

## Don't Make These Short Sale Mistakes

"Short-sale" is the term used for a property that must be sold for less than what is owed to the lender by the current owner. Basically, sellers and buyers must recognize that a "short-sale" is anything BUT short. Short sales can take weeks or months to finalize. Some attempts at selling on a short-sale never come together, even if there is an interested buyer who has made an offer, and the home may actually foreclose.

### INVESTORS/BUYERS

If you are an investor looking for investing opportunities and a short-sale home is of interest, be prepared for it to take months for a contract to be accepted. Often times there will be multiple contracts from multiple would-be buyers in the lender's hands at the same time. And know that often times lenders are not accepting any contract on a short-sale, but instead letting the home go to foreclosure. As an investor, it is critical that you understand the price listed in the MLS for a short-sale property most likely is not the price that will be accepted by the lender. Prices for short-sale listings are just a best guess at the current market value, and in most situations have not yet been approved as "the" price the lender will accept.

### SELLERS

If you are a seller who needs to sell and you owe more to the lender than what the current market will allow you to sell your home for, you will want to discuss your situation with your lender to find out if they will consider you to be a candidate for a short-sale. Whether a lender will consider a seller a candidate seems to change as the market changes. As a seller, you will need to convince your lender that you have an extreme hardship and cannot continue making your payments. The lender will want to know what has changed since you originally purchased the home to create this hardship. The lender will require the seller to provide a number of financial documents as well, including past tax returns, pay stubs from work, budgets indicating how their money is being spent, etc. These documents vary lender to lender. (Note - if you have a first and a second loan make contact with both of your lenders.)

Unfortunately sellers are finding that because of the length of time it takes for lenders to go through their processes of bank-price-opinions, appraisals and all that has to go into the process of determining a short-sale and getting the property to close escrow, buyers are often being turned off to even looking at short-sales, and instead looking at foreclosed properties, if the buyers are "looking for deals".

If you are a seller in this position - do not make the mistake of waiting to speak with your lender until your lender is close to making a foreclosure of your home. If you are a seller who finds themselves in financial trouble and in this position, call your lender and begin a dialogue as soon as you find yourself in trouble of making the monthly payments.

Sellers in this situation should always also consult with an attorney and a tax professional to determine how a short sale will affect their credit and tax situation.

Remember what a short sale is. "A short sale occurs when a property is sold and the lender agrees to accept a discounted payoff or less money than is actually owed."

Many investors feel if they submit a short sale offer to the lender holding the mortgage, the banks will be so desperate they will jump at the deal. Banks are not anxious to short-sale and even if they have determined that the buyer is a candidate to consider for a short-sale, the bank has many steps of due-diligence they will undertake before accepting any offer. These various steps of appraisals, bank price opinions, etc can take months for them to accomplish. If the bank doesn't jump at the offer the average investor may just move on to the next deal. If you are an investor and really interested in a particular short-sale property you must be patient - very patient. There is no amount of talking, threats to withdraw your offer or anything that makes any difference. The banks take as long as they take.

The successful investor needs a plan to buy short sale properties and needs to stick to that plan. The plan is to convince the bank that your offer is realistic and good for the bank. You need a good realtor to handle writing your contract and handling the negotiations. You need a realtor who understands the short-sale process.

An investor may not realize it but you must negotiate with the lender. You must negotiate following proven steps.

First you must be able to determine if you actually have a short sale opportunity on your hands. Many investors believe that every homeowner facing foreclosure is a good short sale candidate. Just because a MLS listing says "short-sale" does not mean that it is actually a short-sale. This is a misconception. Until the lender says it's a short sale and agrees to a price, it is only a "possible short-sale".

Some sellers who decide that their home won't sell at the price they had imagined often start to wonder if they should do a short sale. A short sale doesn't always solve problems, but it could actually cause more problems for the home owner. Short sales are not the answer to every home owners problems. Analyze the deal and make sure it good for the homeowner, you, the buyer/investor and the bank.  
Short Sale Consequences to the buyer:

A short sale is dependent on a buyer making an offer to purchase. If you do not receive an offer, you will not qualify for a short sale. So even if you meet all the other criteria, it is possible that no one will buy the short sale. And it is also possible that you, the buyer, will have offers, but in the end the lender will not accept the offers at all and your home will be forced to foreclose.

Tax Consequences:

If the lender agrees to the short sale, the lender has the right to issue the homeowner a 1099 for the shorted difference, due to a provision in the IRS code about debt forgiveness. Some situations are exempt from debt forgiveness according to the Mortgage Forgiveness Debt Relief Act of 2007.

Always remember that for a deal to be win-win-win, the seller has to get out from under a debt without any resulting tax consequences. The lender must feel that they are getting the most money possible and you want to pocket a decent profit.

Short sales are possible and they are done everyday. There are thousands of properties. In you are an investor, let us help you find one and you may be successful. If you are are a seller, call us and we can help you determine the current market value of your property and help you through the process.

Remember if you are a seller, you definitely need to also speak with an attorney and a tax advisor to determine the tax and credit implications of a short sale for you and your personal credit and tax situation.

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