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Seven Things Lenders Are Doing to Dispose of REO's by Reducing Their Dependence on Realtors®

It's happening – some lenders have had it with all the stuff they have to get through to get out of distressed REO properties and are looking for answers to make their lives simpler. They are targeting realtors in a number of ways – first they are in the process of starting their own brokerage firms which is what they did to the stock brokerage and financial planning industries. This was despite it being illegal at the time for the lenders to own these firms. All the banks did was lobby with tons of cash and got the rules changed while it took years, it did happen. So now they own what is left of some of the largest stock brokerage firms in the country, how soon will the large franchised real estate offices start in the same road?

Realtors blame investors for the problems they have selling REOs. Even with 10 – 20 offers on each REO as soon as a new listing pops up on the MLS®, there are actually only a few real buyers in that bidding frenzy. Instead of embracing investors as the salvation to buying these properties that no one else wants, realtors blame investors for their personal shortcomings. The main shortcoming being that they cannot get FMV for a distressed or derelict property because of a lack of buyers.

Realtors seem to take it personally when investors offer low prices. If investors didn't make absurd offers they would be buying at retail and owning a losing asset. If the listing prices are such great deals, why aren't the realtors buying all of them? The answer is simple, realtors focus on getting the highest possible price for a property for their client which also results in a higher commission.

Investors are diametrically opposed to realtors as they have to get the lowest possible price to re-sell it and make a profit – an American tradition and right. If no profits, no more purchases and a viable economic recovery tool (investors) are taken out of the market – what is left is our tax dollars to guarantee the lender's losses which realtors also have to pay as they make money on commissions and pay income taxes.

I believe it is both the fault of the investors and the realtors that the REO market is such a paranoid place. The players - realtors, investors, lenders, appraisers, closing agents, etc., are all making money, so what's the problem? I see the squirming and squealing coming from a few people who don't want to do the work necessary to close a deal. These same people are making one investor put up more of a deposit, sometimes ten times higher than another investor and they may even require a zero inspection period. The person being hurt here is the Asset Manager who is not seeing higher offers because of the goofy nature of the agent's personal requirements. If you don't get the big picture - the more the seller (lender) loses, the more our personal guarantee covers them and the more taxes we will pay in the future.

Lenders are at the receiving end of all this confusion and certainly the Asset Managers with minimal experience (or at least they act like it) add to their own woes. The lenders are slow to learn and even slower to take action and when they finally do, they tend to over-react. Following are at least seven actions that I see happening more frequently and should be concern for realtors long-term if they intend to stay in the business:

1. Lenders are moving into owning real estate companies and hiring agents using a low salary/draw incentive – fewer realtors involved.
2. Lenders are conducting more and more online auctions – no realtors involved.
3. Lenders are making subtle changes in the short sale arena to accept more offers and moving toward financing the properties to new buyers – less realtor involvement.
4. Lenders are sending properties to local area auctions after failed listings – taking the properties back from the realtors in the field.
5. Lenders are selling the foreclosed properties at the auction at lower dollar amounts than the final judgments – essentially quick and easy short sales without realtors involved.
6. Lenders are looking at renting to homeowners instead of immediately pursuing the foreclosure by getting a Deed in Lieu of Foreclosure so the homeowner can be removed later at their will – no realtors involved.
7. Lenders are recycling bulk REO's to investor buyers instead of marketing them on the MLS® - no realtors involved.

What we are seeing is a slowly building exodus of experienced realtors into real estate investing. Commissions have nearly dropped in half in the past 2 – 3 years and deals are harder and harder to find suitable buyers, get them financed and get adequate appraisals for the selling prices. Add to this an agent having to pay for his own advertising and splitting his commission with his broker, and many agents and brokers are calling it quits to join the ranks of real estate investors who they see making tons of money.

Most of these realtors are not suspending their licenses but just taking on a different mindset when looking at real estate. This allows them to start looking at buying properties instead of just selling properties for property owners. The old slogan “Too many realtors, too few properties” has never been more appropriate.

What is interesting is a seller almost always doesn't want to pay a commission even if it is as little as 5%, but he will sell it to an investor at a 30% discount. This makes perfect sense if you are in the mindset of the homeowner – he wants to end his misery of carrying the property and not continue the misery of waiting for a realtor to find a buyer. The average homeowner's experience with realtors® is they “sell the listing” to the homeowner by promising what they can't deliver (a high sales price) and only other

realtors bring buyers to see it (the purpose of the MLS®). The manta we hear constantly is “Why am I paying my realtor® a commission when he doesn’t send anyone himself and he won’t do an open house?”

Ironically, I have been reading about the demise of the realtor for 10 years. It still hasn’t happened and the moneyed interested behind the national and local associations will fight to keep their monopoly going as long as possible. The shame is the agent/broker on the front line is taking the brunt of the sacrifice. He/she doesn’t have to if they open-mindedly investigate what real estate investing is all about.

To your limitless success,

Dave Dinkel