

11 Myth Reasons Not To Buy a Short Sale

It recently came to my attention that there were 11 myths or reasons not to buy a Short Sale property. While some of the points have merit, it could be that you have been wasting your time under the wrong assumptions. The real estate market has changed so dramatically. Naturally, you no longer feel you know how to get a good deal so you rely upon a professional. But what if the professional doesn't understand this new market either? Instead of dealing with sellers, the Real Estate Agents have to deal with the lenders, a very different animal because of the RESPA laws. Unless the Real Estate Agent has been re-trained, most agents just accept what is told by the lenders and, they don't know what else to do except submit a higher bid. Now you are playing right into the hands of the bank, and it doesn't stop there. The bank employees have been trained to get every penny they can, that is their job. The following reasons are what buyers and investors are being told.

1) Sellers Paid Too Much.

If a home sold for \$300,000 a few years ago and is now for sale at \$150,000, that doesn't mean the buyer is picking up \$150,000 of [equity](#) for free. It means the seller paid too much in a rising market and now the market has fallen. It means the seller has no equity.

True, but it doesn't have anything to do with market value or what you can purchase the property for today.

2) Sellers Borrowed Too Much.

Banks that were eager to lend money in appreciating markets sometimes allowed borrowers to over-mortgage the home, meaning the borrower's loan balance exceeded the value of the property. [Appraisals](#) are subjective, and not all appraisers will place the same value on a home. Although against the law, some appraisers are pressured by banks to appraise at the amount the home owner wants to borrow.

Again true, but it still doesn't have anything to do with market value or your new purchase price.

3) Stringent Qualifications.

Inexperienced or unethical real estate agents might push a seller into considering a short sale when the seller does not [qualify for a short sale](#). Sellers must prove a hardship and submit evidence of the hardship to the lender for approval. Some agents list homes as short sales without ever talking to the lenders or pre-qualifying the sellers.

I can't say this is true, but their point is valid about checking to see if the seller has been approved for a short sale and if the BPO (appraisal) has been completed. Short Sales take time to process. Finding out where in the process the Short Sale is is important.

4) Homes Sell at Market Value.

Lenders are not naive or unaware of the value of a home. Lenders will insist on a [comparative market analysis](#), known as a CMA, or broker price opinion, known as a BPO. If a lender believes a better price can be obtained by taking the property back in foreclosure over a short-sale offer, the lender may hold out for a higher price. That price may be close to [market value](#). Lenders accept short sales when the home is worth the short-sale price, which means market value.

Not true. The banks are willing to except much less than the appraised value. If you are looking at one that just listed 2 days ago then yes they may not agree right away. It may take time on market to convince them.

5) Homes Sell "As Is".

If a mortgage company agrees to a short sale, it is most likely also paying the [closing costs](#) in the transaction. Lenders ask buyers to purchase the home in its present condition. Lenders typically will refuse to pay for:

- Suggested repairs disclosed on a [home inspection](#).
- [Pest inspections](#) or work necessary to issue a clear pest report.
- [Roof certifications](#) or roof repairs.
- Deferred maintenance.

True the sale is an "As Is purchase", but the truth is that the banks never paid for the inspections before so their point is moot. The buyers have always paid for their own inspections.

6) Length of Time to Close.

Depending on when the [Notice of Default](#) was filed, the lender's back-log of foreclosures and how much paperwork the seller has already submitted, it could take anywhere from two weeks to two months to get a response on a [purchase offer](#) from a lender. In addition, if two lenders are involved because there are two loans secured to the property, it could take longer to satisfy the demands of the second lender.

True

7) Lenders Can Change Conditions.

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. Lenders generally have lawyers at their disposal, and ordinary buyers do not.

I can't say this isn't true, but I know buyers have the power to walk. Usually once the bank agrees to their net amount, they want it to close within 10 to 30 days, but it is always wise to have a good attorney.

8) Lenders Discount Commission.

I don't know of any lenders who are paying traditional [real estate commissions](#) to real estate agents. They will want a discount. Moreover, agents end up doing two to three times the work of a conventional transaction and don't appreciate getting paid less to do more work. If you have agreed to pay your agent a certain percentage under a [buyer broker agreement](#), you could be liable for the difference between what the lender will pay and what your contract stipulates, if your agent refuses to waive the difference.

Most agents do not work under buyer broker agreements. Right now the market is tough not only for real estate agent, but for the rest of society. Now more than before, real estate agents are eager and happy for the work.

9) Higher Buyer Closing Costs.

Because lenders rarely will pay for any extras, like a seller would be willing to do, if you want any of those extras, you will pay for them yourself. Sometimes lenders will refuse to pay for standard seller closing costs such as transfer taxes, too. If you want specific inspections, you will probably pay for them out-of-pocket.

We do not have transfer taxes in Florida. Normally the banks do pay their own closing cost and a Real Estate Agent could prepare an estimated HUD (closing statement) and so can your mortgage broker or bank if you are financing the purchase.

10) Lose Control of Transaction.

If you need to close escrow by a specific date, lots of luck with that. A short sale [home closing process](#) takes an indefinite amount of time. The seller's lender calls the shots, not the buyer nor the buyer's lender. If you are trying to close escrow concurrently with the sale of your home, it might not happen.

Once the file is approved, the banks typically give you 10-30 days to close. Hopefully your real estate agent has negotiated any needed extensions in your contract upfront. Professionals know how to deal with changes, it happens all the time.

11) Little Seller Motivation.

When the seller discovers that the [short sale effect on credit](#) is identical to that of a foreclosure, there is little incentive for a seller to cooperate with a short sale. There is no benefit to a seller to consider a short sale and move out before the foreclosure is concluded, except for peace of mind that the nightmare is over.

A properly trained Real Estate Agent will negotiate the seller's mortgage to be shown on the credit reports as paid in full. Amazing, but true!!!!