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Patience Required to Get a Short Sale Deal

The best deals out on the market right now are, for the most part, short sales. Low in price, these homes are usually better cared for than their foreclosure counterparts. But to purchase a short sale, buyers need one very important quality: patience.

A short sale, by definition, is a home on the market listed for less than what is owed on it. When a buyer purchases a house, both the buyer and the lender are making an investment together. The buyer is investing in the property, hoping for it to gain in value during the years that they live there, and the lender is funding the buyer's purchase and investing based on the interest that the borrower will eventually pay on the loan.

Therefore, when a lender is agreeing to accept less than what they have staked in the property, they are taking a loss not only on the interest that they would have gained had the homeowner remained in the house, but also a loss on the initial money that they fronted to the borrower.

During this recent housing crisis, however, lenders have come to realize that if a borrower is going to default, the best way to minimize their loss when a loan modification isn't an option is to commit to a short sale, which helps them avoid the costs associated with a foreclosure.

Short sales are typically a great deal for buyers because they are often listed for less than market value. For many buyers, the savings is worth the long wait that can be expected for a short sale, especially in an economy where every penny counts.

There are many reasons for this long wait, such as the homeowner could have a second mortgage, which complicates the process, and a lender could be considering multiple offers on the property. After writing an offer, it generally can take up to two months for the potential homebuyers to hear back from the bank. And if the bank decides to counter-offer, the process can take even longer.

Another process that extends the waiting period is the sellers could have to prove to their lender that they are financially distressed and unable to continue paying their mortgage. This takes a lot of time and paperwork for both the seller and the bank.

Due to the long wait and frustrations that can occur during a short sale, a potential homeowner should ask themselves one question before considering a short sale deal: Is it worth the frustration?

In addition to the long wait, buyers will also be shut out of the details of the deal, and will encounter a wall of silence from the bank. This can cause the process to be even more frustrating.

Another negative to short sales is that the sales come "as-is", meaning that it isn't likely that buyers will get allowances from the seller for repairs that are needed, which you may get with a traditional sale.

Given all of the hoops that buyers have to jump through to get a short sale approved, it is good if they have a contingency plan, should the deal fall through. Even if they decide to make an offer on the property, it is important to keep looking, and not rely on the deal going through.

One more important thing for potential short sale buyers to keep in mind is not to lose sight of the fact that they are buying a home to live in – not just a great deal. It is wonderful if they are able to obtain a bargain and live in the perfect location with the perfect house, but often they get caught up in "the great deal" without actually loving the house itself. A short sale is only a bargain if it's a home that the buyers truly want to live in. ❖