

6 Things to Know Before You Buy That Short Sale House

When you spot a short sale house that interests you, take your hand off the mouse and step away from the computer. Before you get all excited over the prospect of buying that short sale house, pick up the phone and call your real estate agent. Your agent needs to research that short sale listing first.

In some real estate markets, fewer than one in 10 short sales close. Just because that home is listed as a short sale doesn't mean it's really for sale (because it's subject to lender approval), nor does it mean it will sell at the advertised price. Here are 6 things you need to know before trying to buy that short sale.

Comparable Sales For That Short Sale House

The short sales I list in Atlanta are all priced below comparable sales, yet they are priced in line with pending sales. Why? Because short sales take anywhere from 2 to 4 months, on average, to close, and pending sales will become the comparable sales at closing.

Some short sales are priced ridiculously low. So low that the sellers' bank will never accept them. These types of listings receive multiple offers. But all is not lost. To get your offer accepted, it will need to be priced near market value. If you're not prepared to pay above a superficial price on a low-ball short-sale listing, then pass.

Mortgage Amounts, Number of Loans and Lenders

Ask your agent to research how much is owed against the home and find out the number of loans that are recorded. A second or third mortgage lender will receive peanuts as compared to the amount a senior lender in first position will get.

Moreover, some lenders, deserving or not, get a reputation for being difficult to work with. If your agent is an experienced short sale agent, he or she will know who these lenders are and can advise you of the difficulty you may encounter.

If your offer is 20% or 30% of the mortgaged amount, it is unlikely that your offer will see the light of day on the negotiator's desk.

Short Sale Listing Agent's Track Record

A listing agent who is advertising a short sale but has never closed a short sale is a risky proposition for you. That's because it's up to the listing agent to submit the short sale package to the lender and negotiate. Your buyer's agent can't talk to the bank.

Some listing agents hire outside companies to do their job, and the results of those negotiations are sketchy at best. Ask yourself, do you want to risk rejection of your short sale purchase because the listing agent has no experience?

Short Sale Seller Qualifications

Find out if the listing agent has received a completed short sale package from the seller, and ask about the contents of that package. A complete short sale package consists, at minimum, of the following:

- Sellers' hardship letter
- Tax returns
- W-2s
- Payroll stubs
- Financial statement
- Bank statements

Some sellers do not want to cooperate and are slow to return these documents. Others have never been told by their agent that these documents are mandatory. You don't want your short sale purchase delayed because the listing agent doesn't have the required documents.

Number of Short Sale Offers Received

Homes priced under market value will receive multiple offers. An agent is not required to disclose the terms of those offers, but you do want to know how many offers you are up against.

Here's how it generally works:

- When a short sale home first comes on the market, the first offer will most likely be a tad below list price.
- The second, at list price.
- The third offer will be slightly higher, maybe by a \$1,000 or \$2,000.
- The fourth offer will be significantly more.

You want to make an offer that will beat the competition yet still be below market, or don't waste your time.

The Listing Agent's Short Sale Procedures

Although REALTORS are required by the REALTOR Code of Ethics to treat everybody fairly, not every agent is a REALTOR. This means the short sale listing agent may decide to submit only the first offer to the bank and withhold all other offers.

Withholding other offers could be considered to be a violation of the fiduciary relationship formed between the listing agent and the seller. But once an offer has been signed by the seller it becomes a contract the listing agent does not have to submit the offers. The seller is entitled to receive the highest and best price. Realize that even if your offer is submitted to the bank, as time marches by while waiting for short sale approval, another buyer could outbid you.