

OBSERVATIONS

from the desk of Mildred Wilkins, (FIS)...

So, you think you want to become an REO Broker?

Get 'Em Listed and Roll in the Dough....

It happens every time I teach a class (and I just had an (FIS) class in Charleston last week). Several of my students will get all fired up about becoming a listing agent handling REO's as the fast track to real estate success. Even though the class is (and is advertised as such) designed to help REALTORS learn how to be successful with options to AVERT foreclosures, someone always attends for the SPECIFIC purpose of meeting me and having me tell them the short cut to becoming a Fannie Mae broker or a representative for some other REO account. Aside from the fact that that is not the purpose of the training, there will always be someone who is persistent in trying to move conversation in that direction.



This article is for you—you know who you are.

Ah-h-h, the Cushy Life of an REO listing agent

I've been there, done that, got the T-shirt AND the award. I received the 1st **Rising Star Award** as Rookie Broker of Year for the United States from Fannie Mae in 2000. They were right on target with their assessment; my star has been rising, (also drifting, getting lost and other mundane contortions) ever since. Oh, but I digress.

The truth is that my Fannie Mae experience was, overall, a really good one. I received excellent training at the Disposition Center in Dallas, and great support from my initial salesperson, Shirley Mastenbrook. I learned how to effectively price property based on a precise analysis of market data and I sold a heck of a lot of Fannie Mae homes. My sales volume and income both increased dramatically. However, my life, as I knew it, completely disappeared. It's emotionally devastating to process a forceful eviction. To be the person who stands there and officially authorizes someone to be thrown out of their home. Being property manager extraordinaire is an emotionally draining and time-consuming gig.

It's a New Day

The REO market is booming and in some areas there are more REO's available than traditional listings. Loss mitigation efforts, including modification and short sale attempts, have slowed the number of completed foreclosures even though the number is still unbelievably high. However, the amount of 'shadow' inventory (REO's being held by guarantors and NOT being placed on the market) is estimated to be a significant amount and must eventually be placed on the open market.

Market dynamics are rapidly evolving. A new mixture of guidelines for disposition changing in response to market conditions and/or government regulations, recommendations or directives and REO owners all serve to make today's REO broker's job a very challenging one. The practicalities of good business decisions shaping what will or can be during the time period the REO is under the control of the guarantor or lender is fluid. When you own or manage a few properties you can be almost casual about how you dispose of them. When you own thousands upon thousands, stacked on top of each other, you have to utilize a more systematic, inventive approach in reducing those expenses which revert to you and become vigilant in avoiding any expenses you can. Utilization of a strong contract, with strict adherence to its dictates can mean survival or failure to survive. Whether expenses are moved to listing agents, buyer's agents or buyers is immaterial; what is important is that anything which can be shifted to someone else, be shifted. The list is growing—now even eviction costs have been added to the list of costs which can be shifted to someone else.

Flies in the Ointment

Nothing messes up a good plan faster than messy details. It should not cause you concern if the dollar amount tied to a detail is a small number, with only two place holders, like \$99.00. It gets serious when the numbers are BIG numbers, with 3 or more placeholders, say \$475.00 for instance.

Likewise, phrases such as "shall maintain the premises" are not a big deal, unless the premises include a pool or some other high maintenance component. Assuming the responsibility to maintain can keep a person awake at night better than a crying baby. Didn't they explain that 'handle utilities' meant that 'deposits when required' would come from *your* checking account? I suggest you re-check your account balance to be sure you can AFFORD to be an REO listing broker. It's good business, if you can get it—provided you are sure you understand what you are signing up for.

Re-imburement is on the Way

**Insignificant detail—To be delivered by deranged carrier pigeon who will be dispatched later this year.

I am not throwing snipes at Fannie Mae. They did an excellent job of processing reimbursements and doing so in a timely fashion based on the criteria they had set for their agents. However, things could be dicey IF you forgot to submit invoices on time. REO sellers are SERIOUS about their deadlines. You miss it; you eat it!!! No equivocating. You agreed and said you understood, this is a business, not a game for newbies who want to play at REO sales. Suck it up, write the check and remember to check due dates more carefully in the future. If you want to depress me, e-mail me and ask about the \$15,000.00 I had to shell out after missing a few deadlines—it doesn't take long for carpet and paint to run into some serious money. BIG numbers, with five place holders—like \$15,000.00.

REO's can be LEASED

Awesome plan! Announced by Freddie Mac in January of '09 and Fannie Mae in November of '09. This is the deal. Both organizations were (and remain) concerned with the increasingly large inventory of foreclosed properties as well as the public perception that they are not doing all they can to help alleviate the problem. Both have begun lease-back programs so that either the former owner of the property or a tenant placed there by the owner can lease the home back—AFTER foreclosure.

In a nutshell, the Freddie plan is a month-to-month lease, at current market rent. The property will be on the market during that timeframe and the new BUYER assumes responsibility for the eviction process and related costs to get the occupant out of their new home.

The Fannie Mae plan is essentially the same, except that it allows for a one year lease period. If you are the REO broker for either of these guarantors you have the honor of explaining the particulars and the implications to a buyer's agent. What appears to be a win-win for Fannie or Freddie and the occupant can become a nightmare for the agents involved and a potential purchaser. The magnitude of unintended consequences is enough to make my hair go straight (and I have a very short, curly Afro). I suggest you take a crash course in landlord-tenant law in your state. Additionally, please check to be sure your E&O Insurance premiums are current.

Would I do it again?

The truth is, I might be tempted because of the guaranteed revenue stream. The reality, however, is the same as the prospect of teaching middle school kids: someone has to do it but I am not that hard up yet. Having sold REO's for 2 ½ years, very successfully, I can see how dramatically the terrain has changed. Today's REALTOR has a lot more risk, many more potential 'bosses', and fewer clear guidelines in an arena which mimics the wild, wild west pretty closely. Training by the companies who select agents is almost non-existent. The entire process is further complicated by the fact that you are stepping into situations like the landlord scenario I mentioned in the paragraph above.

For agents who decide this is still the route you wish to pursue, I'd like to share some thoughts on making an informed decision.

The Five Star Conference, complete with training institute, offers just what you need—but the entire cost for that training will be at your own expense. The timing of the annual event may not coincide with when you want to get started and there are numerous other challenges to concern yourself with as well. Learn how to perform a professional BPO (www.fanniemaebpo.com) so that you are really good at determining property value PRIOR to the listing. Additionally, it might be beneficial for you to read the actual contract used by the guarantor you think you want to represent. I am suggesting that you read both the listing agency contract (which you and your broker will need to sign) and the contract which you will provide to buyers/buyer's agents. You can learn a lot about the firm you will be working for by studying the documents which will bind you to them.

REO sellers do not all require the same level of service

It is important that you pre-determine what type of REO listing agent you want to be: an agent who only lists properties (such as HUD homes) without an obligation to handle utilities, etc – or does property management to a degree (Fannie Mae or Freddie Mac) or offers an even broader range of services such as rehab, keeping utilities in your name and a full menu of other services. Then only seek or accept listings from an REO seller whose needs mesh with those services which you are willing to perform.

I would caution you to avoid seeing the REO business as something you will just ‘tack on’ to the rest of your business. Most REO sellers are very demanding. Their volume is growing faster than mushrooms and a huge quantity of ‘shadow’ inventory is just waiting to be released. It would be wise to see this as a major part of your business and to make a decision based on whether you were prepared or willing to shift and become primarily an REO seller’s agent if this is the path you chose. If you do well, the volume will definitely follow. If you do poorly because you cannot handle unexpected volume, they will drop you like a hot potato and never speak to you again. They take “failure to perform” very seriously.

I would encourage you to talk to some agents who have listed REO’s within the past 18 months. Sit down with them over dinner (your treat) and ask for an honest analysis of those things which they see as problematic.

Your final question to them should be: “What is the worst thing that could happen?” Consider their answer. If you can live with the worst thing that could happen, then go for it.

Best of luck in the REO world.

Happy to be a “Former Fannie Mae Broker”



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