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REOs rising in the O.C.

Folks looking for great deals on foreclosed homes probably won't be encouraged by Harry Solomon, but they'll likely learn something about how banks think.

Solomon, owner of NOVA Real Estate Services in Laguna Hills, represents banks selling REOs, or 'real estate owned' properties. He flourished during the early '90s downturn, got out of the real estate game when the market rebounded, and now he's back.

I quizzed him on how banks view REO sales and whether home shoppers can find good deals.

Q. How long does it take to sell an REO in O.C.?

A. That number is elusive these days. Earlier this year they were going right after they hit the market, in other words less than 30 days. But the lack of 'easy' financing has hurt all aspects of real estate with the exception of those greater than $1,000,000. (But I think that may just be a matter of time before the high end gets dragged into it.) It is taking anywhere from 30 to 90 days. The condo market is at the latter end of that time frame with single families in the former.

These are in the MLS statistics and county records that have been quoted in the Register, but they are lumped in with all of the sales. I'm not sure of the percentages of REO condos to single family, but in my personal inventory it's now running about 75%/25% Condos/SFR. In the '90s my personal inventory ran about 85% condos. Again, this is a general overview.

Q. How low of a bid are banks willing to accept on REOs?

A. Each property is taken on its own. To try to come up with an average is very difficult because you have to look at what the property needed in way of making it livable. Was it cosmetic or structural? I have a friend that tells this joke all the time and I love repeating — '38.7 percent of all statistics are made up on the spot' and I change that number every time I tell the joke. (So does he).

Here's how it works: All REOs must have an appraisal and BPO (broker's price opinion) completed prior to marketing. Those two opinions must be within 5% of each other or another opinion is ordered from another broker. Some of the time that could take 30 to 45 days to get to market and that could mean the info that the financial institution is using is dated. Even though I'm required to keep them updated that doesn't include the time from first BPO to marketing.

As I always say, when was the last time you walked into a bank and they gave you money that wasn't already in your account?

Q. Are there places in O.C. besides Santa Ana that are seeing a lot of REOs?

A. It's pretty much spread throughout the county, but inland more than coastal. Very few in Laguna, Newport, etc. San Clemente has Talega in its stats, so that has a way of hurting their numbers. The high Mello Roos there and the speculation that went on are hurting Talega and Ladera Ranch as well. In the '90s, it was Aliso Viejo and Rancho Santa Margarita. What I'm seeing in South O.C. is that the condos are taking a beating and even when they get to REO they aren't selling well.

Q. What percentage of homes sold at foreclosure auctions are going back to the bank as REOs because no one bid enough? Last month I visited an auction at the Santa Ana courthouse and watched as only one home sold out of 34, with all the rest going back to the banks…

A. What you saw was a typical scene. The guys that used to bid were flipping and now they can't. They are playing the wait-and-see game. I would say that 99% 'revert to the bank.'

Q. What's your advice for someone seeking to buy an REO in O.C.?

A. REO purchases are much like regular real estate sales. The properties are listed with local agents and placed in the MLS. The offers are written on standard contracts, just like a regular sale. The bank may have addendums that are required.

Anyone purchasing real estate today should be pre-qualified by a reputable lender and have already had credit checks and pay stubs turned into their lender.

Don't try to low ball. Look at the comparables and make an offer based on the comps. There is no such thing as 50 cents on the dollar, not in Orange County anyway.

Q. On Nov. 1, there were 3,059 short sales (when a bank agrees to accept less than mortgage debt owed) and REOs on the market in Orange County, or roughly 17.5% of total inventory, according to the math of Steve Thomas at Re/Max Real Estate Services in Aliso Viejo. Are we at the point where such distressed properties are dragging down local home prices? If not now, how about in the near future?

A. Just because someone puts 'short sale' in the listing doesn't mean that it will qualify for a short sale. Did the bank actually agree, or is it wishful thinking on the part of the listing agent and the seller? Those statistics are off when you lump them all together.

REOs are easier to locate and separate out. I don't have a handle for the hard numbers for the entire county, but I would say that of the 17.5% that was quoted in his survey that the real numbers of saleable properties, ones that can actually close escrow, is more like 10% of the entire inventory. There are properties in the MLS that are listed as short sales that can't possibly close as they don't have a hardship or the owners have too many assets to qualify. Or the sellers have taken their equity out to use for whatever and now don't want to repay the money. These aren't valid reasons for a short sale. Banks' definition, not mine.

There are always exceptions, but we are talking generalities here. Raw numbers never tell the entire story. The real number is very elusive, but if the old figure of 1 in 5 short sales actually close escrow is still valid then my assessment is more accurate. You can call it a short sale, but if the bank doesn't cooperate, it's not a sale of any kind. What I'm trying to say is that the actual amount of saleable 'distressed' homes is much less than the total number that are on the market.

I don't think that REOs really bring down the market. We are not seeing wholesale price reductions for the sake of reductions. Are there reductions? Yes, where list prices are too high as banks tried to recoup their entire losses.

In the first quarter of this year, a large percentage of REOs reverted to the bank because of some kind of fraud (loans that were over 110%+ of the actual value of the home). The ones that I'm seeing now are just people that couldn't afford the property.

Could that be called fraud as well? Yes, but not the gross fraud that I saw early on. One comes to mind where a family let their million-dollar home go to sale, only to drive down the street to purchase another one for $2 million. They had their home on the market previous to the foreclosure sale and it was listed as a short sale. Privacy laws keep me from getting into current things that I've seen recently under short sales.

Remember, before the bank agrees to a short sale they get an opinion of value from either an appraiser or one of the Realtors that they trust. In other words a neutral third party. The short sale offer better be in line with that value or the bank will say no to the short sale. What they do is say something like 'That offer is too low, if the buyer wants to re-adjust, closer to market value, we may consider reducing our loan pay off.' 'By the way Mr./Ms. Seller, what other assets do you have to add to this, 401-K, IRA, cash, etc. We want that too.' And my all time favorite, 'How much commission is on the table here, let's carve it up too.'

REOs in the '80s were different; bank owned properties were being given away, but rates were near 18% for a 1st trust deed. In the '90s the banks learned from their mistakes and realized that by dumping a property they were not only hurting the neighborhood around, but jeopardizing other loans that they may have in their portfolio. They also fixed the homes up and gave favorable rates to new purchasers as an inducement to buy these at market value. Also in the '90s, we did have the defense industry leave town and at that time we were not as diverse of an economy. Today the mortgage industry left town, but what affect that will have won't be seen for six months or so.

There are so many statistics being thrown about these days that I question all of them. Are there more REOs than in 2006? Yes. Are we seeing numbers that we saw at the beginning of the '90s? No. When you have zero REO and then all of a sudden you have 50 it looks bad, but when you consider that less than 10% of the standing inventory is REO how bad are those numbers. The REO portfolios are growing, but what I've seen is that it's not at an astronomical rate. And this from someone that makes his living selling REOs. The market is slow, but rates are down and prices are generally lower than last year. Real estate has always been a long-term hold. Will it come back? Of course. Will it roar back like the past 10 years? Probably not. Will it go down before it goes up? Maybe. But if you buy now, you'll thank me in 10 years.