

SHORT SALES: *Boom* OR *BUST*?



By John A. Palumbo,
The Investment Gambler

It's early Sunday morning, the start of a beautiful day, and you've just opened your newspaper to the real estate section. You're in the market for a new family home and are looking for a real bargain. After a few minutes, you get a little bored so you get online and begin to search some of the for-sale-by-owner sites and there it is ... you spot a home that is located in the neighborhood you've been looking for. Not only that, but the price seems right and the size looks like it will fit for you and the family. However, as you get close to finishing the for sale ad, it clearly states that the home is available through a short sale. You've heard the term, but don't recall details – is this something you should pursue? Before you go any further, let's take a look at the real world.

What is a Short Sale?

A short sale is a sale of real estate in which the proceeds from the sale of a home fall short of the balance owed on a loan secured by the property which is being sold. In other words, the bank or mortgage lender agrees to accept a discount on a loan balance in order to release an existing mortgage. This typically occurs when the seller can't come up with the cash needed to pay the difference between the amount the property sells for and the amount owed on the mortgage loan.

Why Now?

The term 'short sale' has been around for many years. However, until recent years, banks and lenders were rarely forced to the table with money losing propositions simply because it was rare that a property became worth less than what was left owed on the property. This was especially true of the 90's and early 2000's when the go-go markets provided lenders with a relatively safe security blanket. Throughout those years, property values continued to rise, thereby protecting the lender's equity position more often than not.

Today, however, with the US economy in shambles since 2007, the term 'short sale' has become almost a house-hold term. Lenders have had to change their tune and procedures on how to handle this ever growing economic trend of accepting a discounted payoff to release an existing mortgage. Otherwise, the lender will usually be forced to foreclose on the property, incurring considerably more expense and possibly long holding periods.

Short sales, when facilitated with the lender, are not always meant to sell a property at below market value, but simply to assist in getting the property sold with a price that's far more in line with the market value. Oftentimes, sellers who are desperate to avoid a foreclosure, which could be damaging to their credit, will pursue the lender along with a savvy buyer in hopes of obtaining a deep discount in the payoff of the mortgage in order to save everyone the expense and legal footwork necessary to get the property back on the market.

Before You Buy a Short Sale Property ...

If your goal is to obtain your dream home at a bargain price, there are a lot of avenues that can be taken, such as foreclosed property, purchasing property at an auction, bankruptcy sales, and working directly with the seller in trying to obtain a short sale through the lender. If you choose the latter path, there are many caveats to be aware and there are classes that can be taken, books that can be read, and audio programs which can be purchased, all of which will help you navigate through the treacherous waters of trying to find, negotiate, and close on a home through the short sale process.

Be careful when taking some of the classes that are being offered for anything from a few hundred to several thousand dollars to learn the short sale process. Most of what you can learn about short sales



Short sale property purchases may fall short of your expectations, especially if you don't know the in's and out's before you make your decision.

can be learned from reading articles, such as this one, purchasing some inexpensive audio and/or video programs. You might even consider joining your local real estate club where some of the members will mentor you through the process of short sales. All of these options are reasonable and cost efficient. Be leery of paying big money for programs that promise to deliver on the short sale process – it's not necessary. Those programs were valid years ago when very few people understood or bought and sold short sales. Today, there is too much information out there that you can learn on your own.

Consider Yourself Warned

Below are just a few things you should know if you are considering a short sale purchase:

- **The seller may have paid too much.** The reason that a short sale is even possible is because the sellers probably paid too much for the home several years earlier in a rising market. Now that the market has fallen, their property has been appraised for less than they purchased it for. They are now considered 'upside down' on the property when they own more on their mortgage than what the home is worth.
- **Optimistic banks lent too much.** Mortgage lenders were loaning way too much money in the early 2000's on properties because prices were soaring. (Meanwhile, the bubble began to swell, which created the dilemma to begin with.) It may be the case that the lender allowed the seller to over-mortgage the home, meaning the seller borrowed too much.
- **Does the seller qualify?** Sellers must prove to the lender that there exists an economic or financial hardship in order for the lender to even consider the short sale to begin with. Remember, part of the financial meltdown in the entire mortgage and housing industry is because lenders can't stay in business very long if they're taking payoffs on loans for less than the money that is owed on the property.
- **What you see is what you get.** Be aware that you are purchasing the short sale property "as is." Be sure to do a home inspection prior to entering into any contract so you know what repairs and deferred maintenance you might be inheriting.
- **This could take a while.** Lenders can make the short sale process very painful and difficult. The time to set up before you can even get to a settlement can be dragged out for weeks or literally months. Be prepared to submit plenty of documentation to the lenders. You will be at their mercy during this process. You may find yourself wondering why the lenders aren't moving faster, considering the fact that you have cash

in hand. Banks and lenders are so overloaded with the mortgage meltdown across the country, meaning you could wait a very long time for even the simplest answer needed to move on to the next step. Learn to be patient.

- **Be reasonable in your pricing structure.** As discussed earlier, the purpose of a short sale is to bring the property more in line with market value, not to offer a huge discount in which there is an immediate profit available for the new buyer.
- **The deal may fall apart.** A lender's approval of a short sale can be slow coming ... if it comes at all. Too often, sellers advertising a "short sale" haven't even run this deal by the lender yet. The point is: there are many forces beyond your control that need to occur before you can purchase a short sale property. Don't get emotionally involved with the property until you know it's yours. In other words, keep looking and be prepared to make other offers until that one deal comes through for you.
- **Remember, price isn't everything.** There are plenty of crazy deals out there right now, but chances are your dream home may not be one of them. If you find a home that you really love, trying to get it for the lowest possible dollar may not be the wise move. It's okay to spend a little more once you've determined that the home fits all the criteria you've been looking for.

Whether or not you make a great deal with a short sale will be up to you, but don't discount some of the other methods of looking for bargains, including finding a good real estate agent who can help you spot and navigate through this attractive real estate market that we are in. It is a great time to buy, just be careful about all the ways that are out there to go about obtaining your dream home.



Author, business owner and financial expert, John Palumbo will take you "where Wall Street can't" by giving you advice on out-of-the-ordinary investment strategies. As one of the nation's leading authorities on unique investing strategies, John adds a fresh facet to the old ideology of "thinking outside of the box". He has spent over 20 years navigating the treacherous path of investing in unusual assets, providing him with his unique and profound investing perspectives. You can see him regularly on his "Investment Gambler" segment on Jacksonville's [WJXT TV's Morning Show](#). For a complimentary report on the top ten worst investments, visit www.InvestmentGambler.com.