The Basics: Short Sales

Due to current economic conditions, the number of short sale properties on the market is rising. The increasing number of short sales on the market presents challenges for REALTORS®. Below you'll find more information on: short sales and their challenges, the government's efforts to address these challenges, and tools to help you navigate the short sale process.

What is a short sale?

A short sale is a transaction in which the lender, or lenders, agree to accept less than the mortgage amount owed by the current homeowner. In some cases, the difference is forgiven by the lender, and in others the homeowner must make arrangements with the lender to settle the remainder of the debt.

Why is the number of short sales rising?

Due to the recent economic crisis, including rising unemployment, and drops in home prices in communities across the nation, the number of short sales is increasing. Since a short sale generally costs the lender less than a foreclosure, it can be a viable way for a lender to minimize its losses.

A short sale can also be the best option for a homeowners who are “upside down” on mortgages because a short sale may not hurt their credit history as much as a foreclosure. As a result, homeowners may qualify for another mortgage sooner once they get back on their feet financially.

What challenges have short sales presented for REALTORS®?

The rapid increase in the number of short sales, and the short sales process itself present a number of challenges for REALTORS®. Major challenges include:

1. **Limited experience**
   Many REALTORS® are new to the short sales process; a difficulty which is compounded by many lenders' lack of sufficient and experienced staff to process short sales. Even if the REALTORS® are experienced, most servicers are under-staffed and still not adequately trained, making negotiating a short sale particularly difficult.
2. **Absence of a uniform process and application**
   Currently, both short-sales documents and processes are lender-specific, making it very difficult and time-consuming for REALTORS® to become knowledgeable and efficient in facilitating these transactions.
3. **Multiple lenders**
   When more than one lender is involved, the negotiations are much more difficult. Second lien holders often hold up the transaction to exert the largest possible payment, in exchange for releasing their lien, even though in foreclosure they will get nothing.

As a result of these challenges our members have reported difficulties with: unresponsive lenders; lost documents that require multiple submissions, inaccurate or unrealistic home value assessments, and long processing delays, which cause buyers to walk away.

What is being done to address or eliminate these challenges?

On May 14, 2009, the Obama Administration announced its upcoming Foreclosure Alternatives Program. Among other things, the new program:

- Establishes financial incentives for servicers, sellers, and second lien holders to encourage the completion of short-sale transactions.
- Requires that a timeline, of no fewer than 90 days, be set to allow a homeowner to sell a home, without threat of foreclosure action.
- Requires the short sale agreement to specify reasonable and customary real estate commissions and costs to be deducted from the sales prices. (The servicer must agree not to negotiate a lower commission after receiving an offer.)
- Will provide standardized documents, including short-sale agreements and offer acceptance letters.