Short Sales

Why do banks short sale?

Here are the most common reasons banks will agree to a short sale:

- The mortgage is in arrears or foreclosure.
- The property is in poor condition.
- The homeowner has hardships and cannot afford the payments.
- New homes in the area are being chosen over existing homes.
- The area or neighborhood has depreciated in value.
- The bank's shareholders are concerned when there are too many defaulting loans on the books.
- Some banks are required to prove a loss each month…Let's help them out!
- Some banks are required to have an amount equal to or up to six times the retail value of each REO "on Hand."
- An REO is a liability, not asset. Too many liabilities will cause any business to go under if not dealt with quickly.

Can I short sale a nice property?

Absolutely! As you can see, banks short sale for many reasons other than the poor condition of the property.

What are the steps to a successful short sale?

1. Find a property owner in distress.
2. Put a deal together with the homeowner.
3. Have the homeowner sign an authorization to release form.
4. Fill out a sales contract for the amount you want to offer the bank and have the homeowner sign it.
5. Call the Loss Mitigation department at the bank. Fax them your offer along with the following:
   - Your cover letter explaining why you can't offer full price
   - The sales contract
   - Justifying comps of the area
   - Pictures, if you have them
   - A net sheet or closing statement (a sheet that shows the bank exactly how much they will net after closing costs, taxes, etc. are paid)
   - A hardship letter from the homeowner that mentions the dreaded word…bankruptcy
   - Estimated list and cost of repairs, using retail repair prices that the normal homeowner would pay for these items

What happens to the homeowner's credit?

When you negotiate a successful short sale, keep in mind that the agreed upon price is payment in full. However, the homeowners may still owe the difference between the mortgage balance and the discounted amount via a "deficiency judgment." If granted, this judgment will affect the homeowners and their credit report just as any other judgment. You must get the banks to agree to accept "payment in full without pursuit of any deficiency judgment." In addition, you need to explain to the homeowners that the discounted amount (the difference between the mortgage balance and the short sale) may be declared as income on their income tax return by means of a "1099." The homeowners should speak with their accountant for advice. Since the homeowners have been in such duress and probably haven't made much income, a 1099 may not adversely affect them. As you know, nine out of ten deals have no equity. To be successful in this business, trends call for you to be a short sale expert.

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