First American Title

What goes on in Short Sales and Pre-Foreclosure Sales?

First of all, lenders prefer the term "Pre-foreclosure Sale" to short sale. A pre-foreclosure sale is simply a case in which a lender agrees to accept something less than the full amount of the payoff to avert foreclosure proceedings. Most lenders have figured out that it is cheaper to pursue some sort of a work out (short sale or other activity) rather than letting the property come back as an asset. Lenders are in the business of making loans, not selling real estate.

To be successful in the pre-foreclosure sale game, you have to adopt the following process:

1. Enlist your seller's help and prepare them for the difficulty of the process. Your seller will have a lot of responsibility for getting documentation to the lender, for keeping lines of communication open, and for disclosing uncomfortable financial details. Let them know that even if the PFS situation is approved, the purchase contract may not be. Give them action steps and hold them accountable.
2. Move fast, start talking to the lender as soon as you identify there's a problem. In the short sale world, speed and action is everything. Have your seller call the lender's Real Estate Loss Mitigation Department as soon as you have the facts and ask for a Pre-Foreclosure application package and to send them information outlining what their pre-foreclosure process entails and what the approval guidelines are.
3. Return the pre-foreclosure application back to the lender as quickly as possible. Typically the property AND the seller have to be approved to halt the foreclosure process. A full BPO, and sometimes an appraisal, will have to accompany this package. The goal here is to buy time to put the foreclosure on hold and find a qualified buyer. If the lender isn't willing to share their requirements, here are HUD's (please note: all lenders have different requirements):
    - Net sale proceeds should be at least 87% of the appraised value (minus certain HUD approved costs);
    - The loan is at least two months delinquent at date of the PFS closing;
    - You are able to sell and close within three to five months of the date of application for a PFS.
4. Aggressively market the listing and keep the lender informed. Let the lender know what you're doing to actively market the listing if you don't have an offer yet. Give price feedback and send copies of marketing material.
5. Use the proper forms to present the purchase contract. Get the purchase contract submission requirements and submit all documents properly. Keep in mind that this is a separate approval process and isn't a forgone conclusion. In this case, the lender acts as a seller would, approving or denying the deal. Make it hard to pass up.
6. Be flexible. Don't be surprised if the lender comes up with a variety of issues you aren't happy with. Many times the lender will ask you to reduce your commission, especially if you represent both sides.

Use First American Title as part of your experienced closing team!

firstamericantitle.com

First American Title

TI-008-08