The Short Sale

what it is and How it can work for you.

A real estate "short sale" can be a very powerful and useful technique for turning "no equity" deals into big profits. In a short sale, you negotiate with the bank holding the mortgage and get them to accept ***less*** than what the seller owes.

Why do banks accept a short sale?
There are many reasons banks will agree to a short sale but the most common reasons are:
- The mortgage is in arrears or foreclosure.
- The property is in poor condition.
- The homeowner has suffered a hardship and can no longer afford the payments.
- The area or neighborhood has depreciated in value.
- New homes in the area are being chosen over existing homes.
- 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.
- 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 properly and quickly.

Can I short sale a nice property?
Absolutely! As seen above, 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.
6. Fax them your offer along with the following:
A. Your cover letter explaining why you can't offer full price.
B. The owner-signed sales contract.
C. Justifying sales comps of the area.
D. Pictures of the property's condition.
E. 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).
F. A hardship letter from the homeowner that mentions the dreaded word – bankruptcy.
G. Detailed list of estimated costs of needed repairs, using retail repair prices that the normal homeowner would pay for these items.

What happens to the homeowners credit?
When you negotiate a successful short sale, remember 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 if the bank pursues the owners via a "deficiency judgment."

If granted, this judgment will affect the homeowners and their credit report just as any judgment would. You must get the bank 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 always consult with their accountant or legal professional for advice. .

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