

Client Communication

MECHANISM TO STAVE OFF FORECLOSURE FALLS SHORT

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The Arizona Republic

More than 7,000 homeowners facing foreclosure in the Valley are trying to sell their homes through a process known as a short sale, according to Arizona Regional Multiple Service data.

But less than 5 percent manage to sell before lenders seize their houses.

The failure by banks and homeowners to agree to a short sale—to sell a home for less than the amount still owed on the mortgage is adding to the Valley's growing foreclosure problem.

And the government's recent financial—bailout package to help alleviate the nation's housing crisis will do little to address the problem of short sales.

When homeowners whose property values have collapsed fall into arrears on a mortgage, short sales allow them to negotiate a deal with their lender to sell their home for less than they owe and avoid foreclosure.

An increase in the number of short sales could slow the Valley's record foreclosure rate, which has yet to peak.

However, a number of factors are preventing short sales:

>> Lender, overwhelmed by a record number of mortgages in default and their own losses in the financial—market meltdown, are not negotiating with many borrowers seeking a short sale.

>> Many homeowners facing foreclosure wait too long before contacting their lenders.

"I don't see many people having success with short sales, either sellers or buyers," said Mike Orr, a Valley real estate agent. "For buyers, the process of getting lender approval is lengthy and tiresome. Sellers often run out of time if they are already behind in their mortgage payments."

Because there are so many foreclosed on homes that lenders are trying to resell at bargain prices, he said, there is little incentive for a buyer to go through the "laborious" process of a short sale.

Lenders have foreclosed on almost 30,000 Valley homes this year. Most are sold for tens of thousands of dollars below what was owed on them. And many resell for thousands of dollars less than what was offered through short sales.

Better than foreclosure

The purpose of a short sale is to allow a homeowner to sell a house at its current market value and get off the hook for however much of their mortgage isn't paid off by the sale.

Homeowners don't get any cash from a short sale but avoid a foreclosure black mark on their credit. A short sale impacts credit, too, but not as badly.

A short sale is better for a neighborhood because it means a home is being purchased by someone and not foreclosed on by the lender, left vacant for months and then resold for even less.

Also, short sales usually cost lender less than a foreclosure. Research from the national financial-consulting firm Clayton Holdings Inc. indicates lenders lose only 19 percent of a home's loan amount on a short sale, compared with 40 percent on a foreclosure.

"Short sales are the best solution out there for the borrower, the bank and the buyer," said Randy Kutz of HomeSmart's Phoenix Heritage Real Estate Group. However, he said short sales are "the brain surgery of real estate" and take time and expertise to execute.



Steve Rider
(602) 363-5100

Beth Rider
(602) 315-8749

info@azeliteteam.com
www.AzEliteTeam.com
www.TheAzShortSaleExperts.com

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SHORT SALE: 'BRAIN SURGERY' IN BUSINESS OF REAL ESTATE



There's no exact way to track short sales in Arizona, the best indicator is how many homes a month in pre-foreclosure sell before the lender takes them back, according to housing-data firm Information Market. In September, pre-foreclosure hit a record 7,447 in the Valley while foreclosures hit a high of 4,378.

A slow process

Myra Shane has been shopping for a home in an east Phoenix neighborhood for months. Her agent found one that a couple were trying to sell through a short sale. That was four months ago.

"I thought the lender would want to move quickly and keep the house out of foreclosure," Shane said. "We can't get answers on anything from the lender."

Shane said she is about to give up and make an offer on a home in the same neighborhood that a lender has already foreclosed on and is now reselling for even less than her short-sale offer.

Slowing the process are the multiple lenders and investors involved.

"It's even trickier if there's both a first and second mortgage involved," said Chris Doyle of American Alliance Mortgage of Tempe. He said lenders with second mortgages on properties are asking for more money before agreeing to a short sale.

Short-sale checklist

- Homeowners must be able to show a lender why they are behind on payments and can't catch up.
- A real estate agent must find a buyer for a short sale and negotiate with the lender for a price.
- An appraisal showing a home is worth less than what is owed on it.
- All lenders must sign off on the deal.
- A homeowner can't take away any equity from a short sale.
- A short sale is still a mark against a homeowner's credit, but it's a smaller hit than a foreclosure.



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