



What is a Short Sale: Sellers and Buyers Tips

OAK TREE
REALTY-MORTGAGE



What is a short sale?

If you are considering a selling your home in a short sale or if you are considering purchasing a home that's in a short sale find a knowledgeable Realtor to handle the transaction for you.



Short sale definition

A short sale is when a lender agrees to accept a mortgage payoff amount less than what is owed in order to facilitate a sale of the property by a financially distressed owner. The lender forgives the remaining balance of the loan.

Buying a home through a short sale is different from buying a property at a foreclosure auction, or one that is actually owned by the bank, known as an REO or real estate owned property.

A short sale occurs only with the lender's permission when a home's value has declined, and the mortgage holder owes more than the home is worth. In this scenario, the homeowner

has negative equity and may need to get rid of the home.

Is a short sale the same as a foreclosure?

A short sale is not the same as a foreclosure. In a foreclosure, the bank repossesses the property and then tries to sell it for enough to recover its costs. In a short sale, a bank accepts that it won't recover its outlay, and it's considered the better option than dealing with the red tape involved with foreclosure and then going forward with handling a separate transaction.

Who benefits from a short sale?

Short sales are a mixed bag for the buyer, the seller and the lender.

If you're a seller, a short sale is likely to damage your credit — but not as badly as a foreclosure. You'll also walk away from your home without a penny from the deal, making it difficult for you to find another place to live.

However, a short sale can forestall foreclosure and its negative impact on your credit. A short sale is less damaging than a foreclosure as long as the homeowner can persuade the lender to report the debt to credit bureaus as "paid in full."

The buyer gets the property at a reduced price, but the property in all likelihood has its share of problems — think fixer-upper — and the deal needs to go through considerable red tape to make it happen. A lender may even require a buyer pay additional closing costs that might be normally assigned to the seller.



The lender takes a financial loss, but perhaps not as large a loss as it might if it foreclosed on the property.

In a short sale, the proceeds from the transaction are less than the amount the seller needs to pay the mortgage debt and the costs of selling. For this deal to close, everyone who is owed money must agree to take less, or possibly no money at all. That makes short sales complex transactions that move slowly and often fall through.

For the most part, everyone gets some sort of benefit in a short sale, although everyone gives up a little, too. In the end, a short sale is about staving off worse outcomes.

Should I sell my home through a short sale?

Whether you should proceed with a short sale depends on your individual situation and what's likely to work best for you in the long run. If you can't afford your mortgage, and if home values have dropped in your area, you might not have much of a choice. A short sale might be able to help you preserve your credit to some degree by helping you avoid a foreclosure on your record.

Carefully weigh the options to decide what's likely to work best in your situation, and then move forward with what you think is the best choice for you.

How long does a short sale take?

A short sale can take as little as a few weeks or as long as several months. Because short sales are complicated transactions, they tend to be more time-consuming. Plus, the original lender

needs to review the short sale offer to determine whether they will accept it. If the lender believes they can make more money by going through the foreclosure process, they might not accept the short sale proposal.

You can reduce the time it takes by working with a real estate agent that has experience with short sale transactions. A short sale is one real estate deal where you really need to get help from an experienced agent or attorney. Not all real estate agents know how to handle a short sale, so make sure you consult with one who can demonstrate special training and a good track record. Having a real estate agent on your side who knows how short sales work — and who has negotiated others — will increase the chances of closing the deal.



How often do short sales fall through?

Because of the complexity involved in the transaction, short sales fall through relatively often. However, you can reduce the chance of that happening by making sure the following items are available:



1. A hardship letter

The seller must explain why they can't continue making payments. The sadder the story, the better. A seller who is simply tired of struggling probably won't be approved, but a seller with cancer, no job and an empty bank account may.

2. Proof of income and assets

If the seller has money in the bank, including retirement funds, it is unlikely that the lender will let the debt slide. The proof of income and assets must include income tax and bank statements going back at least two years. Sometimes sellers are unwilling to produce these documents because they conflict with information on the original loan application, which may not be completely accurate. If that's the case, the deal is unlikely to close.

3. Comparative market analysis (CMA)

If a comparative market analysis, or CMA, shows that the price of the property has declined and that the property won't sell anytime soon for the amount owed, it can support the seller's contention that the property is worth no more than the short sale price. The analysis should include a list of comparable properties on the market, and a list of properties that have sold in the past six months or have been on the market in that time frame and are about to close. The CMA is similar to what's known as a Broker Price Opinion, which is less formal, but often more informative.

4. A list of liens

There may be more than one, so determine how many liens are on the property. The good news is that since late 2008, the IRS has been willing to release a federal tax lien. The IRS is not forgiving the back taxes that homeowners owe; it is just no longer requiring that the lien be paid off before the property can be sold. A single mortgage lien is an easy problem to solve.

Steps to buying a house through the short sale process

Before you buy a short sale, it's important to understand some of the basic rules that come with the process. You won't be able to simply purchase a home for a good price. Here are some things to keep in mind:

The lender must agree. First, realize that the lender must agree to the short sale. For a regular home sale, the seller would use the proceeds to pay off the original loan. In a short sale, the home sells for less than the seller owes, so the lender won't get all their money back. As a result, the original lender must agree to the sale.

The seller must prove they have no other option. Next, the seller needs to show some sort of hardship. If they can prove that they can't keep making mortgage payments and will eventually default, the lender is more likely to agree, especially if the lender doesn't want to go through the foreclosure process and then sell the home on their own.

A home's price must be in line with market value. In many cases, short sales go through because the market is faltering, and the home's value has dropped accordingly. The price the buyer is paying must usually be at market value.

Short sales need to be disclosed. Finally, when a home is listed for less than what's owed on the mortgage, that must be disclosed upfront. Potential buyers should be aware that the sale price on the home is less than the mortgage balance, so they'll be responsible for negotiating with a lender, as well as dealing with the seller.

A typical short sale involves a series of steps, generally in this order, according to Bobbi Dempsey, co-author of "The Complete Idiot's Guide to Buying Foreclosures."



Step 1: Identify potential short sales

Locate pre-foreclosures in your area by checking online listings, searching courthouse listings, legal ads or using an experienced buyer's agent.

First, try to determine how much is owed on the house in relation to its approximate value. If it seems high, it's a good candidate because it indicates the seller might have trouble selling it

for enough to satisfy the loan. Pass on those in which the owner has a lot of equity in the home — the lender likely will prefer to foreclose and resell closer to the market price.

Step 2: View the property

Gauge its condition and come up with a rough estimate of how much it's going to take to repair or renovate. If it needs work, many "normal" buyers won't consider it, which is good for you.

Step 3: Do your research

What is the property worth? What's the profit potential? If you're an investor or even a homeowner planning to live in the home a short time, you'll want to profit from the deal.

Step 4: Find all liens and mortgages

Ask the seller or the agent what liens are on the property, and which lender is the primary lien holder. Confirm this information through a title search before closing the deal to make sure there are no undisclosed liens on the property.

Step 5: Figure out the financing

This is critical. You have to know how you're going to pay for the property. If you're a good credit risk, the existing lender may be willing to give you a loan. Since they already have a lot of your information in the short sale paperwork, they may be able to expedite the loan application process.

It's important to understand that in a short sale you need the ability to move quickly. Once an agreement is worked out, it is common the



lender will require closing in as few as 20 days. This is too late to start shopping for a mortgage.

Step 6: Contact the lender

You or your agent should speak with the lender's loss mitigation department — or perhaps the resource recovery department — rather than the collection or customer service department, which is only interested in recouping past due loan payments.

Finding the decision-maker can be one of the biggest initial challenges. You will first need to have the homeowner complete and sign an authorization letter (notarization is usually required), which gives the lender permission to discuss the mortgage situation with you.

Step 7: Complete the lender's short sale application, if they have one

Many lenders have an application specifically for a short sale request. If they don't have a short sale application, find out what paperwork they need to consider a short sale.

Step 8: Assemble the proposal

The proposal generally consists of a package of materials including the application and authorization letter, plus:

- Purchase and sale contract.
- Hardship letter.
- Statement of the property's value.
- A detailed description of the costs and liabilities.
- Settlement statement.

Step 9: Negotiate the terms

It's not uncommon for the lender to reject your offer or to come back with a counteroffer. As with any real estate transaction, you should figure out beforehand what your absolute highest limit is, and don't be afraid to walk away if the lender won't meet your figure.

Step 10: Seal the deal

Once you've reached an agreement that all three parties — you, the seller and the lender — can live with, get everything in writing and officially recorded. Make sure the seller understands all of the terms of the deal. Next comes the closing and the property is yours.



Common mistakes short sale buyers make

Skipping the home inspection

Tag along when your home inspector shows up. You might be surprised what you can learn.

Ask for repair estimates when an inspector notes a problem, or do some research of your own later.

Consider calling in specialized inspectors to look for expensive problems such as termites, mold and structural damage, particularly if it's a common problem in your area.



Hire an inspector that's highly rated. Ask for recommendations from friends, or weigh online user reviews heavily. Just as with any other industry, there are excellent, marginal and bad inspectors.

You are allowed a certain window of time to inspect the home, known as an inspection period. Shortening an inspection period may give you leverage in a regular real estate situation when you're placing a bid, but don't skimp on or skip the inspection period when you're about to buy a foreclosed or short sale home. Use this time to make a decision.

Ignoring legal and insurance information

A typical disclosure statement would indicate whether a house is in a flood plain or had any unpermitted renovation. However, bank-owned properties often sell as is, without disclosure, so buyers need to do extra research on the home.

Leaving too little time for closing

Short sale and foreclosure homebuyers need to be aware that the sale won't necessarily close as quickly as it would for a regular home purchase. The short seller's lender must approve the foreclosure terms or short sale price, which will be less than what the seller owes. Even so, banks may be slow to respond.

It's not always possible or even desirable to get a home loan from the bank that has a mortgage on the short sale you're buying. In fact, it's best if you show the lender a preapproval letter that you obtained from your own lender within the last 30 days.

Falling hard for a bad home

Don't assume you're getting a great deal, says Connecticut real estate investor Jim Randel, author of "The Skinny on the Housing Crisis."

"Think of yourself as an investor," he says. Objectively consider the house's condition, inspection, price and value.

Randel suggests that you ask yourself these common-sense questions:

If the home's value drops 20 percent, will you still feel satisfied with your purchase?

How much money will you have to spend on the property to make it habitable?

Be realistic about the situation and walk away if it's not actually going to work out in your favor when you run the numbers.



OAK TREE
REALTY-MORTGAGE



23152 Verdugo Dr Suite 160 Laguna Hills CA 92653
Toll Free 888.207.8994
Email information@oaktree.team

.....
homeatoaktree.com