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# Residential Market Watch: Inefficient short sales over-promise, under-deliver

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If something sounds too good to be true, it usually is. Such is the case with buying, selling or working with a short sale. Sellers have hopes of getting the equivalent of a "mortgage mulligan" as their lender erases tens or hundreds of thousands of dollars of their mortgage debt. Buyers expect to get the steal of the century and agents feel like lottery winners because they believe short sales are easier to sell than tickets to see Hannah Montana. However, these grand expectations are rarely fulfilled.

There is a lot of confusion about what a short sale is and the pros and pitfalls of attempting to buy or sell one. In simple terms, a short sale is when a lender allows a seller to sell his property "short" of what is owed. The lender either forgives the debt by writing off the loss or initiates the legal process of securing a deficiency judgment or promissory note from the seller. Sellers like the forgiveness part better.

For example, we have a seller who paid $380,000 for his home in 2005, placing a $340,000 first mortgage on it. Economic times now are forcing him to relocate, but the market value on his home is only $230,000. Therefore, if he sold it at market value, he would have to bring more than $125,000 to closing to satisfy the mortgage and closing costs. Most sellers, including this one, don't have a cookie jar with that much cash in it, so they are forced to make a tough choice. They can stay put, rent the home or quit paying the mortgage and allow the home to go into foreclosure. Their final choice and the one that has recently come into vogue, is to negotiate a short sale with the lender.

You can see by the growing number of short sales coming on the market that a large percentage of sellers are choosing the short sale route. The local Multiple Listing Service shows that approximately 5,000 short sales are currently listed, which represents 25 percent of the existing inventory. However, short sales only account for about 10 percent of the existing home sales. If buyers perceive short sales to be one of the better buying opportunities, wouldn't you expect the percentage of short sales to be much higher?

The lackluster performance of short sales can be explained by the fact that short sales over-promise and under-deliver. Whoever came up with the term "short sale" should be sued for false advertising. A more accurate name would be "long sales," because everyone involved in the process must be long on patience and the probability of a successful closing within the buyer's lifetime is a long shot.

When you examine the inefficiencies of the short sale process, it is easy to see why the luster has vanished from what was initially thought to be an opportunity, second only to the Louisiana Purchase. Assuming the seller is already delinquent in mortgage payments, and the lender will entertain the idea of a short sale, the first step in a short sale is for the seller to list the property at a price agreed to by the seller and the agent.

The first flaw in the process is that many sellers don't care when the property sells. Many short sales properties are owner occupied and since the owner has quit paying the mortgage payment, he is living in his home for free. Other properties are rentals and the owner is collecting rent payments, but not paying the monthly mortgage (cash-flowing these properties is becoming much easier). Even if the property is vacant, it isn't costing the seller anything, so he has little incentive for a quick sale.

The second flaw is that the listing price, realistic or not, may not even be close to what the lender will accept. In addition, what the lender decides to accept may not be anywhere close to a realistic market price. The lender is not even involved until after a buyer makes an offer and it is "accepted" by the seller. The deal is then forwarded to the lender for his review and the waiting game begins.

If you have ever wanted to learn a foreign language or two, now is your chance, because you will be trilingual by the time the lender responds. In the meantime, the buyers are getting ants in their pants because they are watching suitable alternatives being snatched up. Agents are pulling their hair out trying to keep the deal together, the seller is indifferent and the lender has a voice message that says "Multiple messages will be ignored, so don't bother calling again."

It's not uncommon for lenders to take in excess of 30 days to even acknowledge an offer and another month or two to respond. Kevin Jursinski, a local real estate attorney, says "The short sale process could be condensed to a matter of days instead of months if the lenders would get involved in the valuation process before a property is listed. That way, everyone wins. Agents can advertise a price with confidence and buyers know what price will be honored by the lender."

Buyers and agents are learning that bank-owned properties are a better alternative than short sales, because banks usually price properties to sell and give quick answers. This is swell, but our market will not fully recover until the growing inventory of short sales are sold. Therefore, it's in everyone's best interest to streamline the process.
What's the solution? I have a few ideas that I would like to share with the lenders. I called several, but got their voice mail, so I left a message. I know better than to leave another one.
Keep the faith.
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