

The Truth Behind 7 Short-Sales Myths

Denying fallacies and gaining expertise can help brokers deal with distressed property

By **Alex Charfen**, co-founder and CEO, Distressed Property Institute

MORTGAGE BROKERS SHOULD know the pros and cons of short sales to help homeowners struggling with mortgage payments. Brokers should be a catalyst for change in this economy. Helping close short sales represents an important part of that change and can reduce today's alarming foreclosure numbers.

Short sales can be difficult. They occur when a home's sales value is less than what the owner owes on the loan for the property. Lenders agree to discount the existing loan balance in return for the sales proceeds; this helps them mitigate larger potential losses on the property.

Knowing some basics about the process — and what common myths to discredit — can help. Here is a look at some of those myths and proof that they aren't necessarily true.

Myth No. 1: Short sales are impossible and never get approved.

Although it's true that short sales can be difficult — and that brokers must learn a new process — one of the biggest issues with short sales is lack of knowledge on the part of real estate professionals. Servicers and lenders often find themselves overwhelmed by the number of woefully incomplete and improperly assembled short-sale packages they receive. Learning how to provide decisionmakers with the best information in the proper package can go a long way toward achieving success with these deals.

Myth No. 2: Banks aren't accepting short sales but instead waiting for a bailout.

The reality is that more banks are pursuing short sales aggressively. According to the U.S. Office of the Comptroller of the Currency and the Office of Thrift Supervision (report: [bit.ly/1a9zHX](#)), loan servicers approved almost

Making Home Affordable

The U.S. Treasury Department has announced changes to the Making Home Affordable Program, designed to aid borrowers who are underwater on their home loans. Its May 14 progress report: [treas.gov/press/releases/docs/05142009ProgressReport.pdf](#)

three times as many short sales in the fourth quarter of 2008 as they did in the first quarter of the same year.

Myth No. 3: Homeowners must be behind on their mortgage in order to negotiate a short sale.

Some lenders do only grant short sales for homeowners in default, but more lenders are now looking for other verifiable hardships, such as job loss or income decline. The requirement to be in default has been reversed at almost every major servicer and lender — given that a legitimate hardship exists.

Myth No. 4: Homebuyers aren't interested in short sales.

While this might be true of some buyers, others take the opposite approach. Real estate agents report that many buyers specifically request a list of short-sale and foreclosure properties. Thanks in part to the national media attention for the low prices of distressed homes, these properties have become synonymous with good deals.

Myth No. 5: Homeowners don't want to list their homes as short sales because of embarrassment.

Many troubled homeowners don't feel this way. When dealing with those who do, brokers

can explain how widespread the problem is and reassure their clients that they aren't alone. According to the National Association of Realtors and others, short sales and foreclosure sales represented 45 percent of all existing-home sales in the fourth quarter of 2008. Brokers also can praise their clients for admitting they need help, taking action and seeking a trained professional.


Myth No. 6: Banks would rather foreclose than handle a short sale.

Banks, investors and regulatory bodies have asserted that if a homeowner facing foreclosure qualifies for a short sale, it must be considered. Again, to qualify for a short sale, homeowners must suffer from a financial hardship. Lenders often prefer recouping a substantial amount of unpaid debt in a short sale to taking on additional losses in case of foreclosure.

Myth No. 7: There isn't enough time to negotiate a short sale before foreclosure.

Mortgage brokers can help stall foreclosures by assisting with short sales. This can be as simple as placing a phone call to let the lender know that a short sale is brewing.

Top mortgage brokers across the country are learning that intimate knowledge of the short-sale process adds tremendous value when it comes to working with homeowners in distress. It's also important to know how to counter the myths that surround short sales.

Gaining expertise in this area can help brokers as they work with real estate agents and troubled homeowners. 



Alex Charfen is co-founder and CEO of the Distressed Property Institute, a premier educational organization for real estate professionals and provider of the Certified Distressed Property Expert designation. Charfen trains real estate professionals nationwide on how to handle distressed properties and help homeowners in danger of losing their homes to foreclosure. Based in Austin, Texas, DPI will train more than 10,000 industry professionals this year. Reach Charfen at (800) 482-0335.

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