

Purchasing a Short Sale Home

If you are considering buying a home, you have likely heard the term Short Sale. A Short Sale transaction process differs from traditional purchases. There are both advantages and disadvantages to buying a Short Sale. Before pursuing a Short Sale consider the following:

What is a Short Sale? A Short Sale is when a home is sold for less than the outstanding loan amount. It's an option for homeowners who are struggling to pay their mortgage and want to avoid foreclosure or bankruptcy. Because the home is sold for less than the outstanding loan amount, any offer accepted by the seller must also be approved by their lender(s).

No two Short Sales are alike. Because offers have to be accepted by the seller and their lender, the response time to an offer can vary greatly, from a couple of days to several months. There is no guarantee the offer will be accepted by the lender. Also if the seller has more than one mortgage, it can take longer because all lenders involved have to accept the offer.

Does the agent have Short Sale experience? It's important for both the seller and your agent to have experience with Short Sales, but especially the seller's agent. The seller (or listing) agent submits the offer to the lender(s) and handles negotiations. A listing agent with Short Sale experience will likely help facilitate a smoother process.

Research the seller. Find out if the listing agent has received the complete Short Sale package from the seller, including a notarized letter that allows potential buyers to review the property and loan information. A Short Sale will be delayed if the required documents are not ready at the time you make an offer. Some sellers can be slow to provide these documents or may not know they are required, but lenders will not review an offer without them.

Research the property. Understand how much is owed to the lender(s), the loan type and if there are any liens. This will help you anticipate the time frame and the likelihood of your offer being accepted. The listing agent should inform your agent of the number of offers they have received. If an offer has already been accepted and submitted to the seller's lender(s), you may want to reconsider making an offer.

Make an offer. Assuming the seller accepts your offer, keep in mind the lender(s) also has to approve the offer. Some lenders may reduce the price, but offers should be reasonable and close to market value. Lenders will expect you to be preapproved and provide earnest money. If possible, wait to deposit the earnest money until after the lender approves your offer. Also Short Sales are generally sold "as is". This means no repairs will be made to the home by the lender. It is still important to have a home inspection, so make your offer contingent on having a home inspection after the offer is accepted. Remember a response can take several weeks or months. The listing agent should be able to provide you with regular updates on the status of your offer.

Prepare for closing. If your offer is accepted, the lender will provide a letter stating the purchase price and any remaining liens. Buyers are usually given 30 days to close. Some lenders reserve the right to renegotiate the terms of the short sale at the last minute. If the market changes, new laws pass or new information crosses the lender's desk, the lender can attempt to change the terms of the contract. Also the seller still has the right to reject the offer (change their mind) after the lender accepts it.

Consider the agent commission. In a Short Sale transaction the lender pays a commission to the listing agent. Since the lender is losing money, the lender may negotiate the commission directly with the listing agent, who then shares the commission with your agent. If you have agreed to pay your agent a certain percentage, you could be liable for the difference between what the lender will pay and what is in your contract. Talk with your agent about possibly waiving the fee difference, understanding a Short Sale generally requires more work than a traditional purchase.

This Fact Sheet provides a general overview. Short Sales vary based on the unique circumstance of each sale.

For additional information, speak with a Housing Counselor in your area by contacting the Minnesota Home Ownership Center today: 651-659-9336 or 866-462-6466 or www.hocmn.org