

# Rescue Sellers with Short Sales

## Serving Sellers in Financial Distress

Source: Florida Realtor Magazine, September 2007 | by Richard Westlund | page 16

Here's how you can help sellers unload a distressed property with a short sale.

In the past two years, Julio Sanchez has significantly grown his business by helping sellers in financial distress. A sales associate with The Keyes Co. Realtors® Hutchinson Island/Jensen Beach office, Sanchez tells owners about their options, such as negotiating a short sale when the net proceeds are not enough to cover the mortgage obligations and closing costs, such as property taxes, transfer taxes and the broker's commission.

Because a short sale involves the seller's negotiating with the lender, "These transactions are a lot more work," says Sanchez. "To me, it's worth it. If you can get someone out of a difficult financial situation, you have a customer for life. When they buy their next house, they'll think of you and refer others to you as well."

## A Rising Trend

Throughout Florida, the number of sellers facing financial difficulties is clearly on the rise in all price brackets. Many owners holding adjustable rate mortgages (ARMs) or interest-only loans are finding it tough to keep up with today's higher monthly payments. Rising foreclosure rates throughout Florida and the rest of the country signal the seriousness of the problem.

At the same time, a decline in sales prices over the past two years has left some sellers with little or no equity in their homes—sometimes called an "upside-down" sales situation.

For instance, an owner who paid \$300,000 for a Florida home in 2005 using a \$30,000 downpayment would have little to no equity if the current market value were \$270,000. So, it's not just those having trouble making mortgage payments that are affected by today's market. For example, you may have a couple who bought using 100 percent financing when the market was high. Because of a job transfer, they're forced to sell and they find themselves owing more than the home is worth.

## Discovering the Short Sale

While more Florida sales associates find themselves working with sellers in financial distress, few are actively marketing themselves as specializing in pre-foreclosure or short-sale. That's because a typical seller may not understand those terms or even be aware that they're facing a financial problem.

Instead, the issue typically surfaces after a listing presentation, when your suggested selling price is less than what the sellers owe on their mortgage. In this situation a real estate professional should



engage the owner in a candid financial discussion that covers the mortgage balance, owners' equity and current market value.

"Being able to explain the pros and cons of the seller's options is becoming more important in today's market," says Jessica D. Roberts, owner of My Real Estate Broker Inc. and My Mortgage Broker Inc. in Hallandale Beach. "For sales associates, this can also become a specialized niche market, just like property rentals or focusing on investors, retirees or international buyers," she says.

## Is It a Short Sale?

Just because sellers are behind on their mortgage or are having financial difficulties doesn't mean that the property is automatically eligible for a short sale. Your first clue is the market analysis compared to the mortgage amount. But, it's vital to work with sellers to get an estimate of the net proceeds and then discuss options.

Sellers facing a financial hardship typically have options prior to losing their home through foreclosure, according to Roberts. "A sales associate who can help the client in these pre-foreclosure stages is providing a great service," she says. For owners behind on their mortgages, the first option is to find a way to catch up their payments. Borrowing from relatives or asking the lender to refinance the mortgage are among the options.

Many lenders are willing to extend the term of the mortgage, add any delinquent payments to the loan principal or adjust the interest rate. If the owners' income has gone up, the lender might agree to a repayment plan with higher monthly payments to make up the deficiency.

Budge Huskey, president and COO of Coldwell Banker Residential Real Estate Inc. in Sarasota, says lenders are taking a more active approach to working out problems with property holders as an option that's usually less costly for them than charging off a delinquent loan or foreclosing on the property.

If these tactics are successful, the owners gain time to make a financial recovery or to sell the property quickly. "Unfortunately, by the time many owners realize they're in trouble, this option may no longer be viable, especially if the equity in their home has evaporated," Roberts says.

## Working with the Lender

To request a short sale, the owners typically present the lender with evidence of financial hardship and a current market estimate of the home's value. Any potential sale is contingent on the lender's approval.

"We're seeing more short sales throughout our branches," says Mike Pappas, president of The Keyes Co. Realtors® in Miami. "While each lender is different, our sellers have found the lenders are generally more willing to discuss their situation than ever before."

Pappas says there are several reasons a lender will accept a short sale by owners facing a financial hardship:

- To avoid the cost of a foreclosure, which was estimated at about \$58,000 in a study by the Tower Group.
- To avoid increasing its home inventory, usually called real estate-owned (REO) properties.
- New homes in the area are selling faster than existing ones.
- The area or neighborhood has depreciated in value.
- The property is in poor condition.

“In order to negotiate a short-sale package with a lender, the owner has to prove that a tremendous hardship exists,” adds Pappas. “It’s almost like qualifying for the original mortgage but in reverse.”

## Key Issues to Consider

In these potential listings, there are several key issues that need to be evaluated:

- **Finances.** When discussing a potential listing, try to assess the seller’s financial situation. “Normally, people don’t say ‘I can’t make my payments, so the associate could ask about the type of loan, the rate and if there have been any recent changes,’” Pappas says. An associate could also ask the owner to estimate how much equity there is in the home.
- **Carrying Costs.** Calculate the carrying costs of the property. “Do the math and get the seller to think about six months into the future. What price would they be happy about at that point? If you can price it at that level and move it today, you can avoid the ongoing costs and get out of the property more quickly,” Pappas says.
- **Processes.** Explain the short-sale process to the owner, who may not be aware of this option. “For this to work, the seller has to be willing to take the time and work with the lender,” Huskey says. “While some sellers won’t wish to cooperate, others want to get this taken care of, regain credit status and buy again.”

However, sales associates shouldn’t work directly with lenders without the seller’s permission—the relationship is between the borrower and the lender. Sanchez does ask the seller to provide him with authorization to be included in communications with the lender. “In most cases, there is a need to follow the status of the request almost every day,” he says.

- **Property Price.** Sanchez provides a market analysis of current sale prices and discusses any changes since the owner bought the property. He says that owners should price the property aggressively in order to effect a quick sale.
- **The Contract.** In any contract, include a provision that the sale is contingent on the lender’s acceptance. It’s essential for the seller, the buyer and any participating brokers or sales associates to understand that the lender has the right to approve or disapprove a short sale.
- **Financial Implications.** Sellers should be encouraged to contact an attorney, tax advisor or financial planner for advice on the financial implications of the sale relating to debt forgiveness.

Throughout the transaction process, communication is critical among all parties, says Pappas. “It’s particularly important to keep the buyer engaged, since it may take extra time to complete a short sale.” It may take 90 days to complete the sale, Roberts says.

Whatever the situation might be, it's vital for you to have a firm grasp on a seller's options—even if you choose not to work in this growing market segment. After all, it can be time consuming, but the rewards of client loyalty may be worth the extra work.

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