



Amy Hoak's Home Economics



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Why it can pay to try a short sale of your home

Lenders may be viewing short sales as a better alternative

By Amy Hoak, MarketWatch

CHICAGO (MarketWatch) — Foreclosure was looming for Richard Bernstein, after a divorce and the loss of a job made it impossible for him to make his monthly mortgage payments.

So Bernstein decided to try selling his Deerfield, Ill. home as a short sale. It worked, and the home recently sold for \$210,000. It appraised for more than \$500,000 at the height of the market, he said.

The icing on the cake: His lender, Chase, cut him a \$20,000 check after the deal was finalized, an incentive the bank offered if he sold via a short sale, as opposed to letting the home go into foreclosure.

"I don't think enough people know what's possible with a short sale," said Bernstein, 46, although he admits it takes some luck today to sell any home these days — short sale or not.

A short sale is when the lender accepts a lower mortgage payoff from a seller because the homeowner owes more than the home is currently worth. They're notoriously complicated to complete, but with more and more Americans underwater on their mortgages, they may be getting a closer look by lenders.

"We're starting to see that servicers and lenders are viewing short sales as a better alternative than they had in the past," said Daren Blomquist, spokesman for RealtyTrac, an online marketplace for foreclosures. "Some of that relates to the fact that it's getting harder to foreclose. There are additional requirements in terms of paperwork and requirements that states and judges are imposing."

Short sales are gradually rising. This year, short sales are making up about 8% of total home sales, up from 7% in 2010, 5.5% in 2009 and 3% in 2008, said Mark Fleming, chief economist of CoreLogic, a provider of housing market data.

"Short sales are sometimes referred to as a kinder, gentler foreclosure," Fleming said. "Borrowers never get evicted, you never have the vacancy issue for the home, so it's good for the market around it."

Short sales also typically sell at less of a discount than foreclosures,

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and many say that a short sale is much less damaging to a homeowner's credit than a foreclosure.

The long wait

But often a short sale can't be completed in a snap.

"In general, it is a totally different type of transaction. You're not only selling a house, you're negotiating debt," said Mike Cuevas, a real-

estate agent at Exit Realty, in Chicago.

Many short sales take as much as six to nine months to close — if they get to closing at all, said Susan Stynes, a real-estate agent with Long & Foster in the Richmond, Va., area. She has worked on about a dozen short sales this year, and knows all too well that some don't end successfully.

When she recently represented an interested buyer who made an offer on a short sale, not only was the offer not accepted by the bank, the home went into foreclosure — only to be sold by the bank for a price lower than the buyer's offer.

"That happens more than people really realize," Stynes said. "We offered \$317,000, and this was on Oct. 8, 2010. And then it sold in January of this year for \$273,000."

While success isn't guaranteed, banks seem to have sped up their short sale process at least somewhat and more real-estate agents are becoming aware of how to get the deal to close, Cuevas said.

And to encourage homeowners to try a short sale, some banks are offering incentives. Chase offers qualifying distressed homeowners up to \$30,000 for going the short-sale route, instead of letting the home enter foreclosure. Homeowners have to be selected for the incentive, as Bernstein was when he sold his Deerfield, Ill., home.

"A short sale generally produces a better and faster result for the homeowner, the investor and the community than a foreclosure," said Tom Kelly, spokesman for Chase.

But in the end, the bank will look out for its own interests, Fleming said. If an asset manager believes the bank will make more money from doing a foreclosure, it probably will go that route.

"There you sit as a distressed asset manager at a bank. You have a property and could figure out what it's worth today, how long it will take for me to foreclose, what condition will it be in, how saturated is that market going to be at that point in time, and what house prices will be at that point in time," Fleming said. "And that evaluation is what you compare to the short sale."

Short sale popularity also varies by market. For example, short sales are up by 19% in Arizona, year over year, according to data from CoreLogic. They're up by 17% in Florida, 32% in Michigan and 59% in Illinois. Meanwhile, they're down by 7% in Nevada and 3.9% in California.

Selling via short sale

To qualify for a short sale, there has to be some sort of homeowner hardship that makes it impossible to continue making payments, Stynes said. A big misconception is that you can attempt a short sale simply because you're underwater, she said.

A homeowner interested in this approach should first be in contact with a real-estate agent and a real-estate attorney, she said. Often, listing the home is the first step, but the bank also should be contacted at the start to request a short sale package, Stynes said.

It's probably also wise to enlist the help of a real-estate agent who deals with short sales on a regular basis, since they'll have more experience in dealing with lenders through the process.

Then prepare for a process that could take awhile.

