

All About Short Sales

Perhaps you've been hearing a lot about [short sales](#) these days. It's no wonder--the number of short sales on the market has exploded in recent months, as more and more homeowners turn to short sales as a means of avoiding [foreclosure](#).

Some home buyers seek out short sales in hopes of snagging a good deal. But such sales are not without complications. If you're considering [buying a home in a short sale](#), here's what you need to know.

The 411 on Short Sales

When you see a house listed as a short sale, that means the homeowner is trying to sell his property for less than he owes on his [mortgage](#). A bank may agree to this when the homeowner is [underwater on his loan](#) and might otherwise go into foreclosure.

Unfortunately, the marketplace is such that the amount the homeowner could sell the property for isn't always enough to cover the existing mortgage balance, explains Neil Garfinkel, a real estate attorney based in [New York City](#). In these cases, a seller would contact the lender and see if it would be willing to take less than the outstanding balance of the [home loan](#).

What's in it for the bank? "Lenders aren't in the business of owning properties," says Garfinkel. "In a foreclosure situation, the lender would have to obtain the property back through a [foreclosure action](#). They would then have to [maintain the property](#) and ultimately find someone to [sell the property](#) to."

A short sale situation is often compelling for a lender since the seller has already found someone who is willing to take the property. The lender then just has to make the decision whether it thinks the proceeds from the sale are enough to cover at least a portion of the mortgage, says Garfinkel.

Making a Bid for a Short Sale

Short sales aren't for everyone. They require a great deal of research from the buyer. At the very least, you would need to view the property, identify all the liens and mortgages and get [preapproved](#) for a loan before making a bid.

You also should put together a team of professionals who have experience with the short sale process. Garfinkel recommends a [real estate broker](#), a mortgage professional and perhaps an attorney who all specialize in this type of transaction.

Once you find a home you like and the seller agrees to your offer, you need a contract that's tailored to a short sale. You'll want your lawyer, for example, to make sure you have the necessary contingencies in the contract, including one that allows you to [walk away from the deal](#) if the process takes too long and your mortgage commitment expires, says Garfinkel.

The Risks of Buying a Short Sale

What are the risks for a buyer? The biggest one is the loss of time. Lenders control the transaction, and it's entirely possible that a deal could take six months or more to close. It's also not uncommon for a lender to reject a deal after sitting on the paperwork for many months.

And finally, there's the money. A buyer may spend a fair bit of cash on out-of-pocket expenses, including attorney's fees and a mortgage application, trying to buy a short sale only to find out later that the bank doesn't like the terms of the transaction, says Garfinkel.

Now that you know what a short sale is, you can weigh the pros and cons and decide whether a short sale could be right for you.

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