

2-2-2011 Part 2

Is This Underhanded and Misleading - or Just Good Salesmanship?

This is the second part of a two-part series for the Weekly Insight for 2-2-2011

The bare mention of a property being an REO strikes massive emotion in the minds of hungry investors. The realtors' auto-responders that look for this ("REO") and other key words (bank owned, corporate owned, foreclosure, short sale, REO, price declines, DOMs, etc.) methodically go into action sending emails to eager investors who make offers before someone else gets to the property.

Every once in a while I buy a property in one of my corporate names and run a flat-fee listing on the MLS to see what's shaking in the wholesaling community. I use just one of the "exciting" key words such as "corporate owned" to get offers flowing in. I believe I know most wholesalers in the tri-county area, and I will get 10 – 20 offers within hours from the MLS, some from these wholesalers and some from out-of-area investors.

In one case, all the property needed was a minimal patch and paint rehab and was a 3/2 in a good neighborhood. I had plenty of pictures and a lock box on the property. None of these initial offerees asked for a lock box to see the property – dead clue they were investors. The offers were in the names of trusts, corporations, LLCs or an individual's name.

All the offers the first day are usually bogus and from investors who have no interest in buying the property, just to get it under contract and flip it. Twenty percent of these initial offers often come from somewhere else in the state – particularly the Tampa area. They are always too low to consider but they make you smile. Like they say, "Even a blind squirrel may find a nut in winter." But, I hope these low-ball guys have real jobs to support themselves!

In the above example, I offered the property for sale for \$51,950. Twelve offers were received in the first two hours that ranged from \$15,000 to \$65,000. The highest one was from the largest wholesaler, outside of us, in the tri-county area. I hadn't bothered to call anyone back and ask for the fabled, "Give me your highest and best" so these were stand-alone initial offers.

The actual "prospective" buyers started calling the following day and asked for the lock box number. As is occasionally the case, we had one key stolen. The problem is you have a prospect standing at the front door trying to get in and you are unable to get out to the property in less than 45 minutes. To overcome this problem, we put a second lock box on the property with another key and a different code. We place it in a location where it can't easily be seen. When the prospect says there is no key, we take their telephone number, call them back and then direct them to the second lock box. As soon as we can, we go out and reload the front lock box and change the number on the second box.

Watch out for the trap of “Bring it Up, Bring it Down”. This where the listing price is raised for no apparent reason and then dropped in a week or so. The idea is to get the autoresponders working to attach prospects who are looking for price reductions. It works some of the time for investors who don’t know any better, but not everyone is fooled.....

Here are some memorable quotes by REO listing agents:

“I don’t like to deal with investors because they never close.”

One simple question - “Who is buying all those REOs?” Case closed....

“FNMA always delivers a clear and marketable title” Realtors may believe this and it may even have been started by a FNMA Asset Manager who believed it. If the property went through a foreclosure sale, it cannot be transferred with a marketable title – PERIOD. If it was acquired by a Deed-in-lieu of Foreclosure, it can be transferred with a marketable title but never that I have seen.

“We have multiple offers so give me your highest and best.” I love it when I warn students about this realtor strategy – especially when the property has been on the market for over 100 days and the realtor’s assistant says they have received no offers and the listing agent calls back and says a bunch of offers came in and now the prospective buyer must have a “Highest and Best” by 12:00pm! Were all these buyers waiting for the magic of 100+ days to happen before they rushed to put in offers?

“Actually the bank is negotiating with a higher offer than yours but has countered at \$70,000” Ask yourself, why would the bank counter at all when your offer is \$20,000 lower than the bank’s “higher offer”? Is it possible there isn’t a higher offer?

“There’s another offer much higher than yours and the bank hasn’t accepted it. They are looking for your counter offer.” Come on, do they expect you to jump your offer up to the higher offer that I was “secretly” informed about by the listing agent?

Most Realtors are hard working and highly underpaid people. They struggle with the reality that investors make 10 to 25+ times more on the same deals that they struggle to make 3% on. It just isn’t fair for all the work realtors have to do. That’s why so many are turning to the investing side so they can make a decent living and not work as hard as they have to!

Unfortunately, a few brokers have had their heads swollen because they have been given the “gift of life” to list REOs. We will continue to make what we consider reasonable offers and take what actions we consider to be reasonable to get listing agents or brokers to show our offers to the Asset Managers.

When we believe there are improprieties, we will continue to report these actions to the appropriate authorities. Let the Banks' Fraud Departments, Asset Managers, the FDBR and the local Boards decide what are appropriate actions to stem any "waywardness" in the industry. We just want to be allowed to make offers, buy properties and help bring neighborhoods back to their condition of five years ago.

To your limitless success,
Dave Dinkel

P.S. – Tonight at the BREIA meeting I will be tackling the issue of Marketable versus Insurable Title. Trust me when I say this Educational Hour will have heads spinning! Hope to see you there!