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 From the Los Angeles Times

## Short sales: A tough road

As an alternative to foreclosures, short sales are on the rise, but they can test the patience of all involved: sellers, buyers, banks.

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June 15, 2008

RESIDENTIAL short sales sound like a picnic: Owners need to sell their homes for less than they owe, lenders forgive the difference and buyers grab a good deal.

If only. This is one picnic that requires a long wait for dessert. The only "short" thing about short sales, buyers and sellers say, is one's patience.

"The waiting is torture," said Mark Shandrow, a Keller Williams Realty agent in Long Beach who specializes in such transactions. "The banks are overwhelmed with short-sale requests, and some make sellers wait five months for an answer." That answer, in many cases, he added, is "no."

Yet despite the obstacles to successful short sales -- lenders holding the first and second mortgages don't agree on the terms, buyers often ditch the deal midstream or banks nix the agreement just before escrow closes -- they're on the rise. Countrywide Financial Corp. of Calabasas, the largest U.S. home lender, reports a nearly 60% increase in those transactions nationwide in April, the latest month for which statistics are available, from the same period a year earlier.

In the Santa Clarita and San Fernando valleys, the number of short sales increased from at least 31 sales from May 2006 to May 2007 to at least 1,956 sales from May 2007 to May of this year, according to the Southland Regional Assn. of Realtors.

The reason for the rise, experts say, is that as more financially strapped homeowners fall behind on their mortgage payments -- and see their homes' values plummet to less than what they owe -- they're turning to short sales as an alternative to foreclosure. Banks, once loath to take on short sales because, among other reasons, they were understaffed for the application onslaught, are tackling them now mainly because they're more cost-effective than foreclosures.

"Banks aren't happy about short sales," said Sherri Frost, a senior loan officer with Sherman Oaks-based Metrocities Mortgage, "but they have few options."

Unlike a foreclosure, in which the lender takes ownership of a property after a borrower misses several payments, a short sale is a transaction in which the owners, not the bank, sell the home; they receive no proceeds from the sale. In a foreclosure, the defaulting owner may receive sales proceeds once the lender has been paid, if the amount exceeds that of the outstanding loan.

If a short-sale borrower owes \$500,000 on a home, the bank may accept a payoff amount of \$450,000, the amount a buyer has offered to pay. The sellers need not be in default -- meaning they stopped making mortgage payments -- in order for a lender to consider a short sale, but they must be able to show a real hardship to receive the debt forgiveness, which may have tax consequences.

### Then there's the wait

It sounds straightforward, but the short-sale road is a long one. Once sellers have an offer, they must assemble a package to present to the bank, including a "hardship letter" explaining why they had to put the house up for sale -- loss of employment, a spousal death, a divorce, a disability or a mortgage resetting, for example -- and asking the bank to accept a short sale, according to a Countrywide spokeswoman.

The sellers also must provide income verification, their most recent bank and income-tax statements, the listing history of the house and other documentation. Then comes the wait. And frequent follow-up calls to the bank to make sure the file isn't buried.

"Banks won't grant face-to-face interviews because of the volume of short sales and foreclosures," said Mary Ebersole, a Re/Max Realty Specialists agent in Long Beach. Even if the seller gets approval, she added, "there's only room for cautious optimism."

That's because impatient buyers sometimes head elsewhere while the bank's loss-mitigation officer, or negotiator, sifts through the pile of short-sale packages. Or buyers put offers on five or six other properties to see which comes through first.

Sometimes, while awaiting a bank's decision, interest rates go up and buyers no longer qualify for a previously approved loan because their lock-in rates expired. Worse yet, a seller may get an initial approval from the bank, but in the eleventh hour the bank adds a contingency that skewers the deal, or pulls the plug without explanation, agents say.

Second and third mortgages and even home equity loans can further complicate matters. Last fall, Pam Kennedy, a Coldwell Banker Ambassador agent in Whittier, was disheartened when her short-sale client's lender demanded, after a long wait and with a buyer already on board, that the seller sign a promissory note for \$15,000, which would be interest-free and amortized over 10 years. The seller had taken out a second mortgage awhile back to buy a recreational vehicle for \$25,000 and pay off some debt. The lender wanted to recoup some of the loss it was absorbing.

The seller was going through a divorce, starting a new job and was afraid she couldn't make the payments. Also, despite months of effort, she couldn't sell the RV -- an asset, in the bank's opinion. The deal fell through and the bank foreclosed on the property. The experience left a bitter taste in Kennedy's mouth.

