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The Godfather of REO

*REO #1, a listing model that worked, and
the title I rest my case for.*

BY TOM DIMERCURIO

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*Plus: two Pro Tips — one from a real estate agent, one
from an asset manager.*

FROM THE EDITOR

Welcome to the inaugural issue of this newsletter. Twice each month I'll publish here — a little history, a little reform, and a few topics germane to anyone who practices REO from either the agent's or the lender's side. Send me your questions and I'll answer them in the next edition.

REO has been my accidental career, and one I've really enjoyed. I hope you do as well.

— T.D.

I · THE HOMICIDE HOTEL

REO #1

East Oakland, California

Lest you think that all of my memorable REO assets were pristine, well-located properties in good condition, think again.

A forty-room hotel originally built in 1948 in a marginal area now found itself in a sea of dilapidated, abandoned warehouses, rooming houses, and bars where shootings were commonplace. In fact, there had been two murders next door. A man was allegedly shot and killed in the collection of a \$3.00 debt. The hotel now catered to a clientele who paid by the hour rather than overnight. It was scary just to perform drive-by inspections.

Also allegedly, when the hotel was still operating it employed a pest inspector to take care of the rodent problem. While his truck was parked street-side and he was inside, all of his tires were stolen.

“It was scary just to perform drive-by inspections.”

TOM DIMERCURIO

The foreclosure itself was the result of a failure to adequately investigate the condition of the property and the liability associated with its ownership. Immediately after acquiring title, we began the slow process of evicting the

squatters and installing a chain-link fence encircling the entire property. Vagrants, squatters, and the homeless found our property to be an attraction. And so it was also necessary to hire a security service to police and patrol the property — again, to limit the Company's liability.

A Tale of Two Values, or No Value at All

A vacant, boarded-up, non-operating hotel is not a very attractive business venture. Nonetheless, technically as an income-producing property, Company policy required that our in-house appraiser — a candidate member of the Appraisal Institute — establish the value based on the Income Approach. His value was always a great deal higher than the market value as established by comparable sales.

I argued that what we had was land value minus the costs to demolish the structures, *if we could find anyone willing to buy it.*

Sometimes you must just recognize the fact that there may be no recovery and look for any way out. That way out, ultimately, was a gift of the property to a non-profit which would turn the parcel into garden plots for nearby residents.

Transferring this property was one of the most rewarding liquidations of my career.

Thus ended the story of the Homicide Hotel.

II · THE LISTING MODEL THAT WORKED

When I analyzed that model...

...I found that ultimately the way the commission was distributed heavily favored the Corporate Department. And it was difficult to find out what might be happening with a given property.

With my real estate brokerage background, I disliked this approach. I felt that by democratizing the assignment of listings to many agents — with a target threshold of ten assignments — better focus could be achieved. With no more than ten properties, individual agents could better manage and oversee the

financial aspects of caring for vacant properties. **The listing agent became the responsible party.**

“Voila... overnight I created many REO agents.”

TOM DIMERCURIO

For the most part, I've followed that model for years and have been well satisfied.

PRO TIP FROM A REAL ESTATE AGENT

Show up to the property. The drive-by is not the inspection.

Walk the lot. Knock on the neighbors' doors. Ask the postal carrier when they last saw the prior owner. Half the surprises that hurt a deal are visible the first time you actually stand on the property — fence lines, encroachments, drainage, who's been sleeping in the garage. None of it shows up in the listing photos.

— CONTRIBUTOR TBD · PLACEHOLDER COPY

III · A CAREER IN BAD LOANS AND REO

In addition to a lengthy career managing the REO function on the lender's side, I also know this business from the brokerage side. In 2005 I started the remarkably successful Mercury Alliance, LLC — a real estate brokerage dedicated 100% to the REO niche.

From 2005 to 2017, I ran that brokerage first in Denver and thereafter in the Colorado mountains, with offices in Avon, Vail, Basalt, and Grand Junction. Throughout that period, the Mercury Alliance had a dominant share of the lender-owned REO assets in those markets. I was a Fannie Mae broker.

One can argue that I know the REO business from all sides — and that I've made a career, albeit an accidental career, out of bad loans and REO.

I rest my case for claiming, and using, the title of the Godfather of REO.

PRO TIP FROM AN ASSET MANAGER

An income-approach valuation on a property with no income is fiction.

If your in-house policy forces it, ask early — in writing — whether the comparable-sales benchmark can supplement or override. Document the request and the response. When the auditors come around, the paper trail is what protects the file. Land value minus demolition cost is a real number. The Income Approach on a boarded-up building is not.

— CONTRIBUTOR TBD · PLACEHOLDER COPY

IV · WHAT'S NEXT

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Tom DiMercurio

Real Estate Broker · Managing Member, Mercury Alliance Advisory Services, LLC

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