Opinion: Short sales don’t deserve a bad reputation

By Theresa Souers

It seems that no matter what one reads these days regarding the real estate market, the term “short sale” will have a strong presence in the discussion. A short sale is the term applied when a lender is willing to accept less than what is owed on an existing loan. As a primarily second-home resort area, South Lake Tahoe has seen its own share of distressed sales. During the past year, approximately 18 percent of the homes sold involved short sales, while another 34 percent represented bank-owned sales.

At this time it appears 2012 will continue to follow suit. Yet, despite the fact that short sales have been an ongoing force within the real estate industry, it is not uncommon to hear potential buyers shy away from the idea of purchasing a short sale despite the investment opportunities. Even hopeful sellers, as much as they might want to try to explore the option of a short sale, are overwhelmed with the rumors that come their way.

While short sale sales and purchases may not be for everyone, it is important for buyers and sellers to know that much of what is commonly heard is based upon rumors and myths. To help clear the air, the California Association of Realtors recently put together a list of the top 10 myths surrounding short sales.

Myth No. 1: The homeowner must fall behind on mortgage payments in order to qualify for a short sale. Debunked: Years ago this may have been true, but not in 2012. A financial hardship must exist, such as the adjustable rate mortgage increasing in monthly payments, loss of job or income, health or medical issues, or extraordinary loss in home value (which may be considered a hardship).

Note: Agents should not advise a homeowner to miss a mortgage payment.

Myth No. 2: Banks would rather foreclose on a property than approve a short sale. Debunked: Many still believe this myth to be true, but more accurately, banks would prefer not to foreclose on a property due to the $50,000 to $70,000 it may cost the bank per transaction. Banks lose less money on a short sale than on a foreclosure.

Note: In California, some lenders may pay owners as much as $25,000 to opt for a short sale.

Myth No. 3: Homeowners must be pre-approved by their lender to be eligible for a short sale. Debunked: Absolutely not true. Most lenders will consider short sale offers. However, each lender may have unique and specific processes to follow, from listing the home to the acceptance of a short sale. Bypassing any part of this process may result the sale not closing, so be sure to follow each lenders' processes closely.

Myth No. 4: Short sales never close. Debunked: Obviously not true. In some areas of the United States, nearly 50 percent of all closings are considered to be "distressed" properties, meaning REOs and short sales.

Myth No. 5: Short sales take months (and months) to close. Debunked: The short sale processes must be learned. Once mastered, it may not be uncommon to close a short sale in 30 days. However, certain idiosyncrasies may slow the process and each lender presents their own unique set of specific challenges. No two short sale transactions are identical.

Myth No. 6: Damage to the homeowner’s credit standing is comparable in a short sale and a foreclosure. Debunked: In many cases, credit repercussions and deficiency protections are more damaging with a foreclosure. Short sale transactions can often lead to faster financial recovery for the homeowner and should be carefully considered.

Note: If the homeowner missed no mortgage payments, they may be eligible to finance the purchase of a home immediately following a short sale transaction.

Myth No. 7: Following a short sale, the homeowner will be ineligible to purchase another property for the next five to seven years. Debunked: Not true. Using conventional lending guidelines, some consumers may obtain a Fannie Mae backed mortgage a short 24 months after the close of their short sale.

Myth No. 8: After a short sale transaction, the homeowner will receive a 1099 and be forced to declare the loss as income. Debunked: The owner may indeed receive a 1099, but due to the 2007 Mortgage Forgiveness Debt Relief Act, among other considerations, the homeowner may not owe any taxes on their transaction.

Note: This Act is due to expire at the end of 2012.

Myth No. 9: The lender will sue the homeowner after the close of a short sale (or foreclosure, or deed in lieu of foreclosure) for the deficiency. Debunked: California has certain anti-deficiency protections in place for short sales and foreclosures, depending on the circumstances.

Myth No. 10: As an agent, I don’t need additional training to learn all of the ins and outs of the short sale process. And if I wait long enough, the market will recover so I may not need to deal with short sales at all. Debunked: How long are you willing to wait? Based on the most recent housing reports, home values are still falling. Hopefully, 2012 will see the bottom of the housing market but price recovery may continue to take some time.

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