

Short Sale and 'REO'

The term 'short sale' refers to a bank agreeing to take less than it is owed, or "short" the amount on the loan. Banks can agree to accept short sales when the seller will not qualify for a loan modification, and/or has a hardship situation, such as job loss or unforeseen medical problems.

In theory it sounds good, but is much more difficult to accomplish.

If there are two loans, for instance, a Real Estate agent must negotiate to determine which bank gets how much. It is even more complex if there are tax liens or judgments on the property (very often the case). If negotiations fail, a short sale will not be consummated.

There are other issues. Once an offer is delivered to a bank on a short sale, it can take 4-6 months before a negotiator is even assigned to look at the situation. Most buyers do not have that kind of time frame. And, while waiting, have found a different home that was much easier to purchase. Thus, by the time the bank looks at the offer, it is extremely likely it no longer exists. For those hardy few that stick around waiting to see if their offer will be accepted, the odds are about 30% that their offer will succeed.

One of the other frustrations is that when a home is listed on the MLS as a short sale, there is no basis for the price listed except for the professional opinion of the Realtor who picked the price. Often, "PFA" ...picked from air....is the term we use. Until the bank(s) that own(s) the loan(s) do an appraisal or request a BPO (Broker's Price Opinion) on the home, there is no substantive backing for the price listed. Thus, the public can often be misled into thinking that the price is one that can be accepted, but that can be far from the case.

Before making an offer on a Short Sale, more research is necessary from a Buyer's agent to see where in the "short sale process" the listing and seller are, and whether or not it will be worth their time to pursue purchasing that property. They need to know if a price has been approved by the bank(s), and whether or not there is a negotiator assigned to the sale, and what the time frames are before committing themselves to a purchase.

Another term that you will encounter is "corp owned", or REO. Many buyers have learned to ignore 'short sales' after frustrating experiences that you can see would develop from the above situations, and instead look for REO properties. That stands for Real Estate Owned, a term used by banks for assets they now own after completing a foreclosure process. An REO is really for sale, the price listed is accurate, and the bank will answer an offer usually within 24-72 hours, and you can typically close within 30 days.