



<http://www.latimes.com/news/la-re-shortsale15-2008jun15,0,4015974.story?page=2>

From the Los Angeles Times

Short sales: A tough road

As an alternative to foreclosures, short sales are on the rise, but they can test the patience of all involved: sellers, buyers, banks.

By Diane Wedner

Los Angeles Times Staff Writer

June 15, 2008

RESIDENTIAL short sales sound like a picnic: Owners need to sell their homes for less than they owe, lenders forgive the difference and buyers grab a good deal.

If only. This is one picnic that requires a long wait for dessert. The only "short" thing about short sales, buyers and sellers say, is one's patience.

"The waiting is torture," said Mark Shandrow, a Keller Williams Realty agent in Long Beach who specializes in such transactions. "The banks are overwhelmed with short-sale requests, and some make sellers wait five months for an answer." That answer, in many cases, he added, is "no."

Yet despite the obstacles to successful short sales -- lenders holding the first and second mortgages don't agree on the terms, buyers often ditch the deal midstream or banks nix the agreement just before escrow closes -- they're on the rise. Countrywide Financial Corp. of Calabasas, the largest U.S. home lender, reports a nearly 60% increase in those transactions nationwide in April, the latest month for which statistics are available, from the same period a year earlier.

In the Santa Clarita and San Fernando valleys, the number of short sales increased from at least 31 sales from May 2006 to May 2007 to at least 1,956 sales from May 2007 to May of this year, according to the Southland Regional Assn. of Realtors.

The reason for the rise, experts say, is that as more financially strapped homeowners fall behind on their mortgage payments -- and see their homes' values plummet to less than what they owe -- they're turning to short sales as an alternative to foreclosure. Banks, once loath to take on short sales because, among other reasons, they were understaffed for the application onslaught, are tackling them now mainly because they're more cost-effective than foreclosures.

"Banks aren't happy about short sales," said Sherri Frost, a senior loan officer with Sherman Oaks-based Metrocities Mortgage, "but they have few options."

Unlike a foreclosure, in which the lender takes ownership of a property after a borrower misses several payments, a short sale is a transaction in which the owners, not the bank, sell the home; they receive no proceeds from the sale. In a foreclosure, the defaulting owner may receive sales proceeds once the lender has been paid, if the amount exceeds that of the outstanding loan.

If a short-sale borrower owes \$500,000 on a home, the bank may accept a payoff amount of \$450,000, the amount a buyer has offered to pay. The sellers need not be in default -- meaning they stopped making mortgage payments -- in order for a lender to consider a short sale, but they must be able to show a real hardship to receive the debt forgiveness, which may have tax consequences.

Then there's the wait

It sounds straightforward, but the short-sale road is a long one. Once sellers have an offer, they must assemble a package to present to the bank, including a "hardship letter" explaining why they had to put the house up for sale -- loss of employment, a spousal death, a divorce, a disability or a mortgage resetting, for example -- and asking the bank to accept a short sale, according to a Countrywide spokeswoman.

The sellers also must provide income verification, their most recent bank and income-tax statements, the listing history of the house and other documentation. Then comes the wait. And frequent follow-up calls to the bank to make sure the file isn't buried.

"Banks won't grant face-to-face interviews because of the volume of short sales and foreclosures," said Mary Ebersole, a Re/Max Realty Specialists agent in Long Beach. Even if the seller gets approval, she added, "there's only room for cautious optimism."

That's because impatient buyers sometimes head elsewhere while the bank's loss-mitigation officer, or negotiator, sifts through the pile of short-sale packages. Or buyers put offers on five or six other properties to see which comes through first.

Sometimes, while awaiting a bank's decision, interest rates go up and buyers no longer qualify for a previously approved loan because their lock-in rates expired. Worse yet, a seller may get an initial approval from the bank, but in the eleventh hour the bank adds a contingency that skews the deal, or pulls the plug without explanation, agents say.

Los Angeles Times: Short sales: A tough road

Second and third mortgages and even home equity loans can further complicate matters. Last fall, Pam Kennedy, a Coldwell Banker Ambassador agent in Whittier, was disheartened when her short-sale client's lender demanded, after a long wait and with a buyer already on board, that the seller sign a promissory note for \$15,000, which would be interest-free and amortized over 10 years. The seller had taken out a second mortgage awhile back to buy a recreational vehicle for \$25,000 and pay off some debt. The lender wanted to recoup some of the loss it was absorbing.

The seller was going through a divorce, starting a new job and was afraid she couldn't make the payments. Also, despite months of effort, she couldn't sell the RV -- an asset, in the bank's opinion. The deal fell through and the bank foreclosed on the property. The experience left a bitter taste in Kennedy's mouth.

"I avoid short sales and advise buyers to avoid them," Kennedy said. "They are miserable."

Sticking it out

True, most participants say, but some eventually have happy endings.

Mari and Joe Abrams found the house of their dreams in Porter Ranch in December. They got quick loan approval to buy the four-bedroom, three-bathroom home, and feeling optimistic about the new purchase, they put their Encino home on the market.

The couple offered \$650,000 for the new house, which had been listed earlier in the \$699,000 to \$749,000 range. They paid a \$10,000 good-faith deposit, agreed to pay all of the escrow fees (which usually are split between seller and buyer) and agreed to buy the property as is.

They expected the bank to quickly counter-offer. For one thing, the seller's second-mortgage holder already had agreed to the sale, a major hurdle in short-sale transactions. But without the first bank's approval, the deal stalled. (Both the first and second mortgage holders must settle to complete a short sale.)

The couple's own house sold three months into the process, so they moved, with their toddler, Daniel, and 50-pound dog into Mari's mother's condo.

By April, Mari, 32, started peppering the first lender with daily phone calls, seeking a response to their offer. As the deal dragged, the Abramses extended the escrow. It closed, finally, on May 2. The family plans to move in later this month.

"Our hearts sank a hundred times," Mari said. "It was a roller coaster."

"If we didn't like the house so much, we wouldn't have hung on that long," Joe, 37, added. In the end, however, they're glad they stuck it out. It is, Mari says, just what they wanted. Even if they didn't get the "deal of the century," Joe said.

Bargain bins

Lenders will not accept short-sale offers that are far below market value. To the contrary, many banks "net about 90% of the current market value" on many of these sales, agent Shandrow said. Also, the homes usually are sold as is, which sometimes can mean a missing kitchen sink, ripped-out bathroom fixtures and stained carpets.

Marty Rodriguez, a Century 21 agent in Glendora, says she won't take a short-sale offer to the bank unless it's reasonable. "The negotiator doesn't want to look at 12 offers," Rodriguez said. "He wants the best, highest and the most qualified ones."

Buyers looking for bargains should wait until short-sale and foreclosure prices are down about 35% from the peak market in their search area, said James Joseph, owner of Century 21 Ambassador in Brea and Whittier.

"Short sales and foreclosures are the nails in the floor of the market," Joseph said. "That's where the bargains are."

diane.wedner@latimes.com

If you want other stories on this topic, search the Archives at latimes.com/archives.

TMSReprints

Article licensing and reprint options

Copyright 2008 Los Angeles Times | [Privacy Policy](#) | [Terms of Service](#)
[Home Delivery](#) | [Advertise](#) | [Archives](#) | [Contact](#) | [Site Map](#) | [Help](#)

partners:

