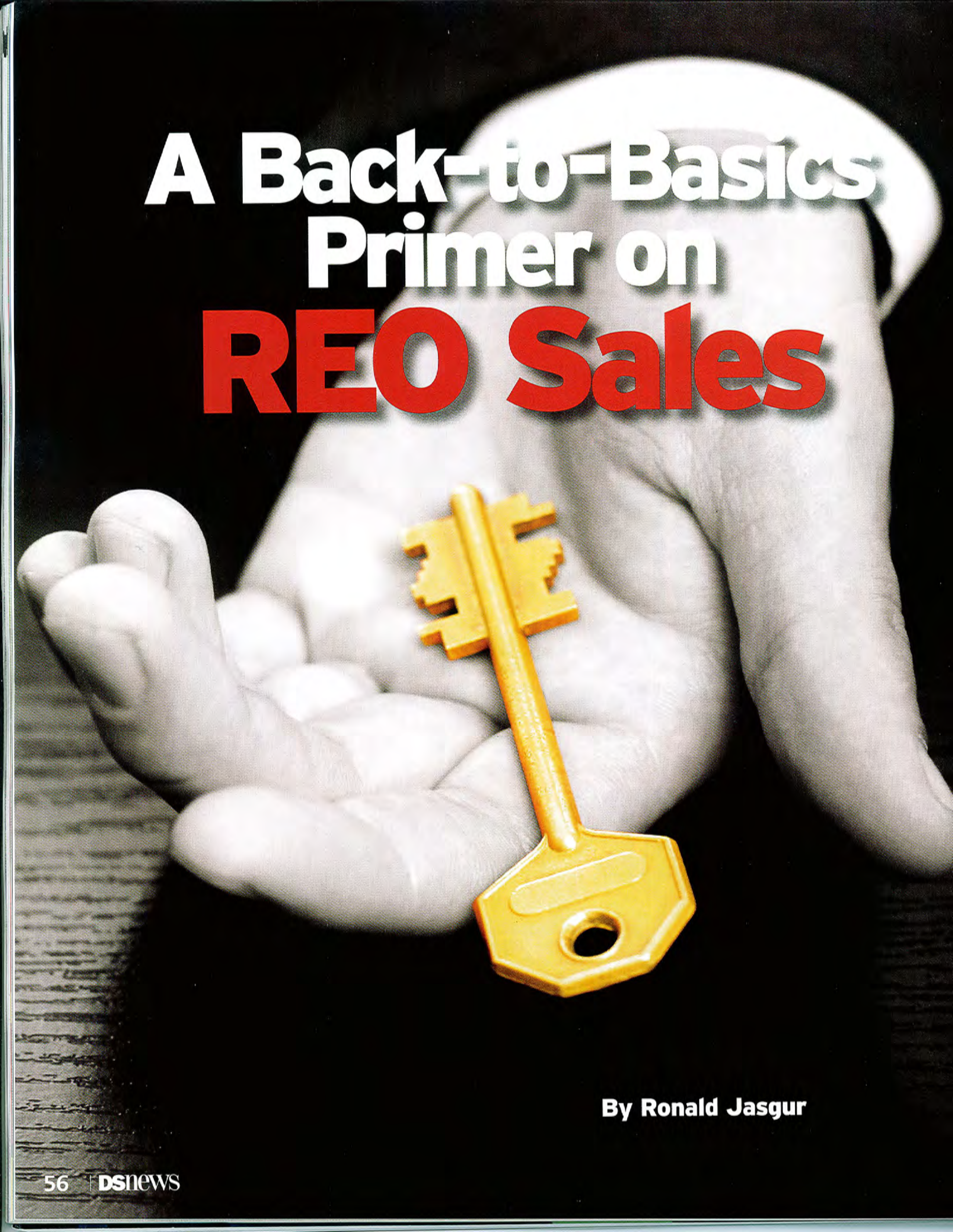
A Back-to-Basics Primer on REO Sales



By Ronald Jasgur

HOW TO

In a challenging environment, agents must remember to return to basics and exude the same enthusiasm of pre-crisis days.

Open houses with fresh-baked cookies and signs with balloons. Full-color brochures with multiple photos and financing information. Virtual tours. Email blasts to local agents. Posts on Facebook, LinkedIn, and Twitter. Blogging. Feedback. Staging. Coaching. Therapy.

These are just some of the efforts that are expected and implied when a Realtor signs a new listing with a private seller. They're the promises you make when you sit down with Mr. and Mrs. Homeowner over coffee and comps to sell yourself as the trusted local expert with superior negotiation skills.

You give them your word that you'll do everything in your power to sell their home quickly and for top dollar because you're a professional and you take your obligation to your customer very seriously. You stake your reputation on results.

Unfortunately, that's no longer the case. Today, the mere size of the REO landscape—thousands upon thousands of foreclosed homes sitting empty, waiting for someone to give them new life—precludes the careful advertising, promotion, and energy agents used to pour into sales attempts.

But it shouldn't. The pride of the industry has waned. More and more, agents behave in ways that don't reflect the Realtor Code of Ethics and good business sense that should serve as the foundation of this industry.

REO agents today work Monday to Friday at hours of their choosing. They no longer compete for listings; instead, they rely on assignments from asset managers or big banks far away. The listings come, and agents try to sell; but there is no relationship, no caring, no personal connection. The homeowner is not an apple-cheeked couple with two cute kids; it's a big bank, government entity, or institutional investor that can't see, can't hear, and can't know what goes on in the little house among many little houses it's burdened with.

The sale and disposition of REO has become a factory-line operation akin to the production of widgets.

The same climate that allows homeowners to say, "I'm giving my property back to the bank" because they no longer like paying the mortgage, allows agents to think they can pull antics that are not only unfair, but also unethical, bordering on illegal. Something must change.

Now, more than ever, REO listing agents need to take a long, hard look at their business practices to ensure they are serving their clients, the buying public, and the Realtor community with the integrity and respect they deserve.

Admittedly, REO sales and disposition is not a personal experience. There's not much relationship-building; it's technologically driven and remote, with banks relying on local licensees to represent houses they've never seen and don't have a personal attachment to.

It's easy to see how an agent might go awry.

The agent is not earning as much commission as he or she once did. There's no accountability to a homeowner with an eager smile and hopes to find someone who will love his or her house as much as he or she did.

Maybe the house has fallen into disrepair or been overtaken by animals. It's a hard sale—to get someone to take mercy on the property and give it new life.

Real estate is one of the only industries with an expectation of adherence to a universal Code of Ethics, regardless of what company you work for, what properties you represent, or what the economy has done to your income stream. In REO, the bank is your client, no different than if you're selling a house for your mother, your neighbor, or your friend.

In a private sale, your client presses you for information all the time. When there's a showing, they know about it, and they're on the phone as soon as it's over, expecting feedback.

When it's a bank as owner, the person who inquires about the progress of the sale has no emotional connection to the property. It's a numbers game. They want it sold.

They have no idea what's going on in the marketplace unless you tell them—whether showings happen; whether there's interest; whether people say anything at all, positive or negative, about the house. They're not seeing it, smelling it, knowing the neighborhood. You can only tell so much from a photograph or a BPO.

Agents have a fiduciary responsibility to achieve the best possible price in the shortest amount of time—not take the first offer on the first day a house is listed. They have a responsibility to share every offer, every inquiry, every comment with the asset owner, who needs all information to make an educated sale.

Some larger asset-holders, such as Fannie, Freddie, GMAC, and a few others, have gone as far as instituting time periods when a property first hits the market, during which they won't consider investor offers. They give the first shot to owner-occupant buyers because such a buyer is more likely to pay top dollar and care enough about the property to improve the neighborhood.

GSEs realized they weren't getting every offer and, in addition to desiring to stabilize property values, instituted policies that would get them closer to seeing what is possible before deciding to take someone's money. Yes, they still want the most money in the least amount of time, but it's never apples to apples. A lower offer can be a better choice if a higher dollar amount is saddled with contingencies. The GSEs need to see everything to know which offer to accept.

The values inherent in making a good sale still reign supreme. The bank deserves and needs every offer submitted—not just the ones an agent deems best—because information is power, and a powerful sale has the potential to turn everything around.

There is no good reason to block transparency.

There is no reason buyers' agents should wonder if an offer was presented and what the response was. Everyone deserves an answer. Good offers aren't getting through, and banks are accepting inferior offers because quite often, they simply don't know something better exists.

Buyers' agents are fed up with listing agents' games. Just because the process has become automated doesn't mean an agent isn't obligated to do the same good job he or she would have done on non-foreclosed properties before the crash.

Asset managers and banks can be demanding. They expect you to be technologically proficient, perform numerous tasks, and advance your own monies for utilities, trash-outs, and maintenance for a commission that's usually less than a private seller might pay.

Unfortunately, once the bank's REO inventories went from dozens to thousands, good character traits flew out the window. This change has prompted buyers and agents to file complaints against listing brokers and caused banks and asset managers to take new approaches to ensure they're getting what they pay you for.

Institutional sellers are hiring secret shoppers and field inspectors to verify that lawns are tended and buyer inquiries receive quick responses. They utilize technologies such as OfferSubmission to ensure receipt of every offer. And they are grading agents on how quickly and accurately they complete assigned tasks and how close their BPO price is to the final sale price.

Now, more than ever, REO listing agents need to take a long, hard look at their business practices to ensure they are serving their clients, the buying public, and the Realtor community with the integrity and respect they deserve.

Agents need to take a step back and ask themselves why they got into this industry in the first place. Remember that pride in a job well done? The excitement inherent in taking a discarded property and finding someone to love it anew?

Agents need to take a long, hard look at what they're doing and why, and decide whether they can rise to the challenge of today's marketplace. If not, they need to find another path.

Banks, asset managers, buyers' agents, and top-performing REO listing agents identified the following basic rules to adopt in order to keep assignments coming and reduce risk.

Be accessible. To asset managers, to agents, and to buyers. In today's tech-laden, immediate-gratification world, you simply cannot wait a day or two to respond to inquiries (or ignore them altogether). Take the time to notify agents if their offers were not accepted; silence is a sign of laziness and causes animosity among your peers.

Treat all parties with respect. Real estate is a people business, and your business depends on being respected within the industry.

Be honest. In your advertising, in your communications, and most of all, in your interactions with the buying public, fellow Realtors, and sellers.

Make your property marketable. Sellers continue to inspect for details that meet or exceed expectations. Dead animals, standing water, unshoveled walks, and knee-high lawns are easy ways to lose listings along with future business you've worked hard to cultivate from sellers.

Make your MLS listings accurate. That means room sizes, bedroom and bathroom counts, accurate descriptions, and any necessary disclosures the seller requires you to provide. Include multiple photos. Asset managers and buyers' agents are fed up with MLS profiles that reveal that the listing agent has never even seen the house. Additionally, inaccuracies affect appraisers who rely on accurate MLS data to value future sales in the area.

Share feedback with the seller. The good and the bad—everything. They need to know the truth about their property. And in the case of a faraway bank as asset owner, you become the eyes and ears. Don't lead your client astray.

Honor your fiduciary duties. The seller is your client, and everything you do or say should be to protect your client's interests. You are hired to sell a property for the best price in the shortest amount of time. Don't disclose anything not specifically allowed by the seller unless required by law.

Submit all offers. Regardless of whom it's from, how much it's for, or when it's received. There is no better way to get on a seller's blacklist than hiding offers and pushing lower ones. Don't be that agent.

Disclose relationships. We've already said "be honest," but it bears repeating. If you know a purchaser is somehow related to the previous owner, share that with the seller. Even more important, disclose your relationship as a buyer; if it's an LLC with which you or someone you're close to has a relationship, don't hide it, risking later discovery. The same goes with vendor bids you may be asked to obtain; if you have an interest in the company that changes locks, mows lawns, or repairs roofs, you must disclose it.

Only accept listings in your immediate market area. If a house is an hour away, you know you won't be able to service it in the way you should. Asset managers say it's better to turn down a new listing that's out of your area than get in over your head.

A new economy presents new challenges. We must rise to the challenge of today's REO market if we are to ensure a better residential landscape and a healthy recovery. DS