



## **Buying a Short Sale**

Since many of the houses that are currently for sale are short sales, it is very possible that the home you end up liking will be one of them. Since buying a short sale is a complicated and uncertain process, it is important that if you choose to move forward with it, you do it with your eyes wide open.

### **First let's talk about what a "short sale" actually is**

When a lender agrees to a short sale, it means that the lender is willing to accept less than what is owed to them. For example, if the homeowners/sellers' loan payoff amount is \$200,000, and your offer price on the house is \$150,000, the homeowners/sellers' will have less than they need to pay off their loan. They will be short \$50,000 - hence the word "short" sale.

A short sale is also known as a "negotiated settlement," and it is a possible alternative to foreclosure for home owners that owe more than their home is currently worth. The transaction takes place between the homeowner and the lender. Depending on the home owners' individual situation a short sale might offer some notable advantages to them.

### **How it works**

When a property has lost its value to the point that it's worth less than the loan amount, lenders know that taking back the property through the foreclosure process might further increase their loss. Often, homeowners can convince their lender that taking less than what is owed to them *now* via a short sale is better than going through the foreclosure process and trying to sell the home later.

### **How long will it take?**

Don't expect this to be a quick work; negotiating with lenders requires patience on all sides! It can be a lengthy waiting game of weeks, months and sometimes more than a year before an approval is granted. Don't believe anyone who assures you of a set time line because every situation is different and there's a lot involved; investors, bureaucratic regulations and insurers that must be handled and satisfied.

### **Short Sale Success rate**

It's important to understand that if the house is going into foreclosure, putting in your offer and requesting a short sale does not necessarily stop the process. However, though no-one can guarantee success, if you are willing to deal with the uncertainty, it does not hurt to try. All I recommend is that you know exactly what you are getting involved with.

Though the banks are getting better organized and more motivated to approve a short sale, the closing ratio is about two in ten industry wide. This means that if you put in an offer on a short sale you have a twenty percent chance of success.

## Will you get a better deal?

Let me give it to you straight - NO! It is a common misconception that just because it is a short sale, it is a better deal. You have to understand that the bank is trying to minimize their losses, and just like any other seller would, they work very hard to net as much as possible from any transaction, be that a short sale or an REO (bank owned property). This is not to say that you cannot negotiate a great deal, all I'm saying is that it is not a given and that your chances at a good deal are not increased simply because it's a short sale you're buying.

## Conclusion

Two things to remember; one, on average you only have a twenty percent chance of success, and two, you have absolutely no control on how long the process is going to take. If you can't deal with these two issues stay away from short sales!

Good luck!

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*As a real estate professional, licensed Realtor®, and investor, Dimitri has over a decade of real estate experience. Dimitri's experience covers primary residences, second homes, investment properties, commercial properties and land. He has been recognized for being a Multi-million Dollar Producer, and is an accomplished Realtor® committed to superior results for his clients.*

*"Strive not to be a success but rather to be of value" Albert Einstein*