

What is a short sale of a home?

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NEW YORK - For a homeowner who needs to sell but has a mortgage balance higher than the property value, one option is something called a "short sale."

And don't let the name fool you. This type of sale is complicated and can drag on for months.

So what exactly is a short sale? Here are some questions and answers.

Q: What is a short sale?

A: A short sale happens when a lender allows a [borrower](#) to sell his home for less than what's owed on the mortgage. The lender usually forgives the difference and considers the debt repaid.

Q: How often do short sales occur?

A: Short sales now make up about one in every 10 home sales, according to the National Association of Realtors. That's a lot more than you usually see when the housing market isn't distressed - in fact, the NAR doesn't have historical records on short sales before the current downturn because they were such an insignificant segment of the sales market.

Falling home prices have eroded home equity at a rapid pace, making short sales more commonplace. About 16 million homeowners owe more than their homes are worth and would have to seek a short sale if they were forced to sell their homes now.

Q: What's in it for the lenders?

A: Lenders minimize their losses. If the borrower defaults and the bank has to foreclose, there are extra costs to auction the property and maintain it while it's vacant. Foreclosed homes also typically sell for much less than short sales.

Q: What are the drawbacks for the borrower?

A: While not as bad as a foreclosure, a short sale will still blemish a borrower's [credit report](#). A short sale would knock an "A" borrower down to a "B" borrower, while the same borrower would fall to "D+" after a foreclosure, said Ritch Workman, co-owner of Workman Mortgage in Melbourne, Fla.

The extent of the damage also depends on the borrower's [credit history](#) before the short sale. A borrower with good credit won't get hit as hard, while a borrower with tarnished credit will feel more pain.

Normally, a borrower would have to pay [taxes](#) on the forgiven part of the balance, though the Bush Administration granted homeowners a reprieve that applies to debt forgiven through 2012.

Q: Why is the process so complicated and why does it take so long?

A: Short sales are plagued with snags on both sides. Desperate sellers or inexperienced real estate agents often send in the wrong paperwork, only to get it kicked back. It's an easy mistake to make because each lender requires different documents.

For their part, lenders don't have enough staff to handle the flood of short sale applications. It can take months before a lender will get back to a seller about an offer from a potential buyer. Some deals take more than year to finish.

And approvals from third parties - such as private [mortgage](#) insurers, Fannie Mae or Freddie Mac, and lenders who hold a second mortgage on the house - also can slow a short sale.

In May, the Obama Administration promised to standardize documents and offer incentives to mortgage servicers, borrowers and second mortgage holders to encourage timely short sales. The Treasury Department has yet to release specific guidelines to lenders, which will take months to implement.

Q: What should I do if I'm interested in a short sale?

A: Most lenders will approve a short sale only if the borrower is behind on his mortgage, but some are now considering non-delinquent borrowers because they don't want them to walk away from their mortgages, said Pava Leyrer, president of Heritage National Mortgage in Michigan.

Ask a trusted mortgage or real estate professional to recommend a real estate agent, attorney or company to help with the short sale. Or, contact a local nonprofit housing counseling service. The U.S. Department of Housing and Urban Development maintains a list of government-sponsored housing agencies at www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm.

And don't pay any upfront fees.

"Be cautious when choosing someone," Leyrer said. "Make sure they have the experience necessary to facilitate the sale and not hinder it."