

Tips for Short Sale Success: Do Not Forget the Buyer

We are again honored to have Christopher Reale, Director of Short Sale Operations at Lepizzera and Laprocina Title and Escrow Services, as today's guest blogger. He is an expert on the short sale process and will share his knowledge with us on a regular basis. – The KCM Crew



Short sale success does not stop at educating the seller as to their loss of mitigation options and then successfully negotiating with the seller's bank to accept a short payoff. Today's complex real estate market warrants more. Having negotiated over 1000 successful short sales, we have found one aspect of the short sale process that needs serious attention: **Educating the buyer regarding the proper short sale procedures.**

Educating the buyer and setting the correct expectations is imperative to a successful short sale transaction. Nothing is more discouraging than successfully negotiating a short sale only to have the buyers walk from or not be able to close the transaction. The following are some precautionary and educational items to consider which would avoid such buyer fallout.

Patience is a Virtue

Not every buyer is a short sale buyer. However, one important characteristic a short sale buyer must have is patience. Setting the proper expectations regarding the time frame of a short sale plays a key role in bringing the short sale to the closing table. If a buyer is not willing to stay in the transaction for at least 90 days, they are not a short sale buyer. Of course we cannot speak

for every circumstance. But, in most cases, the short sale process takes 60-90 days to complete. For their patience, the buyer will likely earn instant equity. The average short sale, according to the Realty Trac report dated 5/21/11, sells for 79 percent of market value. To that end, a buyer will earn "patience equity" (a term coined by Steve Harney).

Work with a Lender that Understands the Short Sale Process

The pre-approval process should be the same whether the buyer is being pre-approved to buy a short sale or pre-approved to buy a non-distressed property. This seems like simple advice doesn't it? However, from our vast experience negotiating short sales, we have found that 35% of successfully negotiated short sales do not reach the closing table because the buyers financing falls through. ***We must educate buyers to work with the proper lender who will not only walk them through the mortgage process, but also understands the short sale process.*** Too many mortgage applications start at the time of short sale approval. Some short sale approvals expire in 10- 15 days from date of issue. In many cases, that is not enough time for a lender to underwrite the file, order title, order appraisal and fund the loan.

A proper pre-approved short sale buyer would be one who is brought through a complete underwriting analysis prior to the short sale offer. This includes full income analysis, full asset analysis and full credit analysis. The ideal lender is one who completes the underwriting procedure and has a credit decision pending clear title and appraisal. The lender should also help in keeping the buyer engaged throughout the process. In a lengthy short sale negotiation, the lender should be proactive in keeping the loan file up to date with recent paystubs, asset documentation etc. This will ensure the transaction closes on time and without extensions.

Complete Inspections Prior to the Short Sale Approval

This is a confrontational subject but each buyer should be educated to understand that in most cases any major deficiency regarding the condition of the property will not be cured prior to closing. However, in many instances, if the deficiencies are known prior to the start of the short sale negotiation, the short selling bank will be more willing to except a sale price that is discounted deeper to the current market value. It is a challenging task to go back to the bank and ask for a lower sales price when a home inspection that was done after short sale approval showed major deficiencies.

In addition to the home inspection, the lender appraisal can be done prior to the short sale approval. In most circumstances where the short selling bank's broker price opinion shows a property value that is much higher than the buyer offer, the lender appraisal can be used to negotiate the value.

We should educate buyers as to the pros and cons of completing the inspections prior to short sale approval. We understand there is a monetary commitment that would have to be made. Having said that, having the inspections done can save allot of aggravation to the seller and buyer later in the process.



In closing, the above are just a few items to consider when educating the buyer regarding the proper short sale procedures. If we remember to keep the buyer engaged and walk them through the process every step of the way, we will ensure the buyer earns their “patience equity” and the short sale transaction closes.