

Grow Your Business in the REO Space

Real estate owned properties provide abundant opportunities

By Amy Bergseth

Profitable niches can be found everywhere in the mortgage lending business. It takes time and energy to seek out a strong niche, but once identified, it can be a good source of ongoing business. Niches tend to come in terms of geographies, referral partner channels, and product types. Mortgage loan officers have built strong businesses using each of these sources as a lending focus, however niches tend to be most powerful — and easiest to defend — when all three elements are combined.

One profitable mortgage lending niche that follows this triple-combination format is lending to new buyers of real estate owned (REO) properties. To make this niche work, you need distressed real estate within a given geography, real estate agents who are working with clients interested in REO properties, and loan products that will fit this need. Here is how you build that niche.

Define your geography

Many mortgage bankers are limited in where they can operate. You may have already established a business presence in a certain community or you may be employed by a larger company that assigned you to a particular office. There may not be much you can do to change your geography, but that's not generally a problem. Wherever people live, they will need to finance the homes they buy.

The financial crash was devastating for the nation's housing industry and to the

homeowners and borrowers served by that industry. At one point, the pain was pretty evenly distributed around the country as foreclosures soared everywhere.

Now that the economy is improving and business is returning to some semblance of normality, bank-owned properties are no longer available in all areas — at least not in large numbers. So, your first step in building an REO niche is to research your area to find out how many distressed properties are available for potential clients.

Select referral partners

Not every real estate agency specializes in REO disposition. Those that do tend to focus on capturing as many listings as they can and building a reputation in their geographic areas for brokering distressed properties that are good values for homebuyers and investors.

Like all of your real estate partners, these professionals are interested in your ability to provide loan products that will meet the needs of their buyers. They also are looking for a smooth process that allows them to close loans on time as well as excellent customer service for their buyers.

After the crash, when the market was filled with distressed properties, many investors bought homes with cash, snapping up good deals quickly. Most of that buying frenzy is over now and buyers are seeking affordable financing.

Loan originators who want to build their businesses this year should seek out information about distressed properties in their

areas and find out which real estate agencies are securing the listings on these properties. Although listing agents may not always sell the properties they list, they can always recommend their lender partners should financing be required.

Choose products

In many cases, when loan originators consider creating a niche around a single product, they think about FHA loans, 203K, or home equity lines of credit. But you also can build a niche around a property type, such as condominiums, residential multifamily dwellings, or REO properties. You may worry that bank-owned properties are drying up as a source, but there are still plenty of these properties on the market, and the need for good lending partners that REO specialists can depend upon is still high.

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Don't make the mistake of assuming that all REO loans will be low loan-amount transactions, however. Although it's true that some distressed properties are targeted by investors who want to turn them into low-cost rental properties, many REO properties are purchased by buyers who plan to live in the homes. These borrowers are likely to need loan products that will allow them to fix up the properties to meet their specific needs.

Loan originators who can provide a range of options to these buyers will be more successful. They are also more likely to get additional referrals from the satisfied homeowners and the real estate agents who brought them to the lender in the first place.



Niches are all about focus, which almost always makes your business stronger and makes it easier to implement a good business plan. Choosing REO properties as a focus is a smart move for anyone working in a geographic area that was negatively impacted by the financial downturn, but where new life is being breathed into the community by buyers coming in to purchase distressed homes. ■