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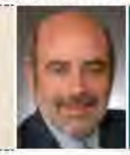

By Paul A. Lynn
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Going Once: Property Auctions Offer Opportunity

Stoke your business by learning more about this alternative sales method

AS REAL ESTATE FINANCE PROFESSIONALS attempt to determine the market value of homes nationwide, they find themselves considering an extensive inventory of vacant and distressed properties. Mortgage brokers play a critical role in helping return many of these properties — including those sold through real estate auctions — to productive use.

Auctions represent one of the best methods for finding the current market value of any property, and mortgage brokers can be integral to the auction-sales team. Without financing, many potential buyers couldn't buy at an auction and turn properties into primary residences or productive investments.

Brokers who participate in the auction process must abide by all provisions of the Real Estate Settlement Procedures Act (RESPA). Delivery of good-faith estimates (GFEs) likely will occur after buyers place a winning bid, at which time the property address and purchase price are known. All other RESPA-required documentation and disclosures also must be executed.

Brokers also can communicate with auction-sellers about the importance of carefully structuring any penalty provisions for purchases that fail to close within a certain time. Advocating deadlines that don't conflict with lock dates listed on GFEs can help all parties involved avoid conflict. In addition, brokers can help buyers realize how high they can bid in advance of an auction.

In many cases, brokers will meet buyers before the auction and after establishing themselves as a preferred provider of financing, one of the best ways to join the auction-sales team. Brokers also can participate by referring owners of real estate owned (REO) properties to proven auctioneers. If not involved in an auction directly, brokers can attend in hopes of networking with potential buyers and industry professionals.

Offer financing

Becoming a preferred provider of financing for auction-buyers generally means being listed in the auctioneer's promotional and marketing materials. Buyers often receive some type of benefit for using preferred financing-providers, though they typically aren't obligated to use any specific company.

Auction contracts often include no-contingency agreements, but in some cases, a contingency can be offered to cancel a purchase if a buyer — after having provided correct personal information — doesn't qualify for the loan. This option, however, generally would be valid only if the loan were processed through the preferred financing-provider.

Usually, preferred financing-providers must:

- **Have commitments from lenders;**
- **Have representatives attend** all scheduled open houses or on-site inspections;
- **Make sure the property appraises** for the anticipated auction sales prices; and
- **Close loans within 30 to 45 days of the auction.**

Refer sellers, meet buyers

Mortgage brokers with the appropriate state real estate license may receive fees when properties they refer to an auctioneer sell. Brokers with the right relationships can connect auctioneers and lenders looking to unload REO properties. This can help lenders sell some of their distressed properties quickly and enable auctioneers to meet an increased demand for home auctions. It also can lead to market-value determinations in specific cities and neighborhoods.

When brokers insert themselves into the auction process, they also develop new opportunities to meet potential homebuyers.

Brokers can turn these relationships into closed loans, whether from auctions or other purchase avenues. Obtaining new clients and maintaining relationships can generate activity and ultimately fee income.

In some cases, the relationships started around an auction will fall flat if brokers don't understand the process and its many intricacies. For example, contrary to popular belief, auctions often give sellers greater control. Sellers can dictate the timing of the sale and the window for the purchase to close following the auction. They also can determine the structure of deals, including the purchase contracts' terms and conditions. Those terms, however, should be competitive commercially or buyers won't bite.

In addition, auctioneers typically sell properties on an "as-is, where-is" basis — meaning in their present condition and

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at their current location. They also may mandate no-contingency contracts in which earnest money goes hard — or becomes nonrefundable — immediately.

Buyers do control one important aspect of the sale — the price. For this reason, auctions should be advertised and marketed well.

There are three basic types of real estate auctions:

1. **Without reserve and no minimum bid,** commonly known as an absolute auction. These are frequently used when sellers wish to send a clear message that they mean to sell the asset.
2. **Without reserve subject to a stated minimum bid.** Using this strategy requires some careful analysis and knowledge of buyer psychology. The minimum bid should clearly demonstrate the opportunity for excellent deals. Minimum bids should be at a level at which sellers would prefer not to sell the asset and at which serious bidders perceive substantial value and would bid up to and beyond that value in a competitive bidding environment.
3. **Auction with reserve.** With this program, the property sale is subject to the seller accepting or rejecting the highest bid. This form of offering isn't strong.

Foreclosure auctions, meanwhile, generally don't fall into any of these categories and often occur informally and with little publicity on courthouse steps.

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Understanding the opportunities that real estate auctions offer — and some of their ins and outs — can deliver mortgage brokers an outlet to increased business. It also can lead to important insights about property value in markets saturated with vacant and distressed homes.