

What You Need to Know Before You Short Sell Your Home

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What short sale is: A short sale is when the owner of a property owes more on the property than they can sell it for. The lender must agree to take less than they are owed in order for the sale to go through. In other words, the lender must agree to a “shorted” position.

What a short sale is NOT: A short sale is not a *shortened process*. Because the lender wants to be sure there are no other options aside from taking less than they are owed, they go through an extensive evaluation process of the property seller’s financial status. The owner is required to furnish bank statements, pay stubs, tax returns and an explanation of why the short sale is necessary. And because of the current economic stress throughout the country, the lenders are overwhelmed with requests for short sales. Several years ago many properties went to foreclosure while the lender was evaluating the necessity of a short sale because they didn’t have a system in place for the Foreclosure Department to communicate with the Short Sale Department. Also not too long ago, the approval process took six months or more. Most lenders have greatly reduced that wait time, and some of them are surprisingly quick with their approvals.

Is there a pending foreclosure/trustee sale date? You need to know this because you don’t want the house to foreclose while you’re waiting for your sale to be approved. Many lenders now have effective cross-checking systems to ensure this doesn’t happen, but if the date is within 21 days of your offer, most lenders are not postponing the sale date. Sellers are encouraged to communicate with their lender as soon as they know they may not be able to keep up on the payments. Some sellers were strategically requesting postponements so they could stay in the home longer without making payments. You can find this information in the public tax records.

How much is owed? Sometimes a lender’s willingness to cooperate with a short sale depends on how much a seller owes. When the shortfall is small the short sale can be quickly approved and the sale will move forward. When the short fall is large compared to the market value of a property, the approval process can take longer. Again, the lender wants to make sure they maximize what they agree to take in a short sale.

How many loans are there? Which lenders are they? If there is more than one lender they all must give approval to the short sale. The time it takes to approve can be shortened if both/all the liens are with the same lender. Some lenders in first position won’t even consider the request until all other lien holders have agreed. So if it takes six weeks for the second lien holder to agree and it takes the first lien holder another six weeks, you can see how you will easily get to three, four, six months in a hurry. It’s also important to know which lenders are involved because some of them have excellent, streamlined processes and others of them are significantly dysfunctional. An experienced real estate agent will know which ones are which in your area.

Is there mortgage insurance? If you put less than 20% down at the time of purchase, your lender most likely required an insurance policy against their potential loss. The mortgage insurance company is another party whose opinion weighs in on the final approval of the short sale. And many mortgage insurance companies don’t review the file for approval until all the lien holders have approved the sale.

Is the listed price or the agreed upon price the final selling price? Not necessarily. If a seller isn't getting showings they won't get an offer, so the diligent seller and their agent will adjust the price until they do get showings. But the price that gets the attention of buyers and brings an offer might not be the same price the seller's lender is willing to agree to. The lender will agree to a fair market price based on what other similar homes in the immediate area have sold for. So be aware of what other similar homes have sold for. That's the price you'll get for your home.

Is the listing agent experienced in getting short sales closed? Just because a real estate agent gets a short sale listing doesn't mean they know how to get it closed. There are some agents who have no business listing short sales because successfully closing a short sale takes more than closing a regular sale. And it's more than just being able to assemble the right paperwork from the seller and getting it to the lender. Short sales is an *art and a game!* If you are the unaware seller that hires one of these agents, your selling process will be far less satisfactory and much more stressful. Ensure the listing agent has an established process for communicating with you throughout the entire process. Then you'll at least know what's going on.

Do I have to keep my HOA dues current? Yes. Lenders won't pay back HOA dues.

How do I successfully short sale a property? Choose your own agent wisely. The best agent to represent you as a seller in a short sale is an agent who does a lot of short sale listings. They know what it takes so they know what questions to ask. They will be able to accurately answer your questions and set your expectations. You also need an agent who doesn't give up easily.

Who pays the fees on a short sale? The fees are paid by the lender. Our goal is that you don't have to come out of pocket for any expenses, and the lender's goal is that you don't get any cash from the closing. In some extreme situations, the lender or mortgage insurance company may ask for a cash contribution from the seller. This is on a case-by-case basis.

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