

What is a Short Sale and what are the benefits?



Things you need to know about Short Sales.

Benefits of a Short Sale Purchase

- The owner currently lives in home. Unlike a foreclosure that can remain empty for months, these homes are lived in and the upkeep and damages are minimal.
- You can purchase a short sale for about 10-20 percent below market price. Most short sale properties are lower priced than a normal sale because the banks want to encourage the sale.
- Process has been shortened. In the past, a short sale could take up to six months to process, leaving the buyer stranded and increasing the risk for damage to the home. Now, it takes about the same amount of time to process a short sale as it would a regular purchase.

Benefits of a Short Sale for the Seller

- Sellers can sell the home for less than what is owed, relieving them of their obligation to the house.
- Short sales are a great alternative to foreclosure and will not impact your credit as heavily as a foreclosure.
- Main lenders are willing to put a debt forgiveness clause in the contract, eliminating any balance owed on the mortgage.

What are short sales on homes?

An important tool in the lenders' arsenal was the short sale. That is a situation where the lender agrees to accept less than the full amount of the principal balance on a loan in exchange for a release from the borrower's debt. But the short sale works for the borrower and the lender. Contrary to what some may say, a short sale may represent a mark against the borrower's credit, but it avoids having a much worse mark against his credit, the dreaded foreclosure. And the lender takes an early loss by not having to go through a lengthy foreclosure process, take possession of the property, make repairs to the property, manage the property, and ultimately sell the property. This is not the business that lenders are skilled at, and it nearly always adds to its losses. **And this creates a great opportunity for you!**

Can short sales be negotiated?

During the residential real estate crisis that took place for about six years beginning in 2007, mortgage lenders were swamped with defaulted loans and foreclosed properties. **Lenders learned that being open minded in negotiating short sales is in their best interest.** They began to get creative in the ways they approached delinquent borrowers. They had learned that owning residential property was something abhorrent to them. "Real Estate Owned" (REO) in a bank portfolio is booked as a liability. These liabilities represented losses the amounts of which were always uncertain. That outlook remains today.

Where do I find short sale properties?

For the purchaser who proposes a short sale to a distressed seller, there is a formula to follow in order to maximize profits and avoid expensive mistakes. It begins with retaining a foreclosure and pre-foreclosure service like foreclosure.com. Not all listing services identify their properties as short sales, foreclosures, or pre-foreclosures, so it is recommended that the sophisticated real estate investor does his searching in the place where this kind of property is a specialty.

How to prepare to make an offer for a short sale?

There is an organized approach that lenders take to approve a short sale. Motivated by the prospects of a speedy solution to a defaulted loan, the lender tries to cooperate with its borrower. It will look at the outstanding balance on the loan, analyze the past due amounts for escrows, and inspect the property to see if there are maintenance issues. With this information it will calculate the cost of foreclosure legal action, carrying time, and anticipated sale price of the property. Generally speaking, these expenses will lead to unwelcome losses to the lender, and that should put it in a bargaining mood for a short sale. The buyer of a short sale property should be making the same calculations as the lender so he can be prepared with a solid argument for his short sale offer.

Are short sales 'as is'?

Usually homes that are being offered as short sales are sold 'as is'. Therefore, once you identify a potential property for purchase, and have a real estate contract in hand, you need to be very careful in how you complete the sale. It begins with a thorough inspection to identify as many maintenance issues as you can find. Bear in mind that the homeowner who cannot afford to keep up his mortgage payments may also not have been able to keep up the maintenance of the property. That means you need to thoroughly inspect the plumbing and electrical systems, and home's structural integrity. Roof and termite inspections should be performed by professionals.

Are short sales foreclosures?

Bear in mind that a short sale is not a foreclosure. When it comes to title, had the property proceeded to and completed foreclosure, liens junior to the mortgage would be wiped out. But a short sale is not a foreclosure, and junior liens, such as second mortgages and mechanics liens, are not affected. Therefore, before getting too far into the transaction, a thorough title search is recommended. If there are liens against the property, some accommodation between the buyer, the seller, and the lender must be agreed upon.

Are short sales cash only?

Short sales do not have to be cash only sales. Many short sale buyers arrange financing for their purchases. However, the seller and lender know that the more cash offered at closing, the easier it will be to consummate the sale, and the more certain a closing will be. The purchaser can help his case by being prepared.

- Give an estimate of the cost to bring the property up to standards. Include pictures of deferred maintenance items along with estimates of the cost to fix them. (Remember, these are items the lender will have to handle if it does not accept the offer, and can make a very

convincing argument.) **Show enough cash on your financial statement to cover these deferred maintenance items so the seller and lender know you are qualified.**

- Include a valuation by a qualified appraiser to support the purchase price in the sales contract.
- Include a copy of the purchase agreement between the buyer and seller.
- In the event the lender is unaware of its borrower's financial condition, include a hardship letter from the borrower detailing just how tenuous the lender's position is.

In the end, the lender must be convinced that it is in its best interest to consider the short sale. By understanding how short sales work, and how lenders are motivated, and by following these recommended steps, you will be well armed to approach a short sale successfully.

You can find [short sales](#) in your area now, just [click here](#) to start searching or get [email alerts](#) as new properties are added daily.