

short
sales



SPECIAL REPORT

The Ultimate Short Sale Buyer's Guide

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This brochure is presented for your information by



Robin Sing-Cunningham
Realtor | Licensed Agent
Direct: 954-709-7461
Fax: 954-567-5815
robins@robinashley.com



www.robinashley.com



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by Robin Sing-Cunningham & Barry Johnson



The Short Sale Buyer's Guide

The number one request we get from our clients is "I want a GREAT deal". The great deals in the Fort Lauderdale real estate market are generally distressed properties of one sort or another. From pre-foreclosures, foreclosures, auctions, bank owned properties, to short sales, there are a tremendous amount of great deals available if you know how to successfully navigate those particular types of transactions.

Since many of these deals in the Fort Lauderdale real estate market are short sales, we thought it would be a great idea to let our buyers know what to expect when they want to purchase one of these properties.

If you are unsure of just what a short sale is, we recorded a short video on the subject titled, What Is a Short Sale? You can [watch that video by clicking here](#).

The most important thing to remember before we get started is that this tiny bit of knowledge is NO substitute for experience. There are so many nuances associated with these types of deals, from contract clauses to financing contingencies, that not having a QUALIFIED real estate professional assisting you will put you in a terrible disadvantage. Remember, you are not the only buyer vying for these deals.

Is the Short Sale Priced Correctly?

The single biggest factor most buyers look at today is price. Let's face it, everyone wants a good deal. Right now there is no consensus from listing agents on how to price short sales, some just have no clue what they are doing period. So just because it is a short sale, do not think that you are automatically getting a good deal.

Let me tell you how we look at pricing a short sale and determining value. First we start with a base comparable figure. To do this we take comparable properties that have closed in the last 6 months and make minor adjustments based upon any property differences. We then average those numbers together to give us a comparable value. Now with most real estate transactions, we would stop there, but not with short sales.

Next we would look up any PENDING and/or ACTIVE sales in the immediate area. These properties will still have to be similar to our subject property. The reason that we do this is to check the trends of the area. Are prices steadily rising, falling, or stagnant?

How long have they been trending one way or another? How many properties are currently for sale compared to how many are closing? Are there any outside forces affecting pricing in the area that is likely to change in the next few weeks or months?

You must remember that if the short sale is not accepted by the lender, the lender will most likely be the next owner of this property and they will have to sell it. These numbers will let us know what price they might expect to see in the coming months.



If the values are trending downward and there is a tremendous amount of inventory, the bank is in for a rough ride when they take the property back. They have to be convinced with this value data that the offer submitted by the buyer is better than the alternative, having to sell the property themselves at a later time and lower price.

What Condition Is The Property In?

While not as bad as most bank owned properties I have seen, some short sales might not be in great condition. You have to remember that the reason that the seller is pursuing a short sale is that they can no longer make the payments on the property.

This is most seller's only alternative to a foreclosure auction where the bank will seize the home. Since the seller knows they will not be keeping the home, and have stopped making payments to the lender, usually spending money on the maintenance of the property is not a priority for them.

It is imperative that you have a thorough inspection of the property, not only when during your contracted inspection period, but before you even submit your offer. We advise all of our clients to make a detailed inspection of the property before submitting the offer so that they can assess the total amount of repairs need to the property.

Once that figure is obtained, we would subtract those needed repairs from the offer price. It is important that we attach estimates to the offer so that we can justify the price. This will also help the short sale negotiator during deliberations with the bank.

Lastly, there are some properties that are in such conditions that will not allow for conventional financing. Those conditional are typically a roof leak, no appliances in the property, electrical problems that might cause a fire hazard, or plumbing problems with visible water leakage in the home.

Even though these properties are not able to be purchased with a conventional loan, they are usually the best deals to be found and can be purchased with alternative financing and then later refinanced using a conventional loan after repairs are made.

Does Your Contract Protect You?

Let me start this section by telling you that you should always clearly understand the document that you are signing **BEFORE** you sign, or speak with an attorney and let them review the document. Real Estate agents should be able to clearly explain any real estate contract and all associated addendums, but they are not attorneys and cannot dispense legal advice.

As a short sale buyer, you should be ready and willing to spend some money before you even know if you have an accepted discounted payoff from the bank. Notice I did not say spend some money before you know if you have a deal.

Let me be clear when I say this so that there is no misunderstanding because this is the single largest fallacy being perpetrated right now about short sales.



THE BANK DOES NOT ACCEPT THE CONTRACT, THE SELLER ACCEPTS THE CONTRACT. Also, **THERE CAN BE ONLY ONE SIGNED CONTRACT ON A PROPERTY AT ONE TIME.** (unless you agree to some stupid addendum that says otherwise.)

If a seller's agent tells you to submit your offer because they are sending them all to the bank to see which one they will take, **RUN FOR THE HILLS.** You will have almost ZERO chance of buying that particular property so don't waste your time.

Now once you do have a signed contract with the seller, you must be prepared to move forward and get ready to close the deal. This will mean you have to spend some money without knowing if the bank will accept. This is one of the tradeoffs of getting such a good price. So you must pay for your inspections and appraisal in preparation of the anticipated acceptance.

Lastly, as the buyer, you need to make sure that you are protected in case the short sale takes an inordinate amount of time to get accepted. There should be regular intervals where you can cancel the contract if the bank has not accepted.

We will usually make sure that after 90 days from effective date, the buyer can cancel the contract and then every 30 days after that date they may also cancel.

Do You Have Clear Title?

Title problems are one of the most overlooked areas in foreclosures and short sales. It stands to reason that if the seller is not paying their mortgage, there are most likely other debts that are not being paid as well.

For this reason, it is essential to have your agent do a quick "background check" on the property very early in the process to see if there are any liens or other encumbrances against the property.

If your agent does not know how...then you need to find another agent. This should give you some comfort of knowing what you are about to get into if you decide to put an offer in on a particular property.

This preliminary search should be done before the offer, but that in no way should affect the one done by the title company.

As a matter of fact, once you do have a signed contract, I would request preliminary title from the title company so you can be sure you have not missed anything.

Along with that you want to make sure they do the municipal lien search right away as well. Whoever is going to be negotiating the short sale will need this information from the start anyway.

Do not let this section scare you too much as a buyer. Remember, the contract should protect you and one of those clauses that should be in every real estate contract is that the seller must convey "clear title" to the new buyer.



This will assure that when you close on the property that you have the home free and clear of the previous owner's problems and debts.

Does The Other Agent Know What They Are Doing?

If you are an avid reader of the [Fort Lauderdale Real Estate Blog](#) you will know that we call it like we see it. One of our biggest pet peeves about the real estate industry is that there are too many practicing "professionals" that should find another line of work due to incompetence or just plain laziness.

By far, the most common problems that come up during a short sale transaction are due to an uninformed, inexperienced agent.

You might have hear the old saying "Sometimes it is not about knowing what to say, it's about knowing what NOT to say". This is especially true for short sales. The process is simple once broken down in easy to understand steps, but there are many nuances, especially when negotiating with the bank that must be understood or saying the wrong thing at the wrong time can blow a deal you have had going for weeks or months.

It has become so bad that our buyers often require that we "interview" selling agents about their short sale listings to determine if they should even put in an offer. There are so many deals available right now, our buyers do not want to waste their time doing a deal that will only end in frustration and headaches due to some agent's lack of skill and knowledge.

Who Will Be Handling The Negotiations With The Lenders?

Every ship that comes into port has a captain at the helm steering it to the dock. This is also true for short sales. At the outset of any short sale transaction, it should be clearly spelled out an understood by all parties who exactly will be "Piloting" the short sale to its completion.

Short sale are often performed by the seller's real estate agent or attorney. There are cases however where the buyer's agent, or even the buyer themselves will conduct the short sale.

We have often been asked to perform these duties due to our knowledge of the subject and proven track record of approvals.

In any case, there should only be one person or company that has this responsibility. This is to ensure that all the steps are followed in the correct sequence and that the bank has one point of contact as to the negotiations.

How Long Does It Take For A Short Sale To Close?

This may be the single most often asked question we get when it comes to short sales. Unfortunately, the only answer we can give is "it depends". There are numerous factors that will affect the timeframe of your short sale transaction.



A few of these will be:

- **Who is the lender?** - Some lenders just take longer than others to process short sales. We have great working relationships with a number of banks, but we hate to a short sale where the lender is Countrywide Financial. Countrywide, in my humble experience, take the longest to complete a short sale, BY FAR.
- **How may mortgages are on the property?** - It would stand to reason that it takes longer to negotiate two or three mortgages than it takes to do just one.
- **Are the seller's cooperating with all necessary paperwork?** Sometimes the sellers balk when it comes to turning over all of their financial papers during a short sale. This can slow down a transaction, or even kill it.
- **How much of a discount is being requested?** - Sometimes there are several groups, from the servicer, to the investor, to the mortgage insurer that need to approve the amount of the short sale. If a large discount is being asked for, you can bet it will take a bit longer to get an approval.
- **Is there constant follow up and communication?** - In our experience, many banks will not call you back continually to ask you for documents they requested or access to the property for inspections and appraisals. It is the negotiator's responsibility to maintain contact with the bank and be available to speak to the bank on THEIR timetable, even if it falls in the evening hours on the East Coast.

As you can see there are many things that you must be aware of if you are thinking of purchasing a short sale property.

While they may be some of the best real estate deals in the Fort Lauderdale market at this time, they do come with some added considerations that you need to know how to handle.

If all you want to do is buy the home of your dreams and not have to worry about any of this, you can always give us a call and we will handle all of this for you. It is our pleasure.

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