

Short Sales & Foreclosures

WHAT IS A SHORT SALE?

A **short sale** is when a lender accepts a discount on a mortgage to avoid a possible foreclosure auction or bankruptcy. Instead of buying from a seller, you are purchasing the property directly from the lender for a discount. For example: A homeowner, who is facing foreclosure, has an existing first mortgage of \$300,000. You write an offer to the lender for \$220,000, which is accepted as full payment for the loan. This is a **short sale**. Why are they willing to take such a discount? Several reasons. First of all, banks do not like excess inventory and bad loans on their books; therefore, if they see an opportunity where they can sell the property without a huge loss, they will do it. Secondly, lenders know they could lose a lot more money if the property goes to auction. There are so many fees involved if the property goes to auction, that they would be better off taking the discount beforehand and be finished with the headache of it all.

At the time of this writing, foreclosures are at an all time high, which basically translates into more opportunities for you. Since foreclosures are increasing, this is the perfect time to jump into this because there will be more and more lenders discounting properties. It is safe to say that most lenders will accept a **short sale**, however, you may come across one or two lenders who will not discount. If the numbers work out for the lender they will do it.

It is best to do a **short sale** when the property is in the pre-foreclosure state. Yes, you can perform a short sale when the bank owns the property, however your profits will more than likely be smaller. There are two stages within pre-foreclosure. The first stage being those individuals who are behind on payments and the second stage are those who are behind on payments with a notice of default. In order for this to work properly and for you to successfully get a short sale, you must find the homeowners who are in the second stage of pre-foreclosure or more than 3 payments behind on their mortgage. Once the notice of default has been recorded, banks become motivated as well, so you are more likely to get a discount. Until that time, very rarely will a bank ever discount a mortgage that soon. Why would they? The homeowners still have time to cure the loan and make up the back payments.

It does not matter what type of house or condition it's in, all mortgages can be discounted. The best properties to perform a **short sale** on are the houses that need lots of work and repairs because lenders will give you a bigger discount if they see they are "don't wanters". Properties that are over leveraged are also prime candidates. Most rookie investors who see a house over leveraged with an upside-down mortgage may think there is no hope for this property. On the other hand, this is a sweet deal to the savvy investor. Properties with large 2nd mortgages are also treated as gold because the 2nd mortgage is wiped out at the foreclosure auction. Lenders with a 2nd and 3rd mortgage position would rather have something than nothing.

WHAT IS A FORECLOSURE

Foreclosure is to shut out, to bar, to extinguish a mortgagor's right of redeeming a mortgaged estate. It is a termination of all rights of the homeowner covered by a mortgage. **Foreclosure** is a process in which the estate becomes the absolute property of the lending institution.

Foreclosure numbers are growing daily. Of the one hundred twenty or so million homes in America, more than 4% or roughly 4.8 million of them are facing **foreclosure**. Some of these homeowners are able to work their way out of **foreclosure**, however, according to MBA there were about 500,000 homes that went through **foreclosure** last year. **Foreclosure** threatens these homeowners because they are late or seriously behind on their mortgage payments.

The **Foreclosure** process begins when the homeowner fails to make payments of the money due on the mortgage at the appointed time. This may be due to several reasons. Unemployment, divorce, medical challenges, terms of the loan, sick of property management, and even death.

Foreclosure is applied to any method of enforcing payment of the debt secured by a mortgage, by taking and selling the estate. Borrowers and lenders now face a challenging situation. Both seek a compromise that permits a win-win outcome. The borrower to keep his home or business, the lender to keep receiving mortgage payments.

Foreclosure proceedings typically start with a formal demand for payment which is usually a letter issued from the lender. This letter of notice is referred to as a *Notice of Default (NOD)*. Depending on your state, the lender will issue this notice when the homeowner has been 3 months delinquent on the mortgage payments. Keep in mind that the notice is a threat to sell your property, terminate all your rights in that property and evict you from the premises.

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