



# TIPS FOR A SHORT SALE BUYER

## **FROM YOUR REALTOR® . . .**

**Nina Pryor**

**DRE License No. 01307446**

**Divine Properties**

**Office Address:**

**125 Peek St #A**

**Jackson**

**Phn: 2093510026**

**Fax:**

**Cell: (209)351-0026**

**Email:**

**pryornina@aol.com**

**Web Address:**

**www.ninapryor.com**

Buying in a short sale transaction can be a boom or bust (or something in between). In a short sale, the property is "upside down," which means the seller owes more on the mortgage loan than the property's value. The short sale seller and buyer enter into a sales contract, with an agreement that the seller is not obligated to sell unless the seller's lender accepts a loan payoff for less than what's owed. Some buyers flock towards short sales in hopes of snatching up a good deal, whereas others stay away believing short sales are more trouble than they're worth. Ultimately, as the buyer, you can't be sure your short sale transaction will succeed, but you can certainly stack the odds in your favor. Here are some good tips to help ensure your short sale purchase will be a boom, rather than bust:

- **Hire a REALTOR®:** One of the best things you can do in a short sale is to hire a qualified REALTOR® to guide you through the home buying process. A REALTOR® can help you find the right property negotiate a good deal, and facilitate your purchase transaction. Not all real estate agents are REALTORS®. The word REALTOR® is a trademark designation to distinguish real estate agents who are members of the NATIONAL ASSOCIATION OF REALTORS®. REALTORS® stands apart because, among other things, they voluntarily pledge to abide by a strict code of professional ethics to protect and promote their clients' interests.
- **Knowledge is your friend:** A short sale is a new experience for most homebuyers, but knowledge is a key to success. You should know the pros and cons of buying a short sale. You should also understand the overall short sale process -- what you need to do, how long the process may take, and what the common pitfalls may be. Your REALTOR® may be a great resource for information. Short sale information is also available online, such as news articles, governmental websites, lenders' websites, and short sale blogs. Be careful, however, because a lot of misinformation on short sales also floats in our midst.
- **Do your homework:** Gather and review as much information about a transaction as you can before writing an offer to purchase. Your REALTOR® can help you identify which properties for sale in the Multiple Listing Service are short sales. If so, you and your agent can obtain information from public records, comparable sales, and other sources to determine the likelihood your short sale will succeed. As an example, find out how much the seller owes. A transaction where the lender must forgive a \$20,000 shortfall may be preferable to a transaction where the lender must approve a \$200,000 shortfall. Also, find out what interests affect title to the property. A transaction where only one lender must approve the short sale is less problematic than a transaction where both senior and junior lenders as well as other creditors must approve the short sale. As another example, determine what price the market will bear. A transaction with a sales price at market value is more likely to be approved by the short sale lender than a sales price below market value.
- **Write a clean offer:** That doesn't refer to sanitation. The word "clean" is industry jargon for describing an offer to purchase that the seller is unlikely to take issue with. Although the lender must ultimately discount the payoff, you have no purchase contract unless the seller accepts your offer. To get the seller's acceptance, you can offer a good price, demonstrate your ability to obtain financing, and offer other favorable terms for the seller. A clean offer can make a big difference, especially if you are competing with other buyers to buy the same property.

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## *TIPS FOR A SHORT SALE BUYER (Cont'd)*

- **Understand the timing:** The timing of a short sale transaction can be tricky. Things can start off slow, but speed up at the end. Once the seller accepts your offer to purchase, you may wait a few weeks to a few months for an approval from the seller's lender. As the buyer, other than asking for status reports, it may be difficult for you to speed up the short sale approval process. Lenders are often inundated with short sale requests. Each short sale request involves a sizable loan. Before agreeing to give up the collateral for its loan, the typical lender wants to review the seller's financial position, the property value, and the terms of sale, among other things. Once the lender approves the short sale, the pace can change dramatically. Because a short sale approval usually expires within a few days or weeks, a buyer must move quickly to finalize the transaction. To make sure you succeed in your short sale transaction, be prepared to wait a long time for the lender's approval, and then perform quickly thereafter. Patience, persistence, and the ability to perform will serve you well as the buyer in a short sale.
- **Prep as best as you can:** Because of the unique timing, short sale buyers are often uncertain whether to perform on their sales contract before the short sale lender's approval. On one hand, a buyer may be reluctant to incur expenses by ordering property inspections and appraisals until after the lender approves the short sale. On the other hand, if the property inspection and appraisals are unsatisfactory, the buyer waited all that time for naught. Also, if conducting property inspections and processing the buyer's financing causes delays, the short sale approval may expire. The alternative of waiving your inspections may be too risky. So what do you do when faced with this dilemma? You simply do the best you can, depending on your specific circumstances. For example, you may decide to pay for a credit report because it doesn't cost a lot of money and your lender will use the same one if you end up buying something else. Or maybe you can find a lender to approve your loan without charging any upfront fees. Or maybe you decide to wait on ordering a professional inspection because the house is well-maintained and relatively new. In the meantime, you can conduct cost-effective investigations, such as reviewing the seller's Real Estate Transfer Disclosure Statement and other disclosures, asking a contractor to give you a free estimate for certain repair items, or going over comparable sales in the neighborhood with your REALTOR®.
- **Manage your expectations about the property:** In a short sale, the property may be in excellent condition, but oftentimes, the property is not in good condition because the existing homeowner has not been doing the upkeep, maintenance, and repairs for the property. As the buyer, you may ask the seller to make certain repairs or do other things before close of escrow, but there's a good chance you'll have to take care of those things yourself. Given the typical short sale seller's financial situation, the seller may be unwilling or unable to take care of the repair items that you may request. Moreover, the seller's lender, who has already discounted the payoff, may be unwilling to discount the payoff further to take care of the repair items that you request.
- **Don't lose sight of the big picture:** Buyers can get so wrapped up closing a short sale transaction that they lose sight of the big picture. Whether it's a short sale or not, buying a home is a serious matter. Be sure you are ready for homeownership by determining the financial, tax, liability, and other legal consequences of your transaction and consult with an accountant, attorney or other professional as needed. With the proper planning, negotiations, and execution, buying your piece of the American dream can become a reality.



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