

Managing REO

Feature Story

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REO Sales Offers Not Reaching Decision Makers

By Jennifer Harmon

Today's way of managing the REO sales process is still built around the same technology system that was in place two decades ago, which creates inefficiencies that prevent offers from going through, according to industry insiders.

These "cracks in the system" lead to a situation where banks are feeling "somewhat apathetic" to the fact that there are fewer buyers for these REO properties.

"The buying public is frustrated because they are trying to put offers in and they are not sure if they are getting submitted," said Rodney Carey, CEO of OfferSubmission.com, the Southfield, Mich.-based processing system developed by Woodward Asset Capital.

According to a survey by the company, a mere 42% of distressed real estate offers receive an answer within a week. Industry statistics show 55% of all viable offers for the purchase of REO never make it to decision-makers.

A bank or servicer typically engages a local listing broker to market a property, gather up the offers, and forward them back up the food chain. The listing agent "filters everything" that the asset manager, servicer and lender gets to see.

"They are overburdened with a lot of other tasks that the REO agents are trying to take on today. They think the offers coming in might not meet the seller's expectations, so they don't even put them in through the system. The seller doesn't get the opportunity to take the new offer," he told *Managing REO*.

Listing agents and brokers have a great deal of opportunity to mark up their services to maintain, list, and market the property. Representing a foreclosed property typically requires that the listing broker also become a property manager. If the asset manager requires that the property be maintained during the listing period, the listing agent must pay for these expenses and be reimbursed later.

"With the commissions they make on the REO properties, they can hold a home for 90-120 days under their listing, their ability to make that marked-up revenue is equal or more than what they would make on the [sales] commission," Carey said.

"Plus, the sign in the front yard stays out for a period of time that does direct traffic for them to show other properties as well."

Ronald Jasgur, president of the company, believes the technologies serving the industry today all have the same inherent problem. "There isn't a way to track the offers today. They all rely on one person, the listing broker, to submit and enter offers and communicate decisions," he said.

"The agents have their own buyers, several offers all at pretty much the same price so they feel there is no reason to forward multiples."

Owner-occupant buyers, who are typically willing to pay the most amount of money for a property, may not have a chance to get into these REO homes, according to both men.

"The listing agent has a group of investors that he deals on a regular basis that he knows he can push all these

properties to and double-dip a commission," Jasgur pointed out.

"That owner-occupant buyer—his offer may not get where it needs to go. We find it over and over and over again."

The government has established a maximum commission rate of 6% payable on short sales and foreclosures.

Quite often, listing agents might have a system with with banks where the banks don't want to be flooded with every offer.

"Offers are sometimes faxed to the bank, but normally the listing agent emails the offer to the bank and the negotiations are done more or less verbally," adds Randy Vredenburg, a Realtor in Traverse City, Mich.

"It sometimes takes a lot of patience when waiting to hear back on an offer that is placed on a bank-owned home. These banks have hundreds, if not thousands, of properties that are being offered on."

OfferSubmission.com does something different. It gives the buyer's agent an opportunity to be heard.

The streamlined process helps make sure every offer is viewed and responded to within one day, Jasgur added. When this happens, he says the motivations of downline vendors no longer matter. "We make sure that the right people have clear opportunities to review and respond to every single offer that comes in, so sales happen quicker and the resulting prices exceed asset owners' expectations by as much as 12%," he said.

When the buyer's agent inputs the offer, it is directly transmitted to the seller, and copies are sent to the listing agent and asset manager. A confirmation e-mail shows the offer is received and provides a tracking number.

Once the agreement is made between the buyer's agent and the seller, the system directs everyone to get the contracts together, finish inspections and

appraisals, and follow through with getting the financing in order.

"The huge improvement and benefit to the existing system is the buyer's agent knows exactly when the offer was submitted and that it was received by the selling party. They get the response. The listing agent and asset manager are updated each step of the way. There are reminder time stamps to keep the offer moving through the whole process," added Carey.

Carey and Jasgur agree that the advent of HAFA, which was designed to keep REOs off the market, has not decreased the length of time it takes to complete short sales. "They are getting 'no's' a lot faster," said Jasgur.

"A good chunk of these properties that are in some type of trial modification will become an REO and there's really not a way to prevent it."

This will further prolong the housing recovery. "Buyers are worried if they are getting in at the bottom. Are prices going to go down another 5% or 10%? We know it will be slow appreciation back up," added Carey.

"Until the industry works through this inventory, there is going to be the concern that the current process isn't going to allow the floor to be seen quickly."