

# “Short Sales”... Buyer’s Guide

Compliments of **Barry Lotz**, J.D., Ph.D.



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# What Is A Short Sale?

When Home Owners have a piece of property that is no longer worth the amount they originally paid for it – AND – they have fallen behind in their monthly mortgage payments – AND they are able to prove a condition of “hardship” with their Bank – they might be able to qualify for listing their home as a “Short Sale.”

A Short Sale is simply the sale of a property in which the proceeds of the sale **are less than** what is still owing on the owner’s mortgage with their Bank.



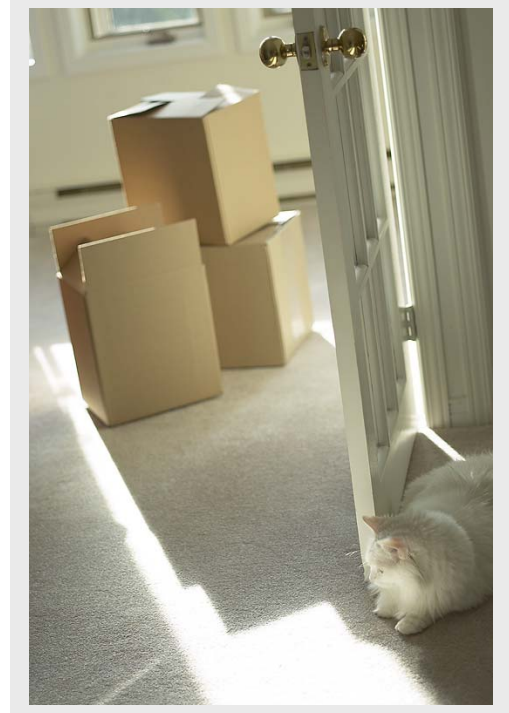
The entire proceeds from the sale of the home are turned over to the Bank. In fact, even though the Seller initially approves your offer, it will be the Bank who makes the final decision. Although Short Sales can be a great opportunity to acquire a home at a discounted price, the entire process hinges on how much of a loss the Bank is willing to take in order avoid the costly procedure of foreclosing and then reselling a home.

If you are considering purchasing a Short Sale property, you absolutely need to understand the process in order to avoid disappointment and frustration.

# What You Need To “Do”

## **Locate An Experienced Agent**

Due to the complex nature of negotiating a Short Sale, this is definitely NOT something to take on yourself. Nor do you want to work with an inexperienced Realtor. Not all Realtors understand how to handle the issues involved in a Short Sale. You need to locate someone with a good Short Sale track record. He or she will know the intricacies of expediting your offer.



## **Identify Potential Short Sales And View The Property**

It is important to remember that a home is a potential Short Sale due to financial hardship of the owner. Therefore, you need to determine the condition of the property and whether it has been allowed to fall into disrepair. In general, Short Sales are in better condition than Foreclosures, which have sat empty and neglected. However, it still might require a certain amount of repair or renovation.

## **Current Market Value & Number Of Liens**

A bit of research is necessary prior to composing your offer. It is important to know the Current Market Value of the home you wish to purchase. If your offer falls too far below this amount, it will likely be rejected by the Bank. The Bank is not looking to lose any more money than absolutely necessary. Also, if there are multiple mortgages and more than one Bank involved, this will complicate and slow the process. It will now require cooperation and approval between the lenders involved.

## **Determine If The Seller Qualifies For A Short Sale**

In order to negotiate a Short Sale with their Bank, the Seller must meet the following qualifications:

- The market value of their home has dropped
- Their mortgage is in default ~ or potential default
- They are in “financial hardship” and cannot continue to make their monthly mortgage payments

## **Ask The Listing Agent About The “Short Sale Package”**

A Seller should have their Short Sale Package prepared and just be waiting for an offer on their home before submitting it to the Bank. There are many necessary components to this Package, and it will create a time delay if it still has to be pulled together. Also, a Bank will **NOT** process a Short Sale if any of these components are missing or incomplete. Your Realtor should be able to quickly determine the status of this submission.

## **Make The Offer**

Initially, your offer will either be accepted or rejected by the Seller. It is then included in their “Short Sale Package” and faxed to their Bank’s Loss Mitigator. At this point, the Bank may ask to see that you have been pre-approved for a mortgage. Remember, even though the Seller has accepted your offer, their Bank can still reject it. If the offer falls too far below the appraised value of the home, the Bank will not be interested.

## **Wait To Hear From The Bank**

There are precise steps involved in a Short Sale negotiation, and all of these take time. It is crucial that your Realtor stay in touch with the Listing Agent in order to be updated on what is developing ~ or not developing. Keep in mind that until the Bank accepts your offer, it’s NOT sold. Refrain from spending any of your money on such things as pest inspections.

## **The Bank Accepts Or Rejects Your Offer**

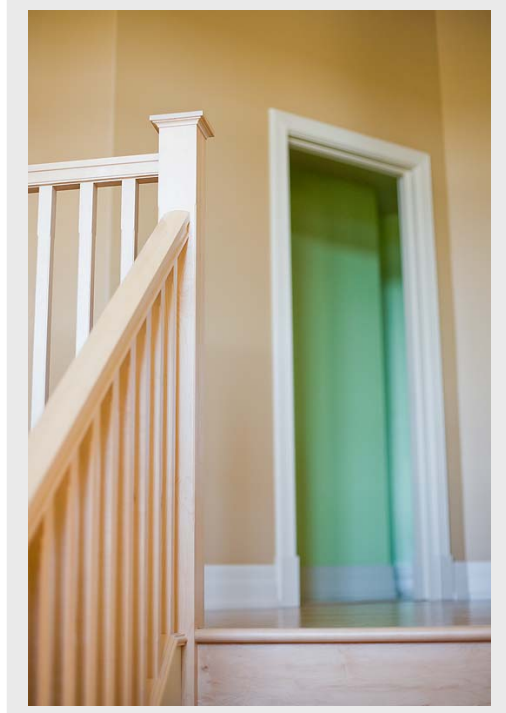
Upon approval, the Bank will want to close right away. There will be no leniency around this closing date. You must be able to act quickly by having all your loan approval paperwork finalized in advance. This is NOT the time to begin shopping around for the best mortgage rates.

# What You Need To “Know”

## The Listing Agent’s Experience

There could be a potential problem if the Seller’s Listing Agent is not familiar with the Short Sale process. Everything hinges on her/his ability to submit a **complete** Short Sale Package to the Seller’s Bank, **AND** negotiate with the Bank, **AND** stay on top of the situation and not let it slide.

Normally, your own Realtor **cannot** discuss the offer with the Bank. It all must filter through the Listing Agent.



## How Many Banks Are Involved

If the Seller has a second mortgage, and it’s being handled by a different Bank to the one handling the primary mortgage, it will be more difficult to have the Short Sale approved in a timely fashion. Both Banks must be willing to communicate with each other and reach a decision regarding the financial loss they are each willing to take. This can create complications and delays if the two Banks cannot agree on the final terms and conditions

## **The “List Price” And The “Bank’s Price”**

The list price of the home is determined by the Seller and their Agent. However, it’s seldom the price which will satisfy the Seller’s Bank. It is a “dance” between you ~ and the Seller / Listing Agent / Bank. The list price must be low enough to attract offers. Although the Seller accepts an offer that appears reasonable, it is the Seller’s Bank that will ultimately accept or reject any offers that are presented. If the Bank feels the offer is unjustifiably too low, it will be rejected. An inexperienced Listing Agent who mistakenly thinks that offering a “bargain price” to attract Buyers is a good move, will only create unnecessary complications and time delays.

In most States, Listing Agents will keep the house listed on MLS in an effort to submit multiple offers. You should be prepared to find yourself in a bidding situation.

## **What The Bank Is Looking For**

When faced with a Short Sale, one Bank might be interested in getting the highest price possible for the property. Another Bank might prefer a large down payment from the Buyer. As well, there are Banks willing to offer Buyers discounts for an all cash offer.

Ultimately a Bank is not in the business of losing money. Their prime objective will be to convince the Seller to stay in their home and refinance their mortgage. However, although that possibility is there in the background, it is unlikely to actually happen. In order for a Short Sale to be even considered, the Seller must be in financial hardship and without sufficient assets to make their monthly mortgage payments.

## **Short Sales Are Not “Short”**

“Short” has nothing to do with the time it takes to complete the sale. It refers to the Seller’s Bank being “shorted” of the full amount due to them on the final sale of the mortgaged house. It can seem like an endless procedure, unless you use a Realtor who knows how to make it happen. The average Loss Mitigator handles hundreds of Short Sale cases a month. Some Banks are better able to hand the volume than others.

## **“Approved” Short Sales**

One way to speed up the process is to make an offer on an “Approved” Short Sale. This is a home whose selling price has already gained approval from the Bank. It’s possible that the Seller went through all of the necessary negotiations, only to have the Buyer change their mind at the end. These types of properties are highly sought-after.

## **Home Inspections**

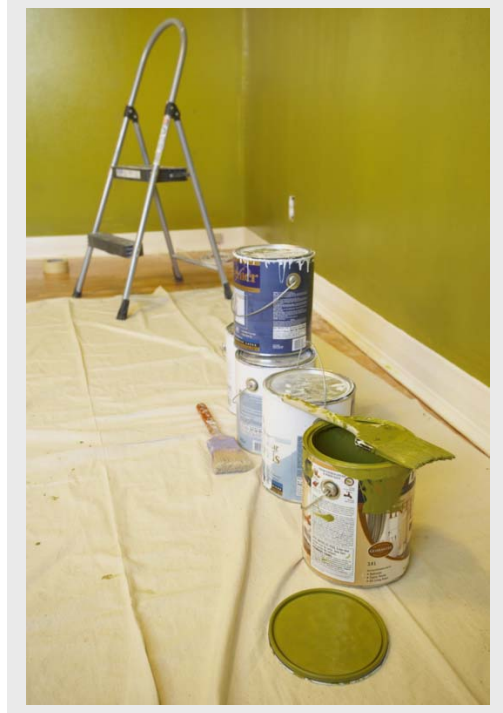
As the Buyer, you will probably be buying the property **“as-is”**. Make sure you conduct a home inspection to see what you are getting yourself into. The Seller is under no obligation to fix anything. The Bank **MAY** be willing to accept a reduced price for the home, provided there is enough supported documentation.

# Short Sale Advantages

## #1 Price ...

Short Sale homes are listed below the current market value. This creates the opportunity to make a fantastic deal.

The Seller's Bank will order an appraisal, or a BPO, done to determine the actual current market value on the property in question. Then it is a case of the Listing Agent negotiating to see how far below that amount the Bank is willing to go.



## #2 Less Competition ...

A lot of Buyer's do not care for the time delays involved with Short Sales. Therefore, you could have fewer competitive offers on the home you are interested in purchasing. In order to take advantage of this, you must not be in a rush to buy the property. You need a certain amount of flexibility and unemotional detachment regarding the outcome.

# Personal Notes

