

## A SHORT SALE Q & A SESSION

**Q. I am considering purchasing a home; my Realtor® tells me much of the current inventory is Short Sales or REOs and Foreclosures; what is the difference?**

A. Foreclosure is a legal process by which a defaulting borrower is deprived of their interest in the property. It is not a type of property. Real Estate Owned properties are often referred to as REOs, which is an acronym. These properties have been sold or taken back at the foreclosure sale due to the previous owner's default on the loan(s). A Short Sale occurs when the homeowner needs to liquidate the property based on some personal or financial hardship, but the debt owed against the property exceeds the anticipated sales price.

**Q. What causes the debt to be greater than the value?**

A. There are many contributing factors, the homeowner may have purchased at the height of the market putting little or no money down. Perhaps the loan was an Option ARM (an adjustable rate mortgage with an option to pay less than the actual principal and interest due). In a loan of this type, any unpaid interest is added on to the principal balance. The result is the balance keeps getting larger. Declining sales prices also play a role in the short sale phenomena as do other personal circumstances.

**Q. How can the seller sell the property if the debt isn't satisfied?**

A. If a seller lacks the funds to make up the deficiency (the difference between what is owed, plus costs of sale and the sales price), the lien holder(s) in some case agree to the sale in order to mitigate their loss.

**Q. Can they really mitigate loss by agreeing to a short sale?**

A. In many instances, yes. Foreclosure is a time consuming and expensive process. Each transaction is unique and is handled on a case-by-case basis. The merits of a short sale are weighed and in many cases decisions rest on the extent of loss.

**Q. Why would a homeowner opt to request a Short Sale rather than letting the property go to foreclosure?**

A. Homeowners often try to achieve a short sale in order to circumvent foreclosure. To many, avoiding a foreclosure provides for what some refer to as a "more graceful exit" strategy.

**Q. Are Short Sales a "good deal?"**

A. That depends. There are many factors; the seller's motivation, advance or reserve pricing by the lender, condition, amenities and location of property all play a role in the value proposition. The fact is property value is subjective; it is often said a property is worth whatever a buyer is willing to pay.

**Q. Is the process complicated?**

A. Most assuredly! Lenders are overwhelmed and understaffed. While the process has seen some improvement over the last few years there are few standard procedures in place. If

you are **patient and are not in a hurry to close the transaction** a short sale may be right for you.

**Q. What do I need to know before deciding to purchase a short sale?**

A. A few key points to consider; select a Realtor® skilled in the art of the short sale. Request a referral to a reputable lender or mortgage broker in order to be pre-approved for the purchase. You can position your offer for success by establishing the fact that you are well qualified with prearranged financing. Be prepared to provide proof of down payment and closing costs as well as credit worthiness at the time your offer is to be submitted. If possible, be flexible with the closing date, often lenders favor a swift close after the short sale is approved.

**Q. Are there significant risks associated with purchasing a short sale?**

A. Yes, you should be prepared for the fact that the transaction may not close. In some cases inspections, appraisals and other investigations have been ordered and paid for by the buyer. These costs are rarely, if ever, subject to reimbursement. The other consideration is avoiding short sale improprieties. It is important to understand a few essential elements of a short sale; (i) the seller may not receive funds without the express written consent of the short sale lender(s) (ii) No payments ought to be made outside of escrow for any reason (iii) all funds are to be accounted for on the appropriate line item of the HUD1 Settlement Statement and approved in writing by the short sale lender(s) (iv) the seller is not to remain on the property after the close of escrow without the express written consent of the short sale lender(s).

**Q. Can you give me any tips on selecting a qualified real estate professional?**

A. You may have a close friend or relative in real estate, but if that person doesn't know anything about short sales, working with him or her may hurt your chances of a successful closing. Choose your representative carefully. A qualified Realtor® will be able to show you short-sale listings, help negotiate the purchase when you find the right property, and ensure smooth communications with the seller's representative. Not every short sale request is approved by the lender. Working with a knowledgeable professional familiar with the process and possessing the necessary tools to properly package and present your offer, will increase your chances of success. Be sure your Realtor® uses the standard forms approved by the State Realtor® Trade Organization.

**Q. After I select a Realtor®, choose a property, arrange my financing and execute a purchase agreement what next?**

A. The offer is presented to the homeowner as in any other transaction. The price and terms are to be fully negotiated by and between buyer and seller before being submitted to the short sale lien holder.

**Q. Once I come to an agreement with the seller; is it pretty much a done deal?**

A. Even after you come to agreement with the seller, the seller's lender (or lenders, if there is more than one mortgage) and mortgage insurer, if any, must approve the sale before you can close. In some cases the lender will offer a conditional approval, meaning either buyer or seller would have to modify the offer and terms in order to offset loss. While neither buyer nor seller are obligated to agree to modifications the lender's approval may be linked to agreement to acquiesce to their demands.

**Q. Can the seller entertain and/or accept other offers after mine has been accepted?**

A. In most Short Sale transactions a Short Sale Addendum is typically incorporated into the Purchase Agreement; the addendum sets forth the agreement between buyer and seller as it relates to subsequent offers. Review all contractual agreements and forms with your Realtor® before signing.

**Q. How long does it take from start to finish?**

A. Some say when there is only one mortgage; the approval can take two months or more. That may be overly optimistic. If there is more than one mortgage with different lenders, it can take four months or longer for the lenders to approve the sale. Remember patience is a virtue in a short sale!

**Q. What if I have a home to sell or want other concessions?**

A. If you have a home to sell before you can close on the purchase of the Short Sale or if you need to be in your new home by a certain time; a Short Sale may not be for you. Lenders tend to prefer offers with few contingencies and flexible terms. Inspection contingency time periods should be shorter rather than longer. Remember, making financial demands on the seller, such as; pest control repairs, or credits for property shortcomings all translate to additional costs to the lender who is absorbing the loss.

**Q. How can I find out more about a particular property before I decide to prepare an offer to purchase?**

A. It's a good idea to review a property profile (tax assessor's records) with your Realtor® before writing the offer to purchase. By doing so you will gain a clearer understanding of the number and amount of liens attached to the property. Keep in mind you will not be able to determine other debt owed by the seller that is unattached to the property.

**Q. Once the lender approves the Short Sale is the Seller obligated to the sale?**

A. That depends on whether or not the lender granted unconditional approval. If a lender approves the short sale but imposes conditions regarding cash contributions or continuing liability for the note, the seller may refuse to proceed with the short sale. In California lenders are prohibited by law from making financial demands on the seller but they are not prohibited from asking the buyer to contribute toward short falls or other costs of sale.

**Q. Will I be able to negotiate credits and/or repairs on a Short Sale?**

A. While every transaction is unique, and you can certainly try, it isn't too likely. Lenders are absorbing significant losses as well as clearing other debt and costs of sale. They may not be inclined to agree to requests for repairs or credits.

**Q. Any other tips for a Buyer in a Short Sale?**

A. Talk to your lender regarding interest rate locks. Interest rates are fluid and may fluctuate while you are waiting for approval. While we are seeing more stability in most regions, there is always the possibility that property values could decline. Due to the extended time period required for the majority of short sale approvals this is a factor to consider.

*While there are risks associated with a short sale, if you have the time, patience, and perseverance to see it through, it can be a win-win for you, the sellers and the community.*