Four Tips for Buying an REO Home

By HomeSteps SVP Chris Bowden

Real estate owned (REO) homes – ones that have gone through the foreclosure process and are owned by a bank or other institution – accounted for more than six percent of home sales in May 2015. While REO inventory is down significantly from its peak during the recent housing crisis, there continues to be affordable buying opportunities for homebuyers nationwide – especially with today's low mortgage rates.

Buying an REO is a lot like buying any other home, but keeping these four tips in mind will help you be better prepared to succeed:

1.Find a reputable agent who knows the market. Your strongest offer will be one that is comparable with other sales and listings in the neighborhood. Rely on a licensed real estate agent who is active in the neighborhoods you are considering – it's even better if they have an office nearby. While banks and institutions can and will negotiate, they typically employ local pricing strategies with the goal of selling their homes at or near current fair market value. A good real estate agent can help you find a well-priced home that you can afford and also help you put in a solid offer.

2.Get pre-approved. If you know you'll need a mortgage to buy, it's a good idea to get pre-approved by your lender. You should also understand how much you can afford before you fall in love with an REO home, especially since you are buying a home "as is." While most banks and institutions make some necessary repairs, you may need to consider additional repair/renovation costs.

3.Be ready. If you see a home that you'd like to buy, the sooner you can make the offer, the better. In many cases, you could be competing against investors and other interested parties and some are able to move fast, particularly with cash offers. The good news is that the market is transitioning back to one of traditional homebuyers, after being dominated by investors and cash sales.

4.Do your homework. Most REO homes are sold "as is" so it's important to do your due diligence once you've signed the contract. While it's always a good idea to get a home inspection when you're buying a home, it's even more critical when buying an REO home since it may have been vacant for some time. You also need to ensure that the home does not contain any safety hazards or other unknown issues – your real estate agent can recommend the right inspections for the home you're buying. Remember, you can always cancel the contract if you discover inspection issues.