

## **All About OBX Short Sales - Outer Banks Real Estate - Short Sales Corolla Nags Head & Hatteras**

*Short Sales. There are outstanding deals to be had in this only partially discovered market segment. A short sale is any transaction that results in a net sale price (after commissions, liens, taxes) less than the principle balance owed the lender.*

**Jan. 14, 2010 - [PRLog](#)** -- In many potential foreclosures by the lender, a better arrangement can be negotiated for both the borrower and the lender - a short sale is just one of these.

Borrowers have several options if they are working with a somewhat cooperative lender. Loan Modification has been the most popular in concept and the least likely in reality for borrower and lender to agree on. Loan modification can be in the form of interest rate and or principle reduction or sometimes an adjustment in the term itself. In reality, modification of loans doesn't happen for several reasons. First, many home values have dropped 30-55% from the time of purchase. With the drop in value and new downpayment requirements of 20-25% most borrowers are unable to modify loans. Secondly, many lenders are using the borrowers bruised credit as a reason to deny loan modification.

The next best option for the borrower and lender is a short sale of the property. For the borrower who sees that there is no way to keep their home, and foreclosure is unthinkable, short sales are really the only option. If the borrower owes \$200,000 and the property will only bring \$150,000 in the current market they can hire a real estate broker to list the property for short sale. If an offer is received, either the seller or the broker sends it to the lender for approval. The deficiency in principle must be handled, either forgiven or termed out after the sale. With lender approval, the closing attorneys can now bring this 3 party transaction together for settlement. For short sale buyers, this is the key point - you will be in a three way negotiation with buyer, seller and seller's lender.

"Why would any lender do a short sale? Why not just foreclose?" This question can be answered mathematically.

EXAMPLE: Smith, who bought a home in 2005 for \$215,000 with 80% borrowed for 30 years, fixed rate and 15% with a home equity loan by the same lender - Bank of Blank. This was common in 2005 with quite different appraisal standards than today's - the house was purchased for \$215,000 but the appraisal came in at \$258,000. The mortgage lender or broker encouraged the borrower to avoid putting 20% down by simultaneously taking a second loan on this difference in purchase and appraisal price. Smith, the borrower now only had 5% downpayment. Zoom forward to Dec 2009, Smith is behind 2 months on house payments. His house is worth only \$160,000 in the current market. A real estate broker proposes a short sale listing at \$160,000 list price and they quickly get a full price, qualified offer from a buyer. Bank of Blank receives the offer and makes the following financial calculations:

Bank of Blank hires a local appraiser who arrives at a real value of \$160,000 - just as the sales contract offers. The seller's broker has submitted a net proceeds worksheet with the offer deducting commissions, taxes and other seller closing costs like attorney fees. The resulting net amount Bank of Blank will receive on behalf of the seller is \$149,200.

Smith's sale will "short" Bank of Blank by about \$55,000. Initially, this is unacceptable to Bank of Blank so they look at the results of foreclosure on Smith's property as an alternative.

IF FORECLOSED Based on the appraiser's report for Smith's short sale offer, BOB believes they can sell the property for the same \$160,000. Foreclosure proceedings cost the lender about \$30,000 after court hearings, legal fees, inspections and property clean up. Bank of Blank will also have to hire a broker to sell the home at 5% commission with another 1.25% of the sale price due at closing for taxes. B of B also adds the cost of ownership during the 5 months between Smith's foreclosure and a sale by B of B ; adding another \$7500 to the cost of foreclosure. Bank of Blank totals their cost to foreclose: \$10,000 in taxes and commissions, \$7500 for 5 months ownership costs, and \$30,000 for legal proceedings and property preservation.

END RESULT Foreclosure nets B of B only \$112,500 while Smith's short sale nets \$149,200! Bank of Blank approves the short sale and everyone heads to the closing table. The buyer is happy, Bank of Blank has the least of two evils and Smith can now start repairing his credit and move on.

Throughout 2009, Short Sales have become more and more popular in concept, however, these transaction continue to frustrate and confuse brokers and consumers. Many of the reasons for the frustration are currently changing due to efforts of the Federal Gov't and the banks themselves to lower the rate of home foreclosures. In the example of Smith and Bank of America above, I left out some huge realities facing short sale transactions. Let's take a look at some reasons that MOST short sale deals never get successfully closed and DO go to foreclosure. First, we never considered the buyer in Smith's transaction, but he was far from typical. Buyer's today are more stubborn and predatory than any recent market, but additionally are sometimes very badly misinformed on distressed property sales. For Bank of America to accept Smith's short sale deal, it must be more attractive than foreclosure - it must net BOA more than the \$112,000 that foreclosure will. Many buyers today fail to understand this motivating factor in short sales and make truly ridiculous - but also financially illogical offers. A savvy buyer's agent should reasonably be able to suggest a threshold at which offers will no longer be attractive in lieu of foreclosure. We also did not discuss a timeline on Smith's offer, so we didn't factor in the effect of the 3-5 month wait the buyer's experienced while Smith's agent struggled to find the right bank representative to negotiate with and then get a binding answer. Remember, not all lenders have a department or personel to deal with short sales but they have a completely functional foreclosure department established from the beginning. Repair issues are a third issue that terminate some short sales. With a seller who is tapped out, a lender who is being shorted and a buyer expected to get the last drop of blood; its no wonder that repair issues create many short sale terminations. The last and perhaps most disappointing reason for short sales to fail is broker incompetence or inexperience. Brokers in short sales will be expected to do hours and hours of work to maintain and move along negotiations. Many brokers are not prepared for this or simply will not depart from the workload of a normal transaction. Buyers and sellers can rest assure that commissions in short sales are more than earned by the brokers involved. Experience in finding and building a repoire with the bank's negotiating is a huge benefit. Green agents or agents who have not completed many short sales are not a best choice for either buyer or seller.

In the vacation resort market that we serve there are some distinct advantages to shorts sales versus foreclosures. First, our properties tend to be priced from \$300,000 to \$1,500,000 for good vacation investment properties. The margin between the lender's net proceeds from a short sale vs a foreclosure can be HUGE in dollar terms. We have been successful in finding the lender's threshold for acceptance and getting our clients in below market value. Secondly, a home that is "up and running" is usually in better condition than a foreclosure that is mothballed by the lender at foreclosure and sits for months with no water or power on. Vacation real estate sold as short sales also usually include furnishings at no extra charge, while most foreclosures are sold empty.

Heading into 2010, investors and buyers should be aware that short sales will be easier this year. Unfortunately, they are also becoming more mainstream and therefore will attract more attention. Expect much more buyer competition as short sales go from a niche item to a mainstream market segment. Investors and buyers should choose a real estate agent with proven success in this type of transaction.

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