of people, for different reasons.

The primary business of banks and other lenders is to make money by loaning money and charging interest on the loaned amount. These institutions were not chartered and built to own and manage real estate.

TRUTH

When market conditions force lender real estate portfolios to grow, the institutions are generally eager to get these properties sold, and off their books, as soon as possible.

Here are some reasons why banks' concerns about holding residential real estate benefit listing agents—and buyers. For more about the buyer side of REO properties, see the guide entitled "Working with Buyers."

Cost Motivates Lenders to Sell

Real estate owned by a lender impacts the lender's overall financial picture negatively—it is considered a liability on their balance sheet. But, as the owner of the property, the lender has the right to do with it as they please: sell, rent, or simply hold the property.

Banks and asset managers want to sell quickly. Why?

1. Financial liability: The property is a liability on their balance sheet—a nonperforming asset.
2. Cost: The cost of securing and maintaining property; the bank is also ultimately responsible for bringing property taxes up to date and paying association and other fees the homeowner would normally pay.
3. Risk of loss: Properties are subject to vandalism and "stripping" by angry former owners before they leave.
4. These properties are often tough to show: Why? Former owners waiting out long eviction processes; damage done by former occupants that's not yet repaired; vandalism.

Tip!

Many of the Lender's Challenges Become Yours

As you'll see, if you win the assignment to list properties like these for a bank or other lender, many of these headaches may become your responsibility—until the property is sold!

Pricing Generally Reasonable and Unemotional

Banks frequently list their properties for sale with real estate brokers and agents in order to reach the most potential buyers. Unlike traditional sellers, banks are not emotionally attached to the property they hold. This is all business for them, and that bodes well for both listing and buyer agents.

The price is set through a Broker's Price Opinion (BPO) process. A broker or agent is hired for a small fee to do a market analysis, which becomes the basis for the price. The lender or bank will try to get a price that recovers as much of their loss in foreclosure as possible, along with some profit if they can. If they use a real estate agent, they will pay commissions.

Tip!

Warn Buyers: Don't Go Too Low

Lenders typically don't set fire-sale prices on REOs. They may go low—and lose money on the deal—if the property has sustained a fair amount of damage or is in a less than desirable area. But bank-owned properties in good areas and in respectable condition will be market priced.

Clear Title Provides Security for Buyers

Being assured of clear title on a foreclosed property can be a challenge for buyers. One advantage of buying REO property is that title is clear. Why? Because when the lender buys the property at auction—as first lienholder—it clears the claims of junior lienholders, or any other judgments against the property. Lenders also pay back taxes. This makes purchasing simpler for buyers.

Financing Is Available

Foreclosed property sold at public auction (usually run by county government) can be had for cash only. But bank-owned property can be purchased with a loan.

Of course, banks hope to make that loan for the buyer—so they offer favorable terms to solid buyers, including relatively low down payments and lower interest rates. Sometimes banks also waive closing costs or other fees. It all adds up to a good purchase for the right buyer!

There's much more about buyers in the Mindset section later in this guide. And, there is an entire guide in this series that's dedicated to buyers, *SHIFT Tactic 11: Distressed Properties: Working with Buyers.*

State of REO Markets

Is there still opportunity to list and sell REO property? Absolutely. Real estate is a cyclical and ever-evolving industry. Market shifts can occur nationally, regionally, or in small pockets. Learning the skills necessary to effectively list and sell REO property is a powerful tool to have for your business.

This section is supplemented with more market perspective on distressed properties in *SHIFT Tactic 11: Distressed Properties: Working with Buyers*.

REO Background: Gary and the "Perfect Storm"

Experts say the last distressed property wave that affected the United States was driven by factors more complicated than supply and demand alone.

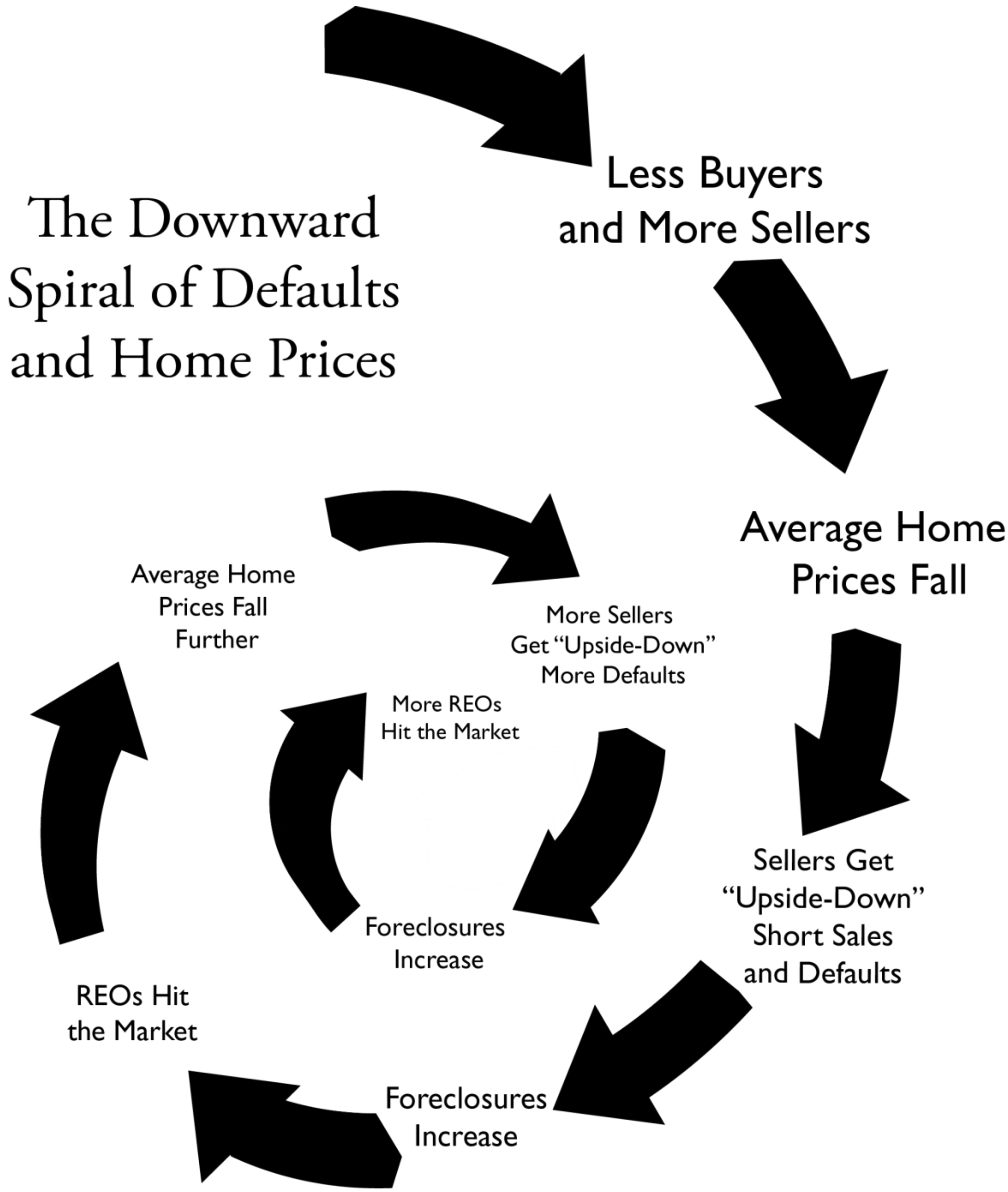
Gary Keller has been a teacher throughout his real estate career. In speeches and interviews, he referred to America's distressed property markets as driven by a "perfect storm." The elements include economics, government policies, consumer choices, and financial engineering by investment companies and lenders.

The 6 Ingredients of the Perfect Storm

1. **U.S. government pushes for increased home ownership –** 1990s U.S. government policies pushed expanded home ownership dramatically.
2. **Lender aggressiveness –** Lenders chose to make more loans, encouraged by that policy shift. The boom in lending, new home building, and home reselling from about 2000 to 2007 included softened lending standards and a host of new mortgage lending products never seen before. Variable rates, nothing down, and little or no borrower documentation programs brought people to home ownership under terms they either did not think through or did not fully understand.
3. **Securitizing mortgage loans for giant investors –** As lending expanded, financial institutions turned resold home loans into elaborate investment products—sold to institutions worldwide to generate income for them and make more money available for lending. Critics say the process included strategies to hide the risk to investors that was inherent in the types of loans being made to home buyers.
4. **Low interest rates –** Historically low interest rates throughout the late 1990s and early 2000s generally spurred lending and borrowing.
5. **Building boom –** Lending policies and the low cost of money also triggered a boom in residential construction led by national home building companies. Lots of new inventory attracted as many investors as homeowners. Not all the inventory sold.
6. **Decreasing equity –** To compound these problems, through a wave of refinancing, many consumers reduced their equity in their home—at a time when the inevitable market decline was about to reduce their home's value. When the resulting lower equity meets declining market values, homeowners' equity shrinks fast—and then disappears.

REO Impact on Pricing

How these factors worked together is debatable. The reality is that they did. The surge in foreclosures around the country affected prices in many markets. Here's an illustration of how that price impact works, one that you can share with your buyers in a shifting market. It's effective with traditional sellers too.



TRUTH

When bank-owned sales dominate a market, overall pricing gravitates toward REO pricing—further depressing prices generally.

This creates a tough reality for sellers and good news for buyers. Homeowners who have maintained their loans feel discriminated against by the foreclosure, short sale, and REO phenomenon that has driven the price of their home way down.

But, the market is the market—and across the United States it is very diverse. A seller's circumstances and a buyer's opportunity in Las Vegas or Phoenix may look very different from the situation in Oklahoma City or Seattle.

STOP and DO

Points of Difference Between REO and Traditional Business

Challenge yourself to recall what you've learned about key points of difference between REO business and more traditional real estate. Categories are provided in the table below to help you get started.

	Traditional	REO
Activity	Who/How Is It Handled?	Who/How Is It Handled?
Pricing	Listing agent CMA and seller	
Marketing	Listing agent	
Contracting	MLS contract	
Offers	By MLS contract	
Financing docs required	24–48 hours before closing	
Acceptance	Seller	
Closing	Choice of title	

Notes

Chapter 4: REO Listing Agent Job Description

There's a lot to know and do. These are the basics, shared by top agents around the country. They're presented as an imaginary job description for an REO agent. The job description starts with an obvious question.

Why Do This Business?

Learning and perfecting the techniques and processes you need to know to list bank-owned property is a skill set with two key benefits to your business:

1. **Build a baseline skill you can always use** – Properties are foreclosed by lenders in any market; many become bank-owned listing opportunities. If you have the leads, contacts, and the necessary skills and mindset, listing and selling REO properties can become part of your ongoing real estate practice.
2. **Accelerate your business in tough times** – Mortgage lending issues and property values can create an extraordinary opportunity to build a strong business in listing and selling REO properties. When that opportunity presents itself you must be prepared to take action.

Tough Working Conditions

Be Prepared to Work Hard

The business is fast paced and demanding, but it can be rewarding—if you have the right mindset and get the right support and systems in place. When asked what the business is like, most top agents' first comment is "We work hard!"

1. **Long Days:** Lenders and asset managers who are your clients are often not based in your area, or even in your time zone. West Coast REO agents may need to be available at 6:00 a.m., when their East Coast-based contacts are ready to start their day. East Coast agents working with contacts in western states can expect to be working late.
2. **Do-It-Now Mentality:** It's a "now" business. Your institutional clients are overwhelmed with volume and urgently want to move property. When you're asked to get something done, it usually means right now.

Commitment: Get Involved Now

For agents looking to aggressively expand their business, listing and selling REO properties is an opportunity to grow and earn.

Can You Get In? Yes.

Do the biggest REO listing agents dominate the market? This subject comes up through advocacy groups who are claiming it's a business issue in REO.

The answer is "yes, and no." Why? Banks have stepped up their scrutiny of agent performance. Listing agents do get fired.

Most top agents feel that the solution for up-and-coming agents with smaller REO practices involves two things that are not easy to do—but they can be done:

1. **Be very aggressive** and effective in lead generation with property owners.
2. **Plan and prepare** to handle the next account before you have it.

Wear Extra Hats—Property Manager, Accounting Firm

Some of your clients—lenders and asset managers—will expect your job to include caring for the property they've assigned to you. Or, they may outsource much of this "property preservation" work to vendors of their own. If they do, you still need to know what the vendors are doing.

Costs and Reimbursements

Let's assume the most financially challenging case. You will order property preservation work done—as approved by your client—pay the bills, and bill the lender/asset manager for REO reimbursement.

Out-of-pocket costs for property preservation—and getting reimbursed—are a perennial hot topic among REO listing agents. Like everything else in this business, things are changing:

- Some lenders/asset managers are hiring national and regional vendors instead of making agents responsible for the work, but even if they do, the agent still needs to know the status and condition of the property at all times.
- Some institutions are creating incentives to help paperwork on reimbursements move faster, so agents get paid back sooner.
- Firms that turn to agents to get this work done won't necessarily expect them to handle all of it—just certain parts, while they take the rest.

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Keller Williams research on REO agents who have seventy-five or more REO transactions to their credit produced the following data about out-of-pocket expenses and REO reimbursements:

Expense type	Percent who found this expense typical	Amount spent per deal	Reimbursement rate (percent reimbursed)
Utilities	98%	$50–$300	80%
Property rekey	91%	$100–$150	81%
Lawn maintenance	84%	$50–$150	91%
Secure property	80%	$100–$300	91%
Initial yard cleanup	78%	$100–$250	94%
Trash out (personal property removal)	78%	$250–$1,000	94%
Maid service	67%	$50–$250	93%
Lender-required repairs	59%	$500–$2,000	88%
Winterization	55%	$100–$200	96%
Electrical	52%	$300–$600	95%
Plumbing	48%	$300–$500	100%
Painting	45%	More than $1,500	100%
Heating	45%	$200–$500	100%
Carpet cleaning	43%	$50–$75	100%
Snow removal	35%	More than $2,000	92%

Reimbursement Turnaround

According to the study, the average time to be reimbursed is in a range of 45–90 days. Be prepared to carry these costs before seeing money back.

Average Out-of-Pocket Expense per Property

Out-of-pocket expenses vary widely from property to property.

Some factors in this are real wild cards—unpaid HOA and condo fees are an example many agents mentioned in the survey.

With big national property preservation companies like Safeguard and Field Asset Services now on the scene, some agents report they are held responsible for any expenses not covered by the national companies' guidelines.

TRUTH

The average out-of-pocket expense per property reported in the survey is estimated to be around $1,500.

Your Own Property Management Business?

Many agents start their own property management companies—and become a resource to others, while gaining closer control of the management of their own properties. Gary Keller points out that agents can solve practical problems and create opportunities at the same time. "Property management can be a career-long business for some of your people. It's always in demand," he says.

National Property Preservation Vendors

As larger lenders and asset managers make more use of national vendors to get property preservation work done, agents say there are two consequences:

1. Less financial pressure on them to pay out for these services
2. Slower response times to get work done—which can impact the marketability of property

Be Prepared for Inventory Swings

In the context of an REO boom, inventory ups and downs can, and do, occur.

People generally believe lenders wait to see how administration policies might impact them.

However, there are indications that, after a "time-out" to watch policy developments in Washington DC, banks start to increase the flow of foreclosures, resulting in REO listing assignments turning up again.

Working to Control the Flow of Properties

The release of foreclosed properties to the market—especially in the form of assignments to REO listing agents—is a hot topic. Rumors of "next waves" of foreclosure releases, discussions of "moratoriums" and "shadow inventory" abound.

Top experts attribute the ups and downs of volume to several things. All have to do with limited resources. Here are three:

1. Local governments, which must act on evictions and hold auctions of foreclosed property, are strained to their limits by volume and are purposely slowing down their actions so they can do a proper job.
2. Mortgage servicers, the companies that manage and market properties for primary lenders, are also strained to capacity. So, the lending side is trying to work with them by managing the release of foreclosures to the market.
3. Title and escrow companies, who must process transactions, are similarly challenged by the sheer weight of deals moving through their systems.

Different Paths to Success

Most REO agents acknowledge that their success in the business comes in large part because they relate to the environment on a personal level—it fits their style.

Words that they use to describe their world include "corporate," "systematized," and "policy and procedure driven." Agents say these qualities apply to the REO business far more than in a traditional real estate practice.

That may explain why the business seems to have attracted successful agents from two different career directions:

1. "I've Been There Before" – Agents who've been in the business long enough to have worked through other strong buyer's markets, marked by declining prices and an abundance of property for sale—including distressed property. These agents have been in similar markets before. They have experienced what it takes to do distressed property business. Their experience in watching markets turn helped many of them anticipate distressed markets—and get in early.
2. "It's Today's Opportunity to Grow" – Newer agents may not have practiced in traditional, more balanced markets long enough to develop all the habits and reflexes of traditional real estate listing and selling. Transitioning into the REO world came quickly for them. Many of these agents came into the business within the last several years. For them, it was really their best immediate opportunity and they made the most of it.

What Role Does Experience Play?

The Keller Williams Research Department's "Mega REO Agent Survey" is cited throughout this course. On the subject of overall real estate experience, the more than fifty top agents who responded reported their overall experience this way:

	2 Years or Less	3–5 Years	6–10 Years	11–15 Years	16–20 Years	More Than 20 Years
In Real Estate	0%	11%	38%	20%	11%	20%
Working with REOs	24%	25%	29%	11%	7%	4%

Key conclusions to draw from this data:

- Overall experience counts – Overall real estate experience is important—58 percent of respondents had 6–15 years of real estate experience. Nearly one third of all agents responding had 16 or more years in real estate, increasing the likelihood that those people had experienced at least one previous significant down market.
- It is possible to ramp up fast – Many top agents have ramped up their business relatively quickly—about a quarter have been in the REO business two years or less and half have been in the REO business five years or less.

Stay on Top of Issues, Policies, and Practices

Things are changing all the time. You need to become a researcher and reporter when it comes to watching trends. Government and the GSEs (Fannie Mae and Freddie Mac) policies are shifting. Lenders are watching the government and market, and adjusting their practices to some extent. All these forces have the potential to impact your REO market at any time. Here are some examples of top issue areas to watch:

- **Commissions** – GSEs are tightening standards for their asset managers to try to protect agent commissions, because good agents are needed to sell foreclosures.
- **Financial Positions** – Banks are worrying about their financial situation and how new government policies will affect how they operate—and even who owns them! Government "stress testing" of banks shows a varied picture of their overall health.
- **Monitoring Agents** – Lenders are monitoring agents' efficiency and effectiveness more closely. Some large listing players have lost accounts because of poor client service, opening doors for other agents.
- **Price Cutting** – REO prices are being slashed in some of the most distressed markets. Price cuts are drawing more buyers into these markets and creating multiple offers.
- **Lender Requirements** – Lenders who have extensive REO assets to assign are increasingly demanding that the buyer be preapproved through their lending system—even if the buyer is actually using another lender to purchase the REO.
- **Property Preservation** – Lenders are moving toward use of large property preservation vendors instead of expecting agents to find these services, deliver them, and bill for them.
- **Renting** – Some lenders are exploring renting properties instead of selling the properties they hold.

Be Ready for the Market "Move Back"

It's tough for even the best-credentialed experts to say how soon distressed markets in the United States may move back toward a more normal balance. But research shows many top agents—especially those who have lived through market downturns before—make plans to resume more traditional resales.

Develop specific strategies and plans for either:

1. Continuing traditional business alongside your distressed business
2. Reentering traditional markets quickly when the market shifts back

A market shift can cause an REO boom, and the market will shift back again toward more traditional business. When and how that happens will depend on a complex set of financial and economic policy factors. Gary Keller says, "It will happen; it always does."

What it will look like will also depend on where you are.

- Some agents make concrete plans to get involved in traditional market lead generation again.
- Also, Some agents, especially those that have seen distressed markets before, develop special strategies for handling volume in distressed property (especially REO) while also keeping their hand in whatever traditional resale opportunities they can.

STOP and DO

REO Reality and You: Are You Able, Ready, and Willing?

The goal of this course is to help you understand the fundamentals of listing REOs, and to help you evaluate whether the business fits you.

Chapter by chapter, complete these short exercises. Rate each reality a good, fair, or poor fit for your personality and skills. Write what else you need to know or do—and what action you'll take to get there.

By the end of the course, you should have a good feel for whether listing REOs is the distressed property business path for you.

Reality	Fit for Me	Find Out, and Act
1. Be prepared to work very hard—all top REO agents provide this warning label for the REO listing business.		
2. Even with established relationships, REO inventory flow is unpredictable. Lenders are learning to control release of foreclosures.		
3. While running an unconventional real estate practice, you'll also need to wear other hats in all likelihood—property manager and accountant, for starters.		
4. Out-of-pocket expenses of REO listings can run as high as $1,500 per property. Reimbursement can take 45–90 days.		
5. You must stay current on a wide range of market, government, and lender policy issues to run your business profitably.		
6. Like most REO listing agents, you'll want to keep one eye on your strategy for returning to more traditional business—at least in your mix—as your market transitions back to a more balanced, or less distressed, environment.		

Chapter 5: Mindsets: Lenders, Asset Managers, Agents, and Buyers

The mindsets of the players in distressed property markets drive much of what happens in the marketing of these properties and in the transactions themselves. It's a different world—one that shares some commonalities with traditional real estate, while also being extremely different!

Mindset Map: Traditional vs. Distressed

Look first at the overall picture—then at the REO listing world in detail. Here's a summary of the top points of difference between traditional and distressed markets, from a mindset perspective:

Mindset Map: Traditional Markets vs. Distressed Markets		
	Traditional (Buyer or Seller) Market	Distressed Property Market
Consumers In General	Eager and positive about buying or selling.	Seller stressed about price and threat of foreclosure—buyers seeing price opportunity.
Sellers	Seeking return on investment and equity to power their next home purchase.	Institutions and consumers seeking either whatever they can get, or an escape from crisis.
Buyers	Seeking the right home at a reasonable price.	Seeking the very best possible deal, or a steal.

Mindset Map: Traditional Markets vs. Distressed Markets (continued)		
	Traditional (Buyer or Seller) Market	Distressed Property Market
Lenders	Generally open to making loans and into creating products and policies to encourage borrowing.	Lending criteria dramatically tightened; loans hard to get. They have also taken on the seller role of distressed property—either before foreclosure (short sale) or after (REO).
Agents	Eager to jump in; generally able to master transaction basics.	Often poorly informed about transaction basics; often not well qualified—or unaware of the need to coach their clients.
Transaction Processes	Taught widely in real estate schools and by brokers. Generally consistent with standard board or MLS documents. Timelines are generally consistent as well.	Only recently being taught. More complex, with varying timelines and requirements. Lenders in charge of transaction process. Special documents required by lenders and agents to protect themselves and clients.

Take a look at these mindset and process differences in more detail—as they apply specifically to bank-owned property (REO):

- Lenders and Asset Managers
- REO Listing Agents
- Buyer Agents and Their Clients

REO Mindset: Lenders and Asset Managers

The REO business is a different world from the universe of traditional resale real estate. Top agents, when asked about the differences, almost always begin by talking about mindset. Everyone involved—lenders, asset managers, agents (listing and buyer), and buyers—is in a different place from the typical transaction scenario.

Lenders' worlds are built on:

1. Stressful workloads
2. A cost crunch
3. Turnover in their ranks
4. Need for reliable agent help to evaluate and sell property

A Stressful Workload

Lenders and asset managers of all kinds are struggling with a volume of foreclosed properties they never anticipated having to acquire, manage, and sell.

TRUTH

Banks are not in business to acquire, manage, and sell real estate. They are lenders, not property managers, or real estate brokers and agents.

One asset manager described the crushing volume of foreclosures that need to sell this way: "It's like the old TV show I Love Lucy—the episode where Lucy and her friend Ethel are working in the candy factory. They're supposed to be decorating the candy and the line is moving so fast, they just lose control and can't keep up."

Many lenders are simultaneously wrestling with their own profitability and scrutiny from their shareholders, the government, and the news media. These pressure-packed realities impact everyone involved in the REO business. Because we're focused in this guide on the listing side, we'll cover the mindset of lenders and REO listing agents. At the same time, lenders and asset managers or servicers are besieged by brokers and agents trying to approach them for REO listing assignments.

The guide *SHIFT Tactic 11: Distressed Properties: Working with Buyers* provides much more detail on the mindset issues for buyers and their agents.

TRUTH

By 2009, foreclosures were happening by the tens of thousands every month. While savvy real estate agents saw selling opportunity in this, banks saw mainly paperwork, costs, balance sheet problems, and management headaches.

Banks' Cost Crunch

It's hard to get exact figures, but people who know distressed property are clear that the cost of holding real estate owned (REO) property is substantially greater than the typical loss sustained by a lender who agrees to a short sale.

Although REO properties frequently have sold at only a relatively small discount to the rest of the market, that reality can shift fast. Volume can drive prices down—especially in the most distressed markets.

In the face of escalating costs, banks may develop programs to increase sales by creating systems to:

- Get the best agents working with them
- Smooth out the sales process for agents and their clients.

TRUTH

Research by the U.S. Department of the Treasury shows that the average cost to a lender holding a bank-owned residential property is in the range of $50,000–$60,000.

The topic, "Banks' Cost Crunch" is covered further in *SHIFT: Tactic 11: Distressed Properties: Working with Buyers.*

What They're Looking for from Agents—Solid, Reliable Help

Agents trying to crack into the REO listing business always want to know what the parties holding the assets—the lenders, asset managers, and their subcontractors—are looking for in an agent. Being a good networker may get you a long way, but these are the expectations waiting for you at the end of the trail.

Eyes and Ears: Timely Reporting, Solid Recommendations

Top agents agree—when you are working listing assignments for a lender, they count on you to be their eyes and ears in the marketplace.

Lenders are regional and national in many cases. They do not know all the markets where they own property. They do not have MLS access and consequently, need local representatives who are knowledgeable and dependable.

That's where REO listing agents come in!

They are depending on you. You are expected to provide timely reporting of all information pertinent to the condition and value of the property, and for making solid recommendations so the lender or asset manager can make well-informed decisions.

Need for Speed

Once the listing assignment has been received, the first twenty-four hours are critical in the agent-asset manager relationship. A solution coming back from you to them the same day as you get the assignment makes a big statement to the asset manager or lender. When you can do that, you have their attention. They'll remember you and it's likely to mean more business soon—even if that manager moves to another company.

Strong Property Marketing

Smart asset managers want their agents to treat them like consumers whose properties they want to sell. Asset managers want more than a cursory property listing on the MLS—they want lots of photos, accurate descriptions, and relevant details. They also want marketing updates that actually tell them about showings. Twenty showings and no offers doesn't cut it as a report back. Asset managers want to know why a property is not selling with some detailed fact-based analysis—what is selling, and at what price.

WATCH OUT

Watch for Audits of Agent Performance

You must do the job right. Lenders are refining their processes too—just like agents are. More and more financial firms are now doing field audits of agents' performance to make sure they are doing their job. If the "scorecard" reports aren't good, you could be dropped as a resource to that lender.

Lenders' top criteria for rating agent performance are simple and straightforward:

1. **Time on Market—**Time to get properties sold
2. **Return on Investment—**Final sales price vs. the last BPO estimate of value

Tip!

Lender Attitudes Are Evolving

For banks, time has to dictate policy. Things have to evolve for them. Banks may wait and be stubborn on price until they were sure the distressed market is the real deal. Primary lenders (banks) are demanding too. Real estate is not their business, but they learn by doing, and many are tougher on agents by insisting on more effort and better attention to detail

REO Mindset: Listing Agents

Listing REO property is not the real estate business you probably learned when you started out selling homes. Why is that the case? The reasons include:

- Working environment
- Financial issues
- Profit margin squeezes
- Special skill requirements
- People management challenges

Working Environment: It's Not Pretty

If you are deciding whether to get involved, here are some questions top agents say you must ask yourself:

- Do you want to knock on the door of someone who just lost their home?
- Do you want to be in the business of clearing out and cleaning out properties that haven't been maintained?
- Do you want to front money for repairs, maintenance and utility bills, and have to collect it?
- Do you want to be present when the sheriff or constable forcibly evicts a family?

Bear in mind, these things aren't always happening—but be ready for them.

The demands lenders face translate directly into criteria for agents' success. Here are the success factors that come up repeatedly in research:

Financial Issues

Managing business costs is one of the single biggest factors in being a successful REO listing agent. The biggest driver of cost is property preservation.

In many situations, depending on the institution you are listing for, you bear the initial responsibility for many of the costs required to secure and protest the value of the bank's nonperforming asset! This is a reality that's so big that it can be a barrier to entry in the business—and an ongoing headache once you are involved.

The REO listing business requires you to have a solid financial position—at the start, and ongoing. Although banks sometimes assume some cost responsibility up front, agents must be prepared to pay bills for property security, maintenance, and utilities. What a bank will take on varies from one institution to another.

Agents interviewed said they have extended themselves financially in a range from $20,000 to as much as $200,000! Most of these costs are reimbursable by the lender—but payments don't always come swiftly. You must be prepared to manage profit while:

- Carrying significant costs
- Collecting receivables from your clients

The Listing REO Profit Margin Challenge

REO listing commissions are often discounted. Recent Keller Williams meetings with top agents show the listing agents are averaging a 1.75 percent commission on listings sold.

The good news, of course, is as follows:

1. You have the opportunity to receive listings (assignments) in volume.
2. Banks and asset managers are motivated sellers.

Bank-owned properties are must-sell properties, and that's way different from the traditional seller marketplace. You don't have to make a listing presentation and a big investment of one-on-one persuasion to get a property to sell. You present your case, and you do it well, you get multiple properties, and that's how you need to operate to be profitable.

The consensus of top REO agents is that you can expect two other things to impact your pocketbook:

1. Lower average sales prices than you've been accustomed to seeing
2. Smaller individual commission checks as a result

But lower commission, higher volume business puts pressure on business planning. Your margin of profit is much smaller, so careful budgeting and productivity become extremely important.

The course *SHIFT: Tactic 11 Distressed Property: Working with Buyers* includes a detailed discussion of REO commissions, and an example of how an REO listing agent would be paid on a typical sale, versus how a buyer agent would be paid on the same deal. The buyer agent makes more, and the details on that may interest you!

Expenses and Accounts Receivable

Listing REO property—when you have to front property preservation costs—gets challenging in a hurry. It also brings with it the reimbursement issue.

The financial sands are shifting on reimbursement because:

1. More lenders are taking responsibility for more property preservation costs up front.
2. Some lenders are charging a small processing fee to agents—per bill submitted—but those doing this seem to be sending their reimbursements faster.

Any way you look at it, having the financial and human resources to be efficient and effective with these expenses and accounts receivable is a big key to profitability.

Whose Money Are You Using?

REO agents should be looking for opportunities with lenders they do business with to borrow the funds they need to meet REO service costs—through lines of credit, ideally. But, it's not easy to do.

Tip!

Seek Financial Leverage

Gary Keller, cofounder and chairman of the board of Keller Williams Realty, Inc., suggests that if you have agreements with your client lenders that they will pay you, you can use those agreements to secure a collateral-based loan. He advises, "If you're paying carrying costs on that much money, you'd better be reinvesting the money that you have somewhere else. Otherwise, you're actually losing on the gap."

REO agents are challenged to find business loans from banks, they report. "The atmosphere around lending has definitely shifted," Gary said in a Masterminds session with REO agents. "It feels like there is generally less trust. Lenders are worried about whether the other institutions who say they will reimburse you (the REO agent) will actually be around to do it."

Special Skill Requirements

Top REO agents say these skills have helped them:

- **Desire**—This is a hard and demanding business, and it takes truly focused effort and a learning mindset to get into it—and to stay on top of it.
- **Networking**—They love to rub elbows and make lots of calls. They know how to build relationships and leverage them into expanded business opportunity. They are lead generators. They make contacts and generate, and regenerate their leads all the time.
- **Managing**—At least at a high level, they have acquired the skills to 1) recognize what kind of help they need, and 2) career vision good people to provide that support.
- **Systems Orientation**—This isn't a trait a lot of real estate agents have, but top REO agents have recognized quickly that their business needs great systems, processes and tools (including computing hardware and software) to survive and thrive.

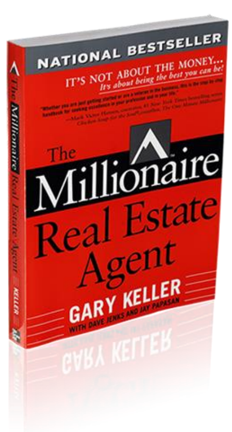
This business is hugely administration driven. You have to be ready to deal with this—both personally, and with staff.

The administrative focus that's built into the REO business presents another challenge. Agents call it a "hurry up and wait" phenomenon.

Be Ready to Go

You have to be ready, or you can get caught unprepared. When your networking and marketing succeeds and a lender assigns you 20 properties at once, you have to be ready to inspect them, do BPOs, and get things done fast, or you'll have no business.

Seek Help from Others



As *The Millionaire Real Estate Agent* teaches, agents find they need to master the basics of human resource planning and career visioning to grow a substantial REO listing business effectively.

Here are some of the major activities you'll likely need to deal with and find the resources to handle—while you remain in charge of what *SHIFT* calls "core competencies number 1 and number 6—lead generation and conversion, and money management!

While you're on top of lead generation and finance, you'll need to rely on others you trust to do things like:

- Handling calls and emails and the daily communication flow
- Placing signs and visiting, checking, photographing and securing property
- Handling occupants' issues, cash for keys exchanges, and evictions
- Overseeing maintenance and repair projects and vendors
- Billing and collecting accounts receivable
- Processing contract-to-close activity

Keller Williams agents who choose to ramp up an REO listing business to handle volume have an advantage—starting with *The Millionaire Real Estate Agent*, the products and teachings from KellerINK and Keller Williams University, and more. Keller Williams Realty teaches the principles of "people leverage."

For more details on leverage, see *SHIFT Tactic 3: Effective People Leverage* from Keller Williams University

Be an Investor

Don't exclude yourself from this buying opportunity.

Gary Keller encourages agents to set some investment goals for themselves and to get involved as a buyer.

"I had a handful of agents working with me in the 1980s who started buying," Gary says. "They retired from the selling business as millionaires."

"

REO Mindset: Buyer Agents and Buyers

TRUTH

REO listing agents cite the knowledge and skill levels of buyer agents as the biggest single opportunity to improve in the business.

Building better buyer agents is the essence of the guide *SHIFT Tactic 11: Distressed Property: Working with Buyers*. That course focuses entirely on the opportunities to build a great business as a distressed property buyer agent—what buyer specialists need to know about the listing side, how to work with listing agents, how to find buyers, and more.

The Listing Agent's Lament

Finding ways to communicate effectively with buyer agents and helping them know what they must know to get listings sold is an unavoidable, necessary challenge that all listing agents must meet head-on.

Help REO Buyer Agents

Be a knowledgeable leader who is always willing to help others learn and get involved. Much of the industry talk among REO listing agents is about the buyer side. REO listing people tend to talk about the same thing—the problems they're having with buyer agents who don't understand what's going on in the REO business. They must decide what they have to do as agents, and what they have to tell their clients.

Be nice to buyer agents. They may not know the market, but at the end of the day they have the buyer; you want a sale to their client.

REO listing agents are also frustrated when they see other agents, who might be able to help them sell an REO and build their own business at the same time, missing opportunities.

STOP and DO

REO Reality and You: Are You Able, Ready, and Willing?

Two goals of this course are to help you understand the fundamentals of listing an REO, and to help you evaluate whether the business fits you.

Chapter by chapter, complete these short "REO Reality and You" exercises. Rate each reality a good, fair, or poor fit for your personality and skills. Use "Find Out and Act" to write what else you need to know and do and what action you'll take to proceed.

Reality	Fit for Me	Find Out, and Act
1. Your institutional selling clients will be demanding. Things happen on short deadlines. You'll often need to work long hours and run hard to meet their demands.		
2. The working environment can be challenging—trashing out homes, joining in evictions, collecting keys from occupants for cash, etc.		
3. You'll need to anticipate roles and people to fill them—before you actually need them. When business flows, you'll need help quickly.		
4. Profit margins will be low. Commissions will be reduced. Buyer agents will be close to double your commission. You will need to depend on volume, especially if listing REO is your main focus.		
5. You'll need to spend time and resources teaching buyer agents how to make offers and get deals done.		

Notes

Chapter 6: Lead Generation

Getting assignments from lenders, asset managers, and others to list REO property is a unique activity in residential real estate. You need to understand both who the players are and how to approach them.

Any financial services firm that lends money to buyers of real estate may be a candidate for REO assignments. Holders of mortgages like banks also assign property to affiliates or third-party servicing companies. These firms make agent assignments. Even experienced agents admit it's not so easy to know who has the decision-making authority in a bank-owned sale.

This course covers two fundamental lead generation approaches:

1. Networking
2. Broker Price Opinions (BPOs)

They can be pursued separately, but most agents do both to start their REO listing business and to build it. This chapter focuses on networking. The next chapter, on BPOs, covers BPOs as both lead generation and as an income source.

Who the Prospects Are

When you're asked who owns REO property your instinctive answer may be "banks." The truth is—yes and no. Banks are part of the picture, but there are many other players. Some are bank subcontractors, some are not. To prospect effectively for relationships to list property, you need to know all the types of players.

1. Primary Lenders
2. Smaller Lenders
3. Asset Managers
4. Third-Party Asset Managers and Others
5. Investors Who Buy Distressed Assets
6. HUD (U.S. Department of Housing and Urban Development
7. GSEs (Government Sponsored Enterprises)
8. FDIC (Federal Deposit Insurance Corporation)
9. REO Service Providers Primary Lenders

Think "bank" when you are thinking about this category. These lending institutions own the loan portfolio or originated it for an investor. They tend to deal with the mortgages and property they hold through an outsource asset management company.

1. Primary Lenders

National banks and asset management companies have bigger networks and more connections with firms with property to sell. Some of these are:

- Bank of America
- Wells Fargo Home Mortgage
- FIS Default Solutions, a Division of Fidelity National Asset Management Solutions
- Ocwen Financial Corporation
- REOTrans.com
- MarktoMarket.com
- Option One Mortgage

Tip!

Start with Your Bank and Your Favorite Lenders

Many agents network their way to bank assignments by starting with lender contacts they've worked with to finance traditional buyers. Start with who you know best. Ask for their help—and contact ideas.

The same holds true for your own personal banking contacts. See the branch manager or the personal banker who knows you best. Ask for their help in working your way up the organizational ladder to the right person.

Branch managers for major lenders are usually in a position to recommend brokers and agents for REO assignments—but they have no decision-making authority over what actually happens.

2. Smaller Lenders

This is an important category. While big national home loan players like Bank of America and Wells Fargo have dominated the home mortgage scene, many regional and local banks and credit unions hold mortgages. They deal with the same issues the big players do.

Many top REO agents recommend that agents getting established should look to their local area lenders for business opportunities.

Start with local banks in your area—people who knew you from earlier down-market cycles. Credit unions are also a good opportunity. Many of them have extended home equity lines of credit (HELOCs) on property and are in second position; but they also then buy first positions at discounts and end up with properties to sell.

Tip!

Pitch Smaller Lenders

Go after relationships with smaller lenders and credit unions. You can find the right contact people more easily. There's less bureaucracy. They don't have as regimented and sophisticated selection processes. You have a better chance for faster results.

3. Asset Managers

When a real estate agent takes an REO property assignment for a primary lender, they end up working directly with the asset management company—the middle man representing the lender or investors. Asset managers bid on their relationships with primary lenders, and receive loan packages in bulk when a portfolio is closed. Their job is to collect payments and make sure the money gets to its destination. They also handle collections on delinquent accounts and pre-foreclosure and foreclosure services.

Asset managers' agreements with primary lenders often also involve responsibility for paying the ongoing expenses of foreclosed property—taxes, utilities, and association fees, for example.

4. Third-Party Asset Managers and Others

Who you perceive to be the owner of the mortgage and therefore the owner of the REO property may not always be the owner. Layers of investors are sometimes involved and those "unseen" investors may be the final decision makers on sales.

Big hedge funds and private equity investment firms are also buying large quantities of foreclosures as investments. Credit unions can also be in the business—mainly in areas with a lot of new construction. There can be a lot to keep up with. Lenders hire servicing companies or asset managers. Who chooses the listing agent varies a lot from one organization to another. Sometimes an individual, an asset manager, may be responsible for choosing all listing agents for their company's properties in a given metro area. And it may be more complicated than that. You really have to stay on top of it!

5. Investors Who Buy Assets

Firms form groups of investors who buy groups of distressed home loans from the primary sources. These investors approach institutions that hold pools of bad loans that need to be foreclosed. If they can make a deal for a pool of assets, they then try to either:

1. Renegotiate terms with the borrower
2. Negotiate a short sale
3. Foreclose, and list the property with an REO broker

Watch this avenue closely. Some experts feel these investor groups have created a model that primary lenders and asset managers may adopt in an effort to dispose of foreclosed property more efficiently.

KW Commercial – Commercial Investors Have a Role

Investors may be able to help with what banks seem to struggle with—helping people get the terms they need to stay in property.

They can sometimes buy pools of distressed residential assets—and then handle the foreclosures by offering to remake loans for the owners.

They turn non-performing assets into performing ones in the process.

Even very big individual investors sometimes have trouble getting money to step up their efforts the way they'd like to.

6. HUD

FHA funded properties that foreclose become the property of the U.S. Department of Housing and Urban Development (HUD).

Unlike REOs that become bank-owned when conventional loans default, HUD properties are offered directly to buyers. They are not listed with agents. HUD does, however, hire so-called "M&M vendors"; servicing companies that help HUD manage and market these properties.

Because HUD has its own unique requirements surrounding the sale of these homes, some distressed property agents begin to specialize in selling HUD homes.

The accompanying guide SHIFT Tactic 11: Distressed Property: Working with Buyers covers HUD homes—how they are listed and sold—in detail.

7. The GSEs (Government-Sponsored Enterprises)

The entities that dominate mortgage loan markets in America are called "GSEs" because they were formed as government-sponsored enterprises.

Fannie Mae (FNMA), the Federal National Mortgage Corporation, and Freddie Mac (FHLMC), the Federal Home Loan Mortgage Corporation, are the most prominent GSEs. They supply and guarantee mortgage money that funds more than 70 percent of all mortgage loans in this country. They were founded in 1934 and 1970 respectively.

These organizations are not ones you will deal with directly. They buy mortgages from mortgage originators and provide financial backing for mortgage loans. Because of their broad reach, their policies greatly impact how business is done in the listing and sale of foreclosed properties.

They've become involved in efforts to restrict downward negotiation of real estate agent commissions on short sales, e.g. And Fannie Mae is exploring approaches to smoothing and standardizing the short sale process—to make short sales a more viable option to foreclosure.

GSE's Under Scrutiny

Because they have traded mortgage-backed securities—like many of the lending institutions they support—the stability and efficiency of "Fannie and Freddie" has been under increasing scrutiny by Congress and the Administration.

Whether or not it's in response to this attention, the GSEs have started taking leadership on finding solutions to help distressed property get sold more swiftly.

8. FDIC Properties

Leave it to the government to be a little different! In the world of government administration and regulation, properties that have been foreclosed and come under the control of a federal agency are called ORE (owned real estate).

The Federal Deposit Insurance Corporation (FDIC) is best known to Americans as the agency that guarantees consumers' bank assets—now up to $250,000.

But the FDIC has many other roles. One of them is to seize federally chartered banks that fail. When a failed bank is "taken over" by the FDIC, any real estate assets it owns come under the purview of the FDIC.

The FDIC then seeks proposals from real estate brokers and service companies to market and manage these properties.

9. REO Service Providers

Agents can register on the Internet with REO service providers like REOTrans and RES.net. Getting in their agent databases is another way to be identified by lenders seeking agents to list property.

Register on servicing sites of companies like Clear Capital, Integrated Asset Services, and Landmark. You may get a chance to do BPOs for them—and get your foot in the door.

How To Connect: Tools and Skills

Listing REO property is a demanding business. It requires a whole different version of lead generation than the one you're accustomed to in traditional real estate. What kind of marketing resources does it take to get in the door with the financial institutions that own foreclosed property in volume—and need to sell?

Search Internet Websites and Blogs

The Internet is a tremendous resource and everyone is out there these days. The companies with property to sell are making themselves visible online. You can find them!

Find the companies and start making applications online, direct. It takes some time to get into their work flow. You can get recognized, but you have to do your networking and post your information as widely as possible.

Tip!

Lender and Asset Managers Visible, with Data

Often REO players have one or more websites and most have blogs to create interest and buzz about their listings.

Use an Effective Résumé

Want to list and sell REO property? You are marketing your way into a major industry—you are applying for a job. You need what all solid job applicants need—a great résumé.

Your résumé needs to show you can be on top of the transactions you perform because you are:

- Detail-oriented
- Fast and accurate
- Financially capable
- Have the necessary team resources

Be Fast and Accurate

There's more to come on this, when this course covers "receiving the assignment." Lenders and asset managers are demanding. They want to work with people who understand the importance of paying attention to detail—and getting things done on time, or sooner!

Be Financially Capable

As mentioned earlier, listing REO property entails financial responsibility for maintenance of the property you list. The details and extent of this responsibility will vary greatly depending on the institutions you're working with.

Know that many of the biggest-selling REO listing agents today found they had to pay tens of thousands of dollars in fees to vendors for security items, maintenance, and repairs. Lack of operating capital can drive you out of business early if you aren't prepared.

Collection of these dollars happens slowly in many cases. Top REO agents have gone as far as hiring their own accountants to handle the billing and manage the accounts. Others have hired collection agencies to pursue past due bills.

Have Networking Skill and Tenacity

Top REO agents tend to be great networkers. Many built their practices by staffing immediately to handle any assignments they got from initial lender acquaintances. They work hard to meet, greet, attend conferences, and build their network of contacts—to generate future assignments.

This aspect of distressed property real estate is just like traditional real estate. In the best tradition of MREA and *SHIFT* teaching, you are in charge of lead generation and managing the money.

Successful REO agents may work with just a small handful of lenders. Others work with a dozen, or even two dozen different institutions. It's typical that your networking contacts are all over the U.S.—not just in your local region.

Your contacts need to know you and remember you—people have to be reminded.

Seek Affiliations and Certifications

Agents don't agree on the importance of earning special accreditations or certifications from third-party providers. Some asset managers and lenders place more importance on these things, some less.

KW Survey: Banks' and Asset Managers' Requirements

Keller Williams' most recent survey of REO agents ranked these three things as the top requirements of REO agents—to qualify for assignments:

Affiliations (REO Mac Member, local board member, etc.)	56%
Specific Training (default school graduate, etc.)	57%
Minimum Production Requirements	38%

As you can see, almost all agents surveyed did not name affiliations and training as top requirements with the lenders they work with. Different agents are having very different experiences when it comes to criteria for winning assignments.

Get a Mentor and Learn

Mentors are a great path to ramping up in the REO listing business. There is a lot to learn. You might as well learn as fast as you can, from those who've "been there and done that." Some of the best success stories in listing an REO are about agents who helped other agents get going.

Some agents new to REO just approach the experts and offer to help. They do open houses, check on homes for them, and learn BPOs.

Team Leader Mentors

Research shows a number of Team Leaders provide information and mentoring for agents in their office who want to go after the REO business.

Some approached existing REO listing specialists to share a listing or two with agents who wanted to enter the business.

The key caveat that comes with these initiatives is being sure interested agents understand the financial commitment involved in listing REO property when they begin to grow.

Have Proper Insurance Coverage

Boosting your Errors and Omission (E&O) insurance coverage is a must. Banks and lenders considering you for property assignments want to know you are financially responsible and well protected.

Have a Supporting Team

Top REO listing agents say they learned quickly that a trusted and capable assistant or two is vitally necessary as soon as listing assignments begin to flow.

Once you win the trust of a bank or asset manager they are likely to start sending you listings in groups."

REO business is unlike most traditional practices in this way. It is easy to get overwhelmed if you aren't careful and resourceful.

Have Systems in Place to Handle Volume

Be organized, or find good organizers to help—fast! If you become a hardworking and focused networker and lead generator in the institutional world of lenders and asset managers, you might jump from a handful of listings to twenty, fifty, or one hundred sooner than you think!

In addition to lead generation, you will have to put systems in place to be immediately responsive to assignments from lenders or asset managers, including:

- Setting financial policy
- Career Visioning talent
- Overseeing marketing
- Putting policies and procedures in place for your business

"Touch" Your Buyers—And Your Asset Managers

Stay in touch with the buyers of your properties. While you may not have represented them, they probably perceived you as the expert in the process. Take advantage of that with your database.

Tip!

Expand Your Touch System

Don't forget to use your contact database and eEdge to stay in touch with your bank and asset manager contact too. Prospecting these institutional contacts requires the same kind of persistent follow-up as you use with your consumers.

Cross-Market Short Sales and REOs

Branching out into short sales? Again, opinions of top agents differ at the moment. Some say they feel being an effective REO listing agent requires all your focus. Others see it differently.

If you want to try your hand at both businesses, remember that the people who handle short sales and REO property work in the same organization. They will talk to one another—and repeat your name if they've had a good experience with you.

Attend Key Conferences

Conferences are a way to network and approach lenders, but agent's opinions differ on their value. Not all agents agree on the effectiveness of conference marketing. Some say these events have become draws for so many prospecting agents that the prospecting agents, the attending lenders, and asset managers are overwhelmed.

Other agents who have established networking channels say conference attendance strengthens and expands their network.

Those who advocate the conference marketing mention organizations like:

- REOMAC®
- National REO Broker Association (NRBA)
- Five Star

Tip!

Contact Conference Sponsors

In this kind of networking, you can sometimes look for leads within leads.

They're the servicing companies and others you can search on the Internet and contact directly.

Team Prospecting Strategy: "Elite REO Network"

Some top Keller Williams REO agents have started prospecting together. Recognizing that their institutional targets have offices in many major metropolitan areas, they have banded together to organize office ongoing drop-bys, panel discussions, and social events targeted at asset managers, lenders, and key staff members.

Team members share the cost of all these events equally. Members coordinate to be sure leads get channeled to a member in the right local market. The process is generating substantial leads and promises to accelerate members' businesses across the board.

Market Center Prospecting Initiatives

In addition, some Market Centers provide initiatives to interest as many agents as possible to get involved in an REO market of the moment. They build teams of interested agents to purposefully position themselves in the REO business.

Use the Corporate Relocation Connection

Some top REO agents got their early exposure to the "corporate" world of banks and business policies and procedures generally by working on relocation real estate. It turns out to be excellent training for working with banks in the REO business particularly.

Spread Your Net Wide

Look widely, not just in their own area for leads. If you are buying zip codes to market to, take the maximum number of codes possible.

In traditional networking, do the same thing. Remember, while there are local lenders and credit unions, the majority of REO listings come from lenders who operate regionally and nationally.

STOP and DO

REO Reality and You: Are You Able, Ready, and Willing?

A goal of this course is to help you understand the fundamentals of listing REOs, and to help you evaluate whether the business fits you. Chapter-by-chapter, complete these short "REO Reality and You" exercises. Rate each reality as good, fair, or poor fit for your personality and skills. Use "Find Out and Act" to write what else you need to know—and what action you'll take to proceed.

By the end of the course, you should have a good feel for whether listing REOs is the distressed property business for you.

Reality	Fit for Me	Find Out, and Act
6. Great networking is a real key to winning assignments from a complex array of lenders, asset managers, and servicing companies. You will need to spend considerable time to get to know who they are, and some money to win accounts.		
7. Institutional relationships are a moving target. You will be dealing with people who may be transferred or reassigned. If they are, you may need to rebuild your relationship with that company from scratch.		
8. Many agents who succeed, seek out a mentor to help them get in the door.		
9. Doing BPOs, for free or for a fee, may be your best alternative to build credibility with institutions in a position to give you properties to list. (More on this in the next chapter.)		
10. Your best path may be to join an established REO team and earn your way to a shot at listings with that team. Or, you may end up being a buyer agent for the team.		

Chapter 7: Broker Price Opinions (BPOs)

There's another world of marketing in the REO world—cultivating requests for, and submitting, Broker Price Opinions (BPOs) for lenders and asset managers. This can be done for a fee to generate income—and as indirect marketing to win REO listing assignments.

In traditional real estate, doing CMAs is a routine part of either pricing listings or determining offers for buyers.

In the REO business, doing Broker Price Opinions (BPOs) is what Gary Keller calls, "an indirect marketing activity." BPOs have two distinct functions:

1. Pricing tool for agents with listings they help banks and lenders set pricing strategy for the properties you list with them.
2. Credibility-builder for networking to get listings doing BPOs, independently of any listing work, can open the door to future business with a lender. BPOs are both a source of market information for a lender, and a demonstration of your credibility, skill, and promptness as a professional.

What a BPO Must Include

Accuracy and thoroughness are essential to a great BPO. It's a lot more than a price conclusion—it's a detailed assessment of why the property should be priced the way you recommend.

It's not called an "opinion" for nothing. Unlike a CMA for a seller or buyer, the bank expects your documentation to include detailed, well-reasoned opinions from you—on things that contribute to value.

When you have the opportunity to do BPOs, you'll want to take advantage of what others have learned before you.

BPOs: An Ongoing Part of Top Agents' Businesses

In a Keller Williams survey of REO agents, 36 percent said they are doing BPOs on a fee basis to supplement income to their business, while also helping to build relationships for future assignments.

The remaining 64 percent of respondents reported they were continuing to do BPOs as a nonfee relationship-building strategy.

The survey also showed the average responding REO agent and their team—agents with well established businesses—complete an average of 250 BPOs per year.

Pricing Plus Evaluation: Ten Tips for an Effective BPO

Here are ten tips that surfaced in talking with top REO agents about the BPO process:

1. **Format** — Format for the BPO may differ from one lender to the next. Know the differences. Keep samples in your records for each lender.
2. **Speed and Accuracy** — These are the top criteria for lenders. Your BPO performance is a test of how you'll do responding to the more complex demands of property assignments—your skills are on display!
3. **Drive-by or Full Interior** — Know the two forms of BPO—drive-by and full interior. Which one you're going to do depends on occupancy. Drive-by means it's based on what you can see from your car or on foot across the street. Full interior is self-explanatory—you got inside.
4. **Photos** — Include time stamped, dated photos—as many views as you can reasonably take.
5. **Basis of Value** — Know the different bases for value the bank may want your opinion about:
    - As-is value, with no repairs
    - As-repaired value, with both necessary and recommended repairs itemized
    - Quick sale value—to accelerate projected selling time
6. Choosing and Adjusting Comparables — As with most CMAs, the guidelines found in the book *FLIP: How to Find, Fix, and Sell Houses for Profit* provide good standards for location, square footage, age, condition, style, and other factors. Adjustments are a detailed topic. You might also consult others in your office for their standards on adjustments. If you do a lot of CMAs in your business, you probably have a good feel for them.

7. **Price/Sale Price Spread** — The spread between an accurate BPO and actual sale price. What banks normally expect is accuracy within 5 percent!
8. **Standards for Comparables** — Selecting and working comps, and making adjustments is the same process you've hopefully perfected in your traditional listing or buyer business.
9. **Your Opinion** — The bank's BPO form will typically include opportunities for you to offer your opinion—about things like condition and estimated cost of repairs. Take this seriously. Have criteria and a process for knowing how to estimate. There are published guide books available that establish basic renovation and repair costs.
10. **Price Reduction** — BPOs get updated if the property is not sold. Be prepared to offer your insights and arguments about price reductions when the time comes. Be able to support your position. Remember, the BPO is both a product you are producing for the bank, and a test you need to perform impressively on.

Like everything else in the REO business, the landscape in banks and asset managers pricing criteria is shifting. In a recent mastermind session with Gary Keller, top agents talked about a trend toward more accurate BPO-based pricing by lenders.

Lender's Criteria for Comparables

Agents are reporting that lenders are modifying their criteria for the comparables agents use in their BPOs.

WATCH OUT

Lenders may having varying policies regarding including other distressed properties in a neighborhood in your BPO.

BPOs As Lead Generation

Many agents got into the REO business by doing BPOs—to establish their credibility with lenders—your expertise, attention to detail, and ability to act fast and meet deadlines are all on display when you do a BPO.

Fees for BPOs are modest—maybe $50 to $100 tops in most cases. A few agents say they actually did BPOs as a profitable business for a time before getting property assignments.

How you get involved in the BPO business is a try, test, and adjust proposition. Ask those who've done it. You may have to go the BPO route and have the patience to wait until you've proven yourself with a lender before the strategy pays off.

Many agents found doing BPOs was a great way to learn the REO listing business fast, and to build a relationship or relationships that produced listing assignments. Some of them anticipated the market, before it actually arrived full blown in their town.

BPOs As Income

Some agents have used the strategy of doing BPOs in volume—not just to generate relationships and leads, but to support operating costs of their REO business. BPOs can be done for a fee.

Some large lenders maintain two different departments that oversee BPO business:

1. One to assign BPOs for a fee
2. Another to handle no-fee BPOs that apply to properties already assigned to a BPO listing agent

Some agents started doing BPOs just to generate some income for their traditionally-oriented business when their market turned downward. But BPOs have another important role for some—as a main income line to help support the overhead of their REO team, or to be a separate profit center.

Learn from Appraisers

One great suggestion for getting up to speed on the BPO valuation process is to learn the principles of valuation from appraisers. Carol Royse says that's what she did and she learned a lot fast—a much faster way to go, she says, than learning by doing.

Learn from Other Agents

Market Center Team Leaders should encourage their REO specialists to share what they've learned about doing BPOs, and sharing information from REO conferences they attend.

REO Reality and You: Able, Ready, and Willing?

A goal of this course is to help you understand the fundamentals of listing REOs, and to help you evaluate whether the business fits you. Chapter by chapter, complete these short "REO Reality and You" exercises. Rate each reality a good, fair, or poor fit for your personality and skills. Use "Find Out and Act" to write what else you need to know—and what action you'll take to proceed.

By the end of the course, you should have a good feel for whether listing REO is the distressed property business path for you.

Reality	Fit for Me	Find Out, and Act
1. Doing BPOs in volume for \$50–\$75 per BPO may be your best shot at getting recognized for listing assignments. You may need to do a lot of them to get recognized.		
2. A good BPO is much more than a CMA. You need to document your position on price with photos and other market facts.		
3. You will need to provide more than pricing info and recommendations on a BPO. You will be counted on to advise your client on property condition, security, and needed repairs.		
4. A BPO on a property for a fee, or for lead generation, may be a one-time thing for that property. If you are doing a BPO as the listing agent your BPO will have to be updated at least every sixty days—maybe more frequently.		

Chapter 8:
REO Listing and Selling Process

Here's a rundown on the REO listing process, assembled by listening to the top Keller Williams Realty performers who are in this business today.

There are variations—depending on the particular policies of institutions that make property assignments. But there are three main listing phases you should expect to master:

1. Prelisting
2. Listing and Marketing
3. Offers, Negotiation, and Closing

1. Prelisting Phase

This phase represents the first critical hours and days of an assignment. A lot needs to happen in a hurry. Study and be ready. A good start means a lot in many businesses, and this one is no exception.

Much of what you do at first is practical property security and preparation for the BPO you will need to submit. The following is a top line look at what you'll be expected to do:

Respond to the Assignment

Responsiveness is huge! You may be contacted with a property assignment at any time. It will probably come by email. It will come with instructions from the lender.

The lender does not care what else is happening in your business, or your life. When the gun goes off, the race is on! This is about acting on the assignment as "what I need to get done in the first twenty-four hours!"

Respond immediately and accept! This is not your normal listing business. You've worked hard to get the attention of the lending institution. Now you have it. The experts say, "Just say yes."

Exceptions in Redemption States

In states with a redemption period (when a foreclosed owner may be able to pay and reclaim their property), there is a delay between getting the assignment and actually working the listing. The listing agents have more time to evaluate the inventory they are likely to be selling.

In many other states, the redemption period is much shorter and the opportunity to look ahead really does not exist.

Post Notice and Inspect Condition

Is that new assignment occupied? You may already know the answer. The lender might, but it's not likely. You will need to determine this. If it's vacant, things are easier. If it's not, there are options described below under "Work with occupants."

Post Notice

You'll be expected to post a notice that says there is a new owner—and that you shouldn't be contacted immediately—or personal property will be removed and locks will be changed. Local laws govern what you can actually do and when. But the posting should get a response in most cases.

Verify Condition

You'll need to document condition of the property—inside and outside—in writing and with digital, time-stamped and dated photographs. Depending on the arrangement with the lender, you may end up handling some or all of the work that needs to be done—once the lender has accepted those recommendations.

You'll need to make note of any obvious building codes violations—especially ones that pose clear health and safety issues (nonfunctioning electrical and plumbing, or major roof leaks and water damage are examples).

Tip!

Trend Toward Property Preservation Vendors

Property preservation vendors are increasingly being used by larger lenders to handle property maintenance issues. You'll need to be clear about the lender's policy on this—what is expected of you. For example, the lender may supply a preferred vendor or vendors to do the work but you may have to pay them and bill the lender.

You may also be expected to be present when a variety of inspectors visit the property.

And you may also be expected to prepare a separate scope of work document to govern pricing bids, and hiring vendors for the repairs that you—and or inspectors—recommended.

Secure the Property

Locks will need to be changed and a lockbox installed. Many agents find a combination lockbox is the best answer because it's likely that vendors and contractors will need to come and go—and a Realtor's lockbox will be an obstacle unless there's an easier option.

In any case, the combination lockbox access code is something you will hold closely and give to as few people as possible.

Status of Utilities

Are they on or off? At this point, you'll just report the status. Later, utilities will need to be turned on under a new account.

Tip!

Your Own Utility Business?

This is one of those financial responsibilities that you MAY be expected to take. Lenders are stepping in to handle more of the financial commitments like this— many agents have also found they're expected to be responsible for utilities, and some have set up separate entities to handle a large volume of utility deposits and billing!

Cleanout and Repair Recommendations and Priorities

You may have to remove personal property left behind by the former occupants. Local law determines how this is handled. Part of your job as an REO agent is to know the law. It's the only way to protect yourself, and make sure the right thing happens.

You will be expected by the lender to make repair recommendations and document them in writing and with photographs.

Top agents caution you to be sure to use only licensed and bonded contractors for any work on the property you are required to get done.

Tip!

Structure Your Focus on Needs of Individual Lenders

Different lenders have different requirements and methods for handling property, once it has been assigned.

It's important to understand the unique requirements of the lender involved.

Work with Occupants

Marketing and selling REO property that is vacant streamlines the process. Except in rare circumstances, if the property is not vacant when it's assigned to you, it should be soon afterward.

When you take an REO assignment, who might be living in the property?

1. **Former owners:** A former owner who has not yet moved, or refuses to move and will need to be evicted
2. **Tenants:** A tenant, who may or may not be allowed to stay—a policy decision and procedure about which the lender has probably informed you
3. **Special needs residents:** People with special needs—disabled persons, elderly people or small children may get special consideration. Report and wait for instructions from the lender.
4. **Unauthorized persons:** In rare instances, squatters who have moved into a vacant property

You will need to deal with these people. Usually that means moving them out of the property—as instructed by your lender or asset manager.

Cash for Keys (CFK)

This is basically a relocation offer from the lender that you will administer—at their direction. Again, there are variations in exactly how this happens, but basically:

1. The lender will offer cash to the occupant to be out by a certain date. Again, you'll likely know the lender's policy on CFK ahead of time.
2. There will be a procedure involving paperwork the occupant must sign and a timeframe to leave—not to exceed a month is normal. Sooner is better.
3. There will be requirements about the condition the property is to be left in. At the end of the time period, you (as the lenders representative) will inspect. If the terms have been met, the former occupant will get the promised amount and you will get their keys.
4. You will then rekey the property immediately.

Evictions

An eviction is a forced move out. Law enforcement or subcontractors to the lender may be involved. At the end of a legal process (governed locally), the occupant will either be:

1. Already moved out
2. Locked out by you, per lender instructions
3. Physically removed from the premises by law enforcement officers

You'll get instructions from your client lender on exactly what role you are to play in the process. At minimum, you are probably going to be expected to witness the key steps.

2. Listing and Marketing Phase

The listing agreement is between you and the lender. The lender makes the rules, and sets the price.

On price, you will provide input. If you strongly disagree with the price they set, top agents suggest you note your opinion.

Another note—listing agreements may be individual for each property, or may fall under some form of master listing agreement the lender has established. Know what you will be signing and be sure you have read and understood the listing agreement.

Listing Language

Lenders, and your local MLS, may have specific language that is either required or barred when entering a listing for distressed property. Again, your job is to know the rules and abide by them.

The MLS rules will apply to all bank-owned listings. But different lender clients may have different policies about language.

In the MLS listing itself, be sure not only to follow the overall rules, but err on the side of communicating too much rather than not enough. Here are examples of what to provide on the listing comments:

- A definition of "as-is" sale
- Any special addendums involved (provided by the lender)
- Financial proof and qualification expectations of the lender
- Earnest money and escrow requirements

Property Marketing and Updates for the Lender

You'll market and promote your REO listings much in the way you would promote traditional listings for sale.

The key difference is you'll need to document and report everything in your marketing plan for REO property to your lender client. They'll likely have a form for you to use to get this done. The expectation will be monthly reports of:

- Advertising of all kinds
- Inquiries
- Activity at the property—showings and feedback from buyers and their agents
- Changes in market conditions—especially those impacting pricing

Sharing your agent-branded KW App?

1. Get the Keller Williams Real Estate app from Apple App Store or Google Play Store.
2. In the app, use "Agent Search" to find and select your name.
3. Toggle "Make this my agent" button to "Yes"
4. Use "Share App" to share with your contacts!

Find More on KWConnect.com

Updating Your Marketing Reports and BPOs

TRUTH

The bottom line is to do these updates faithfully, on time, and in detail. Falling down in this area is a great way to fall out of favor with your institutional client.

You'll almost certainly be expected to update a marketing report for the lender or asset manager on a regular basis—probably monthly for the marketing report. The lender will likely provide a form for this.

BPOs get updated too, if the property has sold. The lender or asset manager will call for an updated BPO probably every 60–90 days.

Market Yourself

As in any real estate business, while you are selling property, never stop selling yourself.

Here are ideas collected from top agents who met with Gary Keller for a Masterminds session:

1. Add a Standard Addendum on "How You Do a BPO" – Add a page or two that details, in depth, the specific market information you always look at when you do a BPO—all the property specs and criteria you take into consideration. This kind of addendum is an opportunity to remind the lender or asset manager that you know what you're doing.
2. "Sticker" HVAC and Hot Water Heaters – These major mechanical units are always being inspected or looked at by someone. Put your custom marketing sticker on them—the way service vendors do. Having your name and contact information in plain sight is just another way to stay "top of mind" in the marketplace.

3. Offer, Negotiation, and Closing Phase

Unlike short sales, once an offer is received and a contract (with supporting financial proof of loan approval and cash required to close) is presented, the contract-to-close process is similar to traditional real estate transactions.

TRUTH

There are important exceptions, however. Making sure everyone involved on the buyer side knows the rules of the road is one of REO listing agents' biggest challenges.

The best solutions appear to be:

- Write out very specific instructions
- Overcommunicate

How to Submit an Offer: Documents and Postings

Top agents take care to provide detailed instructions for buyer agents on:

1. How to complete contract, disclosures, and other paperwork accurately
2. How to properly qualify their buyers
3. Fax numbers to use
4. What to expect next in the process
5. What to do in multiple offer situations
6. How to be sure follow-up email gets through to you

Buyer Agent Communication: Be Demanding

This issue is covered in detail in Working with Buyers. Suffice to say that your challenge as an REO listing agent (or a short sale listing agent) is to clear the way for the smoothest possible transaction by educating buyer agents to the best of your ability.

Traditional real estate listing agents always grumble about other agents and have their favorites—people they hope will bring buyers. In distressed property business, this whole issue is magnified in importance.

You're getting an idea of the extent of the special and unique rules of the road in distressed property deals. Imagine the challenges for the buyer agent.

They need to know what you've had to learn to get REO listings.

Some top REO agents take specific actions to ensure that buyer agents understand the considerations involved in making offers on REOs. Some of these are:

- Requiring that all buyers be preapproved through a lender the listing agent selects—even though there is, of course, no requirement that the buyers work with them.
- Requiring that an appraisal be done by an FHA-experienced appraiser on FHA deals, which always have more demanding lender criteria about property condition.
- Providing a phone message that gives buyer agents a very specific set of directions about how to make an offer on one of the listing agent's REO properties before they actually speak with the listing agent.

Offer Response Time

Again, you as listing agent are not in charge of the process. Turnaround times on REO offers range widely—anywhere from several days to several weeks—but rarely the protracted periods that can happen in short sales.

Clearly communicate what range of time to expect to the buyer's agent.

Multiple Offers

Multiple offers can become common in active REO markets. It seems counterintuitive at first. In an environment with high volume of foreclosures being released by lenders, how is this possible?

The key is to be fair. Banks don't have to play by multiple offer rules and guidelines set by local boards and MLS. Agents accustomed to states and localities that have procedures and paperwork to follow will find those rules are out the window.

Think of it as a sealed bid situation. You must encourage buyers to make their highest and best offer ASAP. That's your best policy in multiple offer situations.

Remember, the highest offer is not always the best offer for the bank. The important thing is that the offer is clean and that the buyer will perform.

Closing Issues

Title and escrow companies can be a great ally in building understanding of the unique aspects of the closing process for REOs.

The list below summarizes essential key points that buyers, and their agents, often miss:

1. It's Not Local: Sellers are not local—they're out-of-state institutions.
2. Lien Alert: Beware of liens or other title encumbrances that may have to be cleared before closing.
3. HOA Demands: HOA demands for unpaid fees must be checked and addressed.
4. Closing: Closing appointments can be set quickly once full loan documentation is at the title or escrow company.
5. Home Warranty: Home warranty, if paid by the seller, must be ordered before the seller will sign-off on the final HUD-1.
6. Last-Minute Delays: There can be a delay of several days after all monetary demands are received before the seller will sign off on the HUD.
7. Coordination: The escrow company will coordinate with the buyer's lender before final sign-off on the deal.

Transaction Tracking Tools

Managing both property and financial data is a big part of running a successful REO listing business.

If you are fortunate, you are dealing in volume—you may be overseeing, marketing, and closing scores or even hundreds of properties.

The REO industry is creating more and more tools all the time. Some agents are also building their own custom tracking tools, using long-standing database programs like Excel and Access.

STOP and DO

REO Reality and You: Able, Ready, and Willing?

A goal of this course is to help you understand the fundamentals of listing REOs, and to help you evaluate whether the business fits you. Chapter by chapter, complete these short "REO Reality and You" exercises. Rate each reality a good, fair, or poor fit for your personality and skills. Use "Find Out and Act" to write what else you need to know—and what action you'll take to proceed.

By the end of the course, you should have a good feel for whether listing REOs is the distressed property business path for you.

Reality	Fit for Me	Find Out, and Act
1. You'll have a good-sized list of tasks for immediate completion once you receive a property assignment. You need to get these jobs done in 24-48 hours.		
2. You will need to market the property you are assigned aggressively. Lenders will rate you on how quickly your inventory for them sells.		
3. You will need to file updated marketing reports (traffic, area sales, etc.)—using the institution's format—as long as you hold the listing.		
4. You will need to master the unique requirements of each lender or asset manager's transaction process and you will need to learn to use the tracking software they prefer.		
5. You will need to work at communicating with buyer agents—teaching them the process requirements of offers and contract to close.		

Chapter 9: Building Your REO Listing Business

You can see that there's a lot to building a successful REO listing practice. "A lot" might be considered an understatement. Here are a few of the basics to help prepare your thinking about a decision to get involved. They include top agents' thoughts about:

- Managing Your Time
- Staffing
- Roles
- Organization

WATCH OUT

The models shown in this course are likely to undergo continuous improvement, as more and more information is collected and agent experience accumulates. Similarly, the data will no doubt be sampled and evaluated repeatedly over time.

1. Managing Your Time

One of the subjects the Keller Williams REO agent survey asked about was time management for the agent leading the team. The results were not surprising—in keeping with the competencies model in *SHIFT* management of the team's business overall and lead generation led the list.

The question included categories corresponding to the phases of an REO transaction. The answer data reflects the percentage of agents who said, "I devote at least 20 percent of my time to this activity in my business."

Activity	Detail	Percent of Time
Manage Team	Quality control, roles, etc.	69%
Lead Generation	Relationship building	67%
Assignment to Prelist	Occupancy check, occupant communication, cash for keys, security	40%
Prelist to Listing	BPOs, trash outs, utilities	31%
Listing to Contract (Marketing)	MLS, KWLS, signs, open house, call capture, showing service, etc.	41%
Contract to Close	Systems on, inspection, appraisal, lender required repairs, closing coordination, HUD review	26%

2. Staffing Basics

Agents coming into REO practice always want to know the answer to the all-important question, "How many people should I add and when?"

There is no simple answer—expect to start mastering business planning and budgeting.

Experienced REO agents admit they "flew by the seat of their pants" in the early stages of building business—and made mistakes.

First Hire

Most agents say their first hire was either a trusted general administrative assistant or a data entry person

But the rule of thumb is to stay ahead of the power curve on handling volume. If your prospecting lands business and you can't handle it, you may be out of the business quickly.

Anticipate—start recruiting and training one key person to begin with. Get them up to speed with everything you can learn from mentors and networking. You have to be ready.

Staff Internally or Outsource?

Logically, we found top agents nearly all began building resources and staffs in their own team to handle the volume of business. As they progressed, however, many started shifting to outsourcing roles, and finding specialists (like accountants and maintenance companies) to help them.

Lenders are also starting to develop outsource resources themselves—and in the process are now taking some responsibilities off of agents.

But if you are dealing with more than a handful of lenders to build your business, you'll likely find both staffing and outsourcing happening in your world.

Administrative Staff Costs Higher Than MREA

The REO business does have a different cost structure than traditional business. There are other differences too.

Bottom line, the proportion of administrative staff cost in REO is easily double to three times—20% to 35% of GCI—than in the MREA economic model. This consensus was reported in a recent Mastermind session with top REO agents.

Managing Staff Costs: Team Incentives

Some top REO agents pay key team members salaries, but their bonus pay is based on profit, not GCI. This keeps them focused on the bottom line success of the business by sharing financial performance data with the team regularly.

3. Roles and Organization

The REO agent survey identified the following roles in respondents' REO organizations. Details are in the appendix. They include common titles for the roles, responsibilities, and compensation structures:

1. Mega Agent
2. Buyer Specialist
3. Listing Specialist
4. Field Operations Specialist
5. Transaction Coordinator
6. Administrative Assistant
7. Billing Specialist
8. Lead Administrator
9. BPO Specialist
10. Lead Coordinator

Issue: Team Size Relative to Business Volume

In a team review of the REO survey results at Masterminds, there was a lot of discussion about the relationship between the number of members on an REO team and the number of properties the team is selling.

Team size among the agents who responded ranged from 3 to 20 members. Annual units sold ranged from around 90 to more than 500.

The conclusions:

1. Although logically there is a relationship between volume and team size, everything depends on how roles are identified and how time is managed.
2. There are some other key differences as well, like the scope of the territory your REO practice covers.
3. Like most small businesses, there is an uneven growth curve in adding staff. There's a tendency to overcompensate for being short of the needed help—followed by an overstaffed situation that has to be remedied by outsourcing, or sometimes a layoff.

Finding the "Sweet Spot" in a Growing Business

Gary Keller has coached REO listing agents that there is no perfect team size—or size of business, for that matter. The key is for the Mega Agent leader to be clear about their goals—personally and for the team. How much business is enough? Gary calls finding the answer "finding the sweet spot in your business." It's different for everyone, he says. The trick is:

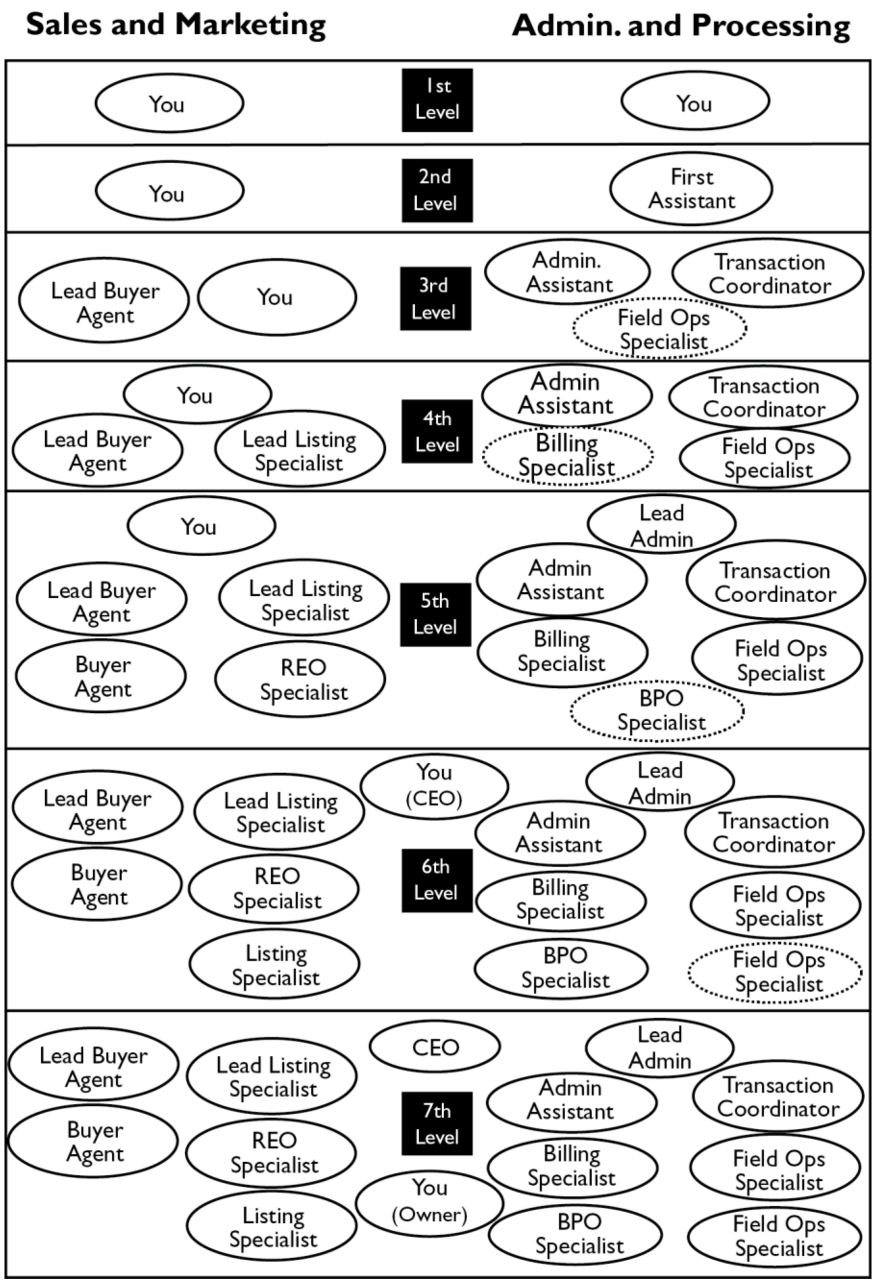
1. Being as clear as possible about the goal
2. Running as lean and mean as possible toward that goal

Gary also points out the risk in developing any volume-driven business like listing REOs is what he calls "chasing dead margin"—growing just to handle more business without making more profit!

Organizational Models—Levels 1 through 7

Generic titles were used, along with information submitted by many Keller Williams REO listing agents, to create these organizational models.

MREA REO Model



Chapter 10: Listing REO and You

The course materials end here, but the most important step for you remains to be done. In the very first chapter of this course, the course goal was stated:

"Decide what aspect of the distressed property business you will focus on. Is working to win REO assignments and getting them sold the best option for you?"

Hopefully you've been doing the exercises along the way and a picture has been forming for you—and a decision. Do you plan to actively pursue listing REO as the focus of your business, or are you planning to add listing REO to your skill set for the long term, as part of a mix with your traditional real estate business?

Is There a Fit?

This course makes the point that a lot of success in short sales starts with your mindset—and the mindsets of the other players—distressed homeowners, pressured financial institutions, plus uncertain and sometimes uninformed buyers and buyer agents.

Personal Requirements

A big part of the success equation for doing well in short sales is about your own mindset and the personal qualities you bring to the business.

- **Mindset:** Do you think you have the patience, persistence, and organizational skills to succeed in listing REOs?
- **Networking:** How are your networking skills? Are you a determined and aggressive relationship builder?
- **People Skills:** Do you think you have enough of the qualities to succeed, provided you have the help of (initially) 1–3 people who will bring the missing ingredients you need to succeed?
- **Learning Based:** Do you believe you can learn and develop in the areas you know you'll need to succeed in listing REO?

Business Requirements

The other side of the short sale success equation is the business side. It's clear that if you want to commit to this business, you need a strategy:

- **Financial:** Have you estimated—with the help of REO expert agents—the financial resources you will need to provide to launch a successful REO listing practice? Have you secured those resources?
- **Organizational:** Do you have a strong organizational mindset when it comes to both managing people and organizing and delegating tasks?
- **Systems:** Are you prepared to investigate and understand the digital systems the REO industry has created to help manage the business?

Compare REO Alternatives to Decide

There are several paths, as you've learned. Look at each option in terms of what you will need to do—from both a personal and business perspective.

Choose the path best suited to you and your business skills and resources. Or, decide that working with buyers, or listing short sales, is a better option for you in the distressed properties business.

TRUTH

The choice is yours. Evaluate, choose and take action to make your choice a reality.

Four Options in REOs: Which Is for You?

Option 1

Focus on BPOs
Personal Requirements ■ Determined to and informed about how to prospect for BPO assignments. ■ Willingness to generate a large volume of BPOs on deadline, possibly for multiple lender/asset manager clients. ■ Well-developed networking skills. ■ Strong USP and Value Proposition oriented to REO market. ■ Determined to make the economics work.
Business Requirements ■ Excellent time blocking and time management skills. ■ Plan for adding one or more assistants (staff or outsourced) to handle volume as opportunities grow. ■ Coaching and/or mentoring. ■ Build well-designed, complete tool kit for prospecting (résumé, financial resources documented). ■ Time blocked for personal marketing and equipped for wide electronic distribution of marketing material, and Internet sign-ups. ■ OK with BPOs as a leading source of income. ■ Plan to transition into listing REOs to grow business.

Option 2

Listing REO

Personal Requirements

- Access to lists of potential clients to approach, and game plan for growing the list.
- Well-developed networking skills.
- Strong USP and Value Proposition oriented to REO market.
- Good understanding of the phases of listing REOs and what it will take to implement each.
- Willingness to work very hard at the business—as many hours a day and week as it takes.
- Prepared to wear more than one hat.
- Up to the financial challenges that come with listing REOs.
- Open to having a mentor or coach who will help guide you through launching and growing your business.

Business Requirements

- Sense of scale—how big would you like your REO business to become, and at what estimated profit margin?
- Coaching and/or mentoring.
- Practice by doing.
- Build well-designed, complete tool kit for prospecting (résumé, financial resources documented).
- Time blocked for personal marketing and equipped for wide electronic distribution of marketing material, and Internet sign-ups.
- Know the scope of financial resources needed to list REOs and have those resources set aside for immediate use.
- Prepared to manage the accounting side of the REO business—tracing and pursuing accounts receivable, for example.
- Prepared to manage property preservation side of the REO business—cleaning, maintenance, security, utilities, etc.
- Understand REO commissions overall and commission splits for buyer agents working in REO teams.
- Understanding of REO listing side costs.
- Have references and recommendations from trusted sources.

Option 3

Buyer Agent for REO
Personal Requirements ■ Open to learning the unique aspects of REO transactions—what I need to know to bring offers successfully to REO properties. ■ Have researched opportunities and have criteria for a decision to be a solo agent or to become a buyer agent on an established REO team. ■ Willing to apprentice with a top REO listing team, or get an experienced REO mentor.
Business Requirements ■ Know how to apply buyer agent skills to the REO market—what is the same as traditional and what is different. ■ Know the commission structure and have run numbers on both options—with help of experienced agents—to see the economics of each path. ■ Have criteria for a decision to be a solo agent or to become a buyer agent on an established REO team. ■ Have recommendations from mentors.

Option 4

REO and Traditional Business Mix
Personal Requirements ■ Prepared to be flexible and versatile—because my local market demands it. ■ Open to running two businesses in parallel.
Business Requirements ■ Have determined the mix in my market dictates I should be prepared to learn and do REO business as well as traditional listings and sales—for maximum earning power. ■ Have investigated options and talked with mentors who are doing both distressed and traditional businesses—either side by side, or with the same team.

Which Option Best Suits You?
What Actions Do You Need to Take Now?

From Aha's to Achievement

AHA's

What are your Aha's?

BEHAVIORS

What behaviors do you intend to change?

TOOLS

What tools will you use?

ACCOUNTABILITY

What does accountability for this look like?

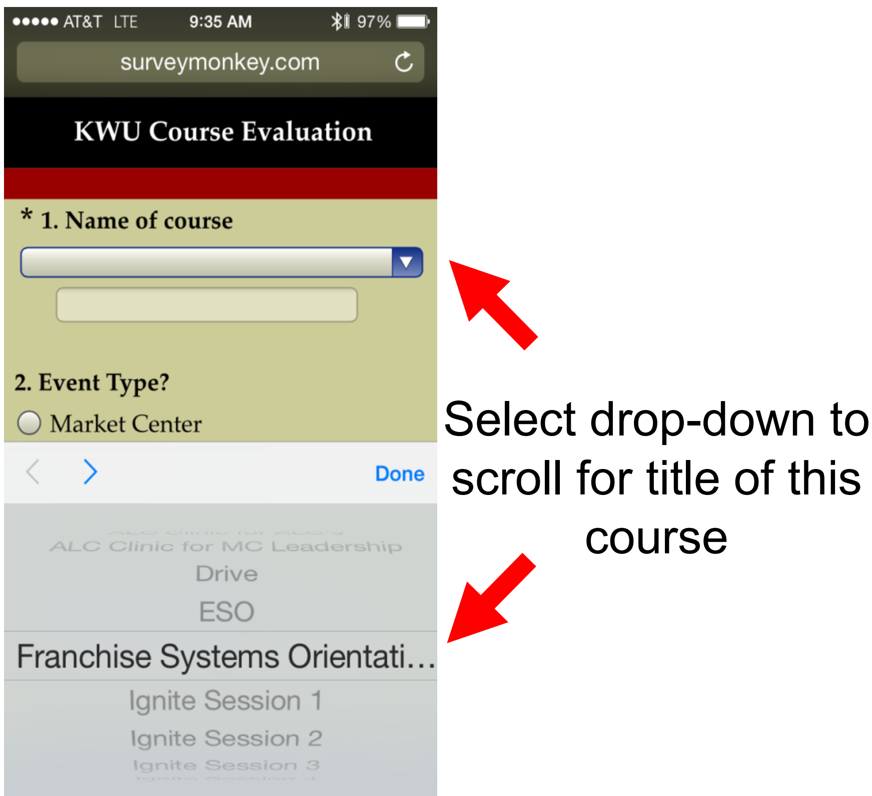
ACHIEVEMENT

What will you achieve?

Don't Forget Your Evaluation!

To fill out the evaluation:

1. Go to KWUeval.com on any mobile device.
2. Select the course and instructor.
3. Share your feedback.



Thank You for Sharing Your Feedback