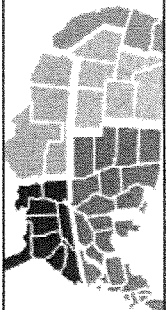


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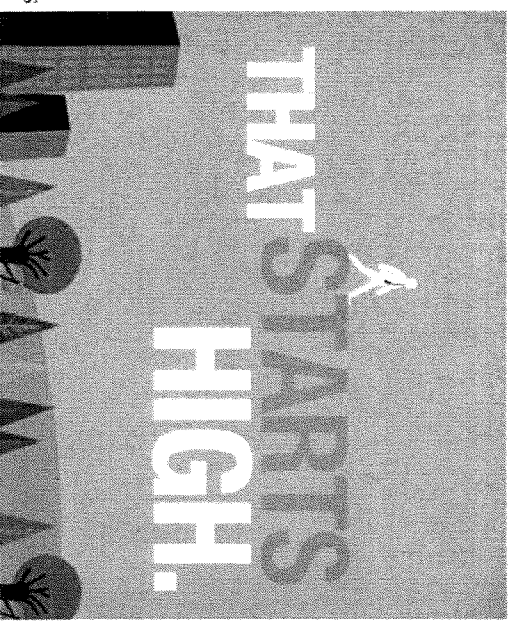
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Snag a great deal on a short sale

Short sales - where a lender agrees to take less than it's owed on a mortgage - are rising sharply. Here's how you can profit.

By Joe Light, Money Magazine staff reporter
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(Money Magazine) -- When Brian Gavitt, a physician, and his wife Gayleen, a stay-at-home mom, started to eye homes in Sacramento last winter, they knew they were looking in the hardest-hit areas of the housing bust. So the couple, who were relocating from Lansing, figured they could land a fantastic bargain in no time at all.

The part about the bargain turned out to be true. The Gavitts bought a five-bedroom house in the upscale Natomas Park neighborhood ("Even now, you don't see FOR SALE signs up anywhere," says Gayleen.) And it was a steal at \$300,000, a full \$200,000 less than they would have paid just two years ago.

The amount of time it took to land the deal was another story. It was more than six months from when the Gavitts first saw their dream home to the moment they held the keys in their hands. The reason: The home they bought was a short sale.

Not along ago, few people had even heard of a short sale, which occurs when the bank agrees to discount the loan balance for a seller who owes more on his mortgage than the home is currently worth.

If you're in the market for a home today, you're almost guaranteed to be looking at some short sales. Nationwide, 14% of homeowners are currently underwater on their mortgages, calculates real estate website Zillow.com. And in many areas, it's far more: In the Gavitts' zip code, for example, over half of homeowners would owe more than their home is worth if they sold today, calculates Dee Schwindt, the Gavitts' realtor.

The good news is that short sellers are likely to still be living in the home and some may even be current on their payments. That means these aren't the run-down, distressed properties that you often find among foreclosures; in fact, there's a good chance that some of the most deluxe homes for sale in your market are underwater.

Before you get too excited about buying a short sale, know that they generally aren't, well, short. For the sale to go through, the seller's lender must approve the price and agree to take the shortfall as a loss. That extra step can cause the process to drag on three times as long as a normal home sale.

But as the Gavitts discovered, the hassles can be well worth it. Some buyers and realtors don't want to deal with short sales, leaving many choice homes with very few bidders. So if you're willing to brave the intricacies of the process, you'll be far more likely to land the home you always wanted. The key to snagging a good deal is knowing how to avoid the land mines.

Know what you're getting into. In a short sale, you are dealing with several parties: the sellers, their agent and the sellers' lender. That's why a short sale can take anywhere between two and six months to execute, compared with about 30 days for a typical sale. Though many banks are willing to take a loss on a mortgage in a short sale if it means avoiding an even bigger loss in a foreclosure, with so many owners trying to unload properties, the lender's negotiators are flooded with short-sale offers. So if you're moving or selling another property, keep in mind that you'll likely need to budget for a few months' worth of rental payments so you have somewhere to live in the interim.

Find the right pro. Lenders often make realtors who work on short sales take a hit on their commission, so some brokers may be loath to show you the listings. But don't even think about going solo. These deals take a lot of work and persistence, says Loni Parmelly, author of *Success in Short Sales*. Before you sign up with an agent, ask him how many short sales he's closed. If he hasn't done at least two, find someone more experienced.

Weed out candidates. In most cities, home listings will indicate in the description whether the property is a short sale. Ideally, you want to knock off ones that come with extra complexities. If possible, pass on any home that has more than one lien against it; having to negotiate loans with two lenders can greatly increase the amount of time it takes to complete the deal. Also avoid homes where the seller has other offers. That's because if another offer is pending, the seller's agent isn't likely to even submit yours for approval until the first one is rejected, meaning you'll have to wait for another negotiation to play out before you even get a chance.

Set the right price. The first step is to have your agent submit your offer to the seller. Don't just rely on the current list price to come up with your initial bid, says Bill Richardson, a district sales manager for the Keyes Co. Realtors in Boca Raton, Fla. The seller's agent may have far underpriced it in hopes of attracting buyers, but the bank likely won't accept a lowball offer. Ask your agent to determine the home's fair market value by searching comparable sales in the area, with an emphasis on other short sales and foreclosures (or get a rough estimate yourself at zillow.com). If the fair market value is lower than the list price, set your offer 10% lower than that.

At this point, you'll also want to get pre-approval for a mortgage; many banks won't even consider your offer if you don't have one, says Schwindt.

Protect yourself. Next, the seller's agent will submit your offer to the seller's lender. At this point, you'll be asked to sign a sales contract. See if the lender will agree to pick up all closing costs as part of the contract, says author Parmelly. Also ask your realtor to specify that you won't do an appraisal or inspection of the property until the offer is approved. That way you won't have to shell out hundreds of dollars until you know you realistically have a good chance of getting the home.

Finally, though most lenders will require you to make some kind of deposit along with the contract, don't put down more than \$3,000 before your bid is accepted. That will give you room to put offers on other homes or even to pull out of the sale if it drags on for too long.

Be a pain in the neck. After your offer is submitted to the lender, you're likely to hear nothing for weeks, if not months. This is no time to relax. Call your agent at least once a week, and make sure the seller's agent is contacting the bank's negotiator nearly every day.

"These negotiators may have 400 files on their desk. They'll want to get rid of the squeaky wheels," says Parmelly, who worked as a loan negotiator for lenders for 16 years. To help the seller's realtor in her negotiations with the lender, it's a good idea to have your agent show her which comparable homes you used to arrive at your number.

If the clock keeps ticking and you're reaching the end of your rope, try playing hardball. After months, the lender the Gavitts negotiated with was still dragging its feet and their pre-approved loan rate was about to expire. "We

said, "We need an answer by Friday or we walk," Gayleen says. The bank responded by week's end.

Keep your eye on the market. When the bank finally sends its counter-offer, use it as a guideline rather than an ultimatum. Most of the time, the lender's number is based on its own research, that of a local realtor it hires and the outstanding loan balance. Usually its goal is to sell for at least 90% of the home's value, says Amy Bohutinsky, a spokes-person for Zillow.com.

The lender's offer may not be what you'd hoped for, but don't despair: You have a chance to counter. If the market has been flat since your initial bid, try for 5% to 10% less than the bank's number. If the market has been sinking rapidly, however, you may be able to prove that the home's value has shrunk further and offer even less. Once you have the lender's ear, the new offer should take less time to process.

Despite all the legwork and wait, the Gavitts are thrilled with their new home. "I'm glad people are turned off by short sales," says Brian. "It just means more choices for the rest of us."

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