It’s a New Era in Default Management — Is Your Business Ready for What’s Next?

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WHAT IS A PROPERTY REALLY WORTH?
The Game of Traditional Real Estate Sales Hits REO in the Pocketbook

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EXCLUSIVE TO REO MAGAZINE

WE’VE ALL HEARD THE STORY, ESPECIALLY THESE LAST FEW YEARS: “We got multiple offers, and some were over list price!” A happy seller got more than they hoped for; above even their full value asking price.

Those buyers—boy did they overpay! On the other hand some sellers can’t seem to find a buyer at any price. Ninety days go by. Then a full six months. Finally a local buyer figures that the seller’s ripe for picking, and makes a low-ball offer—after all, the seller’s already lowered the asking price two, maybe three times. Being the best (if not the only) offer ever received, the seller takes it, figuring enough has already been lost.

Those sellers—boy did they lose their shirt! Most real estate sellers, buyers and professionals simply want to trade at current “market value.” They don’t wish to be hoodwinked or, worse, repeatedly make bad decisions because of poor information. Yet this seems to be the way the current system works for many, with two haunting questions remaining unanswered: What is any property really worth? And what are the costs of not knowing?

Prior to setting an asking price on REO sales, it is standard of course to obtain an “expert” opinion from an appraiser, BPO provider and/or listing agent. Only one group’s opinion seems to be missing from this valuation exercise: the buyer. Until buyers are asked to come forward, these pre-sale value estimates seem to be worth about what they cost (that is, between nothing and $250). That isn’t much comfort to the seller who is simply seeking to obtain current market value, whatever that may be.

This is an increasingly important issue in REO disposition, as servicing profits are continuing to be squeezed. Not only is the property in question vacant and therefore likely depreciating, but someone has to pick up all the bills along the way—no, not the appraiser or agent, or even the buyer, but the seller. For every day they are forced to wait for the “marketplace,” there is a continued drain on their balance sheet.

While it looks good when a seller can sell a property quickly for full asking price, that perspective quickly darkens when right after closing it is learned that the buyer “flipped” the property for even more, making a quick profit trading on the prior sale’s lack of competition. It would seem that in both under-guessing and over-guessing value, the seller who needs full market value—whatever it is—loses. Not knowing what a particular property is really worth means that sellers must pay the price of underselling or waiting. This lack of a clear market value is great for the “We Buy Houses” sign business, but it may not be the best state of affairs for consumers.

NYSE, NASDAQ, as well as now eBay and others have long made a good business of getting buyers and sellers together through competitive bidding. These auction-based systems seem to have worked pretty well in getting market value in the most efficient and timely manner possible for almost anything from cars and antiques to stocks and bonds. More and more consumers also seem interested in the benefits of this transparency—being able to know for sure what something is worth and only having to give their “best price,” whatever that is.

Rising real estate prices over the last few years have hidden from sellers a lot of the costs caused by this illiquidity. Not only have defaults remained low, but sales have stayed brisk as most buyers perceive a seller’s market. It’s arguable, however, that in fact a lot of equity for REO owners has simply been traded for easier, quicker sales. Regardless, keeping the marketplace static with pre-set asking prices that could soon become a bit too high may again cause tremendous real estate illiquidity and greater loan losses.

This time around, REO sellers have several new tools to try and reposition their marketing strategies—from competitive sales strategies like auctions to more Internet-based asset exchanges that facilitate time-definite pre-foreclosure sales. The industry has matured to a point where enough data is now available to start comparing alternative disposition strategies. While change may be in the air, REO managers have an excellent opportunity to take a lead in innovating sales and marketing systems that not only further mitigate losses for lending institutions, but provide more market transparency and liquidity to real estate buyers and sellers as a whole. And then perhaps a few of those catchy little roadside signs could finally start disappearing.