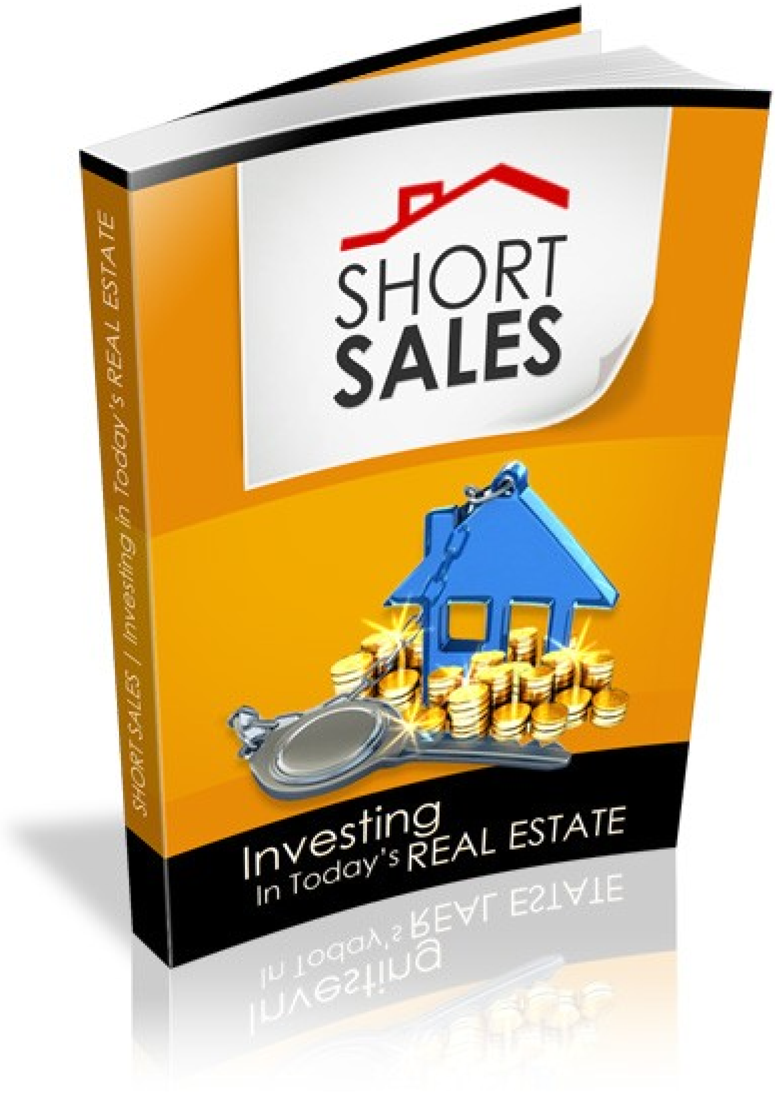
Short Sales - Investing In Today's Real Estate Market!



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Chapter 1 - Introduction

What is a short sale? You have probably heard this term used frequently lately and have no idea what it means. A short sale is a type of real estate investment that flourishes in a down market. Right now, most of the United States is in what is known as a buyer's market. This means that there are more homes on the market for sale than there are buyers. When supply exceeds demand, the prices drop.

This is not the case in all areas of the United States. In some still coveted areas, the supply of home has not exceeded the demand and the housing values have stayed the same or even appreciated. For the most part, however, the residential real estate market has crashed. States such as Florida, California and Nevada have an influx of foreclosures. In many areas of Florida, short sales are the normal financial transaction for a real estate closing.

Many people are under the misconception that a short sale is only something that can only take place when someone is entering into foreclosure. It is important to realize that not all short sales are foreclosures or close to being foreclosed upon.

There is another misconception that you have to pay cash if you are buying a short sale property. Again, this is false information. You can finance a short sale property, but you have to be ready to buy the home in a short amount of time. In other words, there can be no financing contingencies on the real estate contract. And you will have to show proof that you are able to make this purchase either with cash or with approved financing.

Some people think that all short sales occur in blighted areas. Again, not true. As a matter of fact, most short sales in some states are in upscale neighborhoods.

Short sales are all different. Each person who is seeking to sell their home and is willing to go for the short sale deal has a unique situation. There is one constant with all short sales, however. This is that all of the owners of the property owe more money on the property than the property is worth. This is the constant and what makes them a short sale client.

This book will teach you not only how to find short sale clients, but also how you can negotiate with them, different financing options, how to get partners to invest, what type of documents you need to facilitate the short sale and even title issues that you should be aware of before you purchase a house "as is." Everything that you need to know about a short sale is found right here in one book.

So sit back and relax and get ready to learn everything you ever wanted to know about the short sale.

Chapter 2 - What Is A Short Sale?

What is a short sale? The short sale normally occurs when a home owner is about to go into foreclosure. They may be desperate to sell their homes and are doing everything that they can do to get rid of the home. They actually owe more money on the house than the house is worth and are anticipating having to bring a check to the closing. This is not something that they want to do, but nor do they want to go through the trauma of foreclosure.

A foreclosure occurs when a mortgage company comes in and takes a house back from a borrower who has defaulted on his or her mortgage. The default is usually the case of them not paying their mortgage payment. Generally, mortgage company will begin foreclosure proceedings after a borrower has not paid their mortgage for two months.

Prior to the foreclosure, the homeowner has a chance to stave off the proceedings. They can, and usually do, try to work things out with the mortgage. The mortgage company will usually work with homeowners who may be facing tough times due to losing a job or some other catastrophic event, such as illness. In some cases, the mortgage company will suspend payments for a couple of months or ask that the borrower only pay interest. Sometimes this works to pull a borrower out of trouble, but it is usually stalling the inevitable.

The lender will stave off the short sale if the property is on the market. This may be able to buy a borrower a bit more time so that they can sell the house. In order for the short sale to work, the owner of the property has to be willing to walk away from the deal without any money. They will not be taking a check with them to the closing nor will they be getting a check from the closing. They will simply hand over the deed and the keys and the house will belong to the short sale investor. This is the only way for a true short sale to work.

Why would any home owner allow this to happen? Because they owe more on their property than what the property is worth. There are a variety of different reasons why this can happen. They are as follows:

- They purchased a home during the boom and the house actually depreciated in value;
- They have been behind in their mortgage payments and the loan is now backwards;
- They have refinanced and borrowed against their equity to the point where there is not more equity

When this occurs, the borrower often finds that they owe way more than the home is worth. The instinct is to just let the bank take it, but many borrowers do not want to go through the trauma of foreclosure and do not want to see this on their credit history. A foreclosure takes a big hit on the credit history of anyone who goes through it. It is much easier if you can sell the house by conveying it with a deed than having the bank take it. Your credit history will still reflect that you were behind on your mortgage, but the loan will be written off thanks to the negotiating powers of the short sale representative.

The short sale investor finds the owner of the home in a state where he or she is very eager to sell and is willing to walk away without receiving a check. He or she also eager to walk away without having to sink any more money into the house. The owner of the property that is being sold in the short sale really just wants to walk away an not have to worry about the home any longer. But they do not want to deal with the foreclosure process.

The short sale investor will purchase the house just in the nick of time. He or she will have all of the proper documents and will be able to work with both the lender and the owner of the property in order to get them to agree on a price. The short sale investor gets a house that is worth a lot more than what they paid for it. The original owner of the home gets to walk away from the house and convey it to the short sale investor by deed, instead of going through an embarrassing court proceeding that will entail a foreclosure and will destroy their credit. The lender is happy because they do not have to go through the foreclosure process that will be more expensive than any deal they will make with the short sale investor.

In general, if the short sale goes off without a hitch, everyone will benefit. But in order for a short sale investor to properly work on their negotiations, they will need to know everything that there is to know about short sales. Learn as much as you can about the process so that you can make a better impression on the lender and be able to make a good negotiating deal.

The first thing you need to know, once you are ready to begin with the short sale process is to find the perfect short sale vehicle.

Chapter 3 - Finding The Perfect Short Sale Opportunity

Take a look around at houses that can be good short sale opportunities. Here are some ways that you can find those that are short sales include:

- Putting ads in the paper offering to purchase homes instead of foreclosure;
- Take a look around at areas where there seems to be a lot of homes for sale;
- Work with a real estate agent or get your own license;
- Put signs up in the neighborhood where there are a lot of homes for sale;
- Call on homes that are for sale by owner

These are a few good options when it comes to getting the short sale opportunity. Remember that you want a seller who is desperate to sell and wants to walk away from the deal without having to leave a check. More and more people are walking into closings to sell their homes with checks instead of walking away without checks. This is one of the latest trends when it comes to the buyer's market.

One thing you will want to do before you approach a potential short sale seller is to get some business cards and brochures prepared. Many people do not known what a short sale is and will naturally be skeptical when it comes to getting out of a bad deal without having to pay any money. They will think that you are out to cheat them in some manner. Most will be wary at best when it comes to accepting your offer.

If the property owner has a real estate agent they will probably be even more skeptical as their real estate agent, who they trust, will be telling them not to sell on the short sale. The reason for this is that they real estate agent will be one of the people who are going to be negotiated with when it comes to negotiating for less fees and money. And most real estate agents will want to have the entire commission for their time.

This will not always be the case when it comes to real estate agents. Some, especially those who see the house sale as being a waste of time, will be for anything that will allow them to gain some commission. The real estate agent should not be completely cut out of the picture as they can help you with some documents that you may need to complete the short sale.

When you put the ads in the paper, you will have to screen the calls to make sure that the person on the other end of the phone understands what you are offering. While you do not want to scare away a potential client, you are going to want to discover if they are a potential short sale client. By talking to them like a friend instead of an investor, you may earn their trust and get them to tell you their financial status with regard to their property.

Remember that the owner of the property must be to the point where they need to sell right away and is probably at the point where they are thinking of ways to borrow money to get through the closing process.

After you have talked to the short sale owner on the phone you should then make an appointment to see him as soon as possible. At the meeting, the more information you know about his home, how long his home has been on the market and how many other homes are on the market in the area.   What are his chances of selling this house as it stands now and what other options are there available for the seller?

You are going to want to get the seller to trust you right from the start. You can talk to owner of the property without the insurance agent present as long as you are not a licensed real estate agent yourself. It would be unethical to try to make a deal with the owner if you are an agent without the listing agent present.

Your potential seller may or may not know what a short sale is so you might have to explain to them what is going to happen during the course of the short sale and what is more important, what is in it for them. You should have some written materials to hand him. This presentation is very important and probably one of the most crucial aspects of the deal.

The more that you understand about the process of foreclosure and the short sale, the better your presentation will be with your potential short sale seller. You should be able to explain exactly how foreclosure hurts their credit more than a bad debt write off, which is what will happen with the short sale. You should also advise them against throwing more money into the house than they have already invested. You want to make sure that they understand how it can be a good idea to get a new start by saving that money and putting it towards a new home or opportunity.

In addition to having brochures, you should also have information about your previous success when it comes to foreclosure. Part of the foreclosure deal will be negotiating with the lenders so that they let the borrower off the hook and do not go after him with a judgment. You are going to want to make sure that the owner of the property knows that you have had a proven track record of dealing with lenders and negotiating short sale deals.

You can give them references on paper of people who they can call who you have helped through the short sale process. Remember, the more information that you have and can provide to the owner, the more professional you look and the more impressed the owner will be with your presentation.

You will only get one chance to make your first impression on your potential short sale seller. Make sure that you are well dressed and look professional. Have business cards and other information in writing so that they can review it after you are gone. Do not press them to make up their minds right away, give them time to thing about it. But then you should follow up with a phone call to see if there are any questions that they have after your presentation that they neglected to ask while you were at their home.

Some people are naturally suspicious about anyone offering them a deal where they can get away with not having to pay any more of their mortgage and not have the bank foreclose on them. It is up to you to assure them that this is what you do for a living and that you are an expert in negotiations. Once the owner of the property trusts you, it is then time to get to work with the negotiation process.

Chapter 4 - Negotiating With Short Sale Sellers

The first part of the negotiating process is with the short sale sellers. This can be easier than negotiating with the lenders, which is step two in the process. Negotiating with the sellers can be easy once they get to the point where they understand what you are doing and they can trust you.

The seller owes more on the house than the house is worth. They want out of the deal. You have to get them to sign a real estate contract, or purchase and sale agreement, in which you will pay less than market value for the home and less than the seller owes.

The seller, at this point, has nothing to lose by doing this. He is walking away from the closing with no money anyway. He may balk about the price of the property being dragged down, but when push comes to shove, he is going to be happy to get out of the deal without it costing him any money. In an era where most sellers are coming to real estate closings with checks, your seller will be grateful not to have to do this.

The negotiations will begin once you present the seller with the cold hard facts of his predicament. He is in a quandary. He owes more on the house than the house is worth and he is not the only person on the block who is trying to sell his house. Other sellers are also thinking of doing the same thing. They would like to get the short sale deal just the same. Many on the block want out of the deal they are in. If your seller does not take the deal, chances are that one of his neighbors will. And that will bring the prices of the houses down anyhow. At least your seller can benefit from the process.

You should show him comparables about what different houses in the area are selling for and how long they are on the market. A real estate agent can get you this information if you do not have access to the MLS. If you are going to invest in short sales, it might behoove you to pay for access to the MLS which is the giant database where all homes listed by realtors are sold.

Access to the MLS is not restricted to realtors. Anyone can have access to the MLS for a fee. But this only tells you what is for sale in the neighborhood and how long the properties have been on the market. In order to place a value on the home, you need to find out how much money houses have been selling for in the area. This is public knowledge and can be obtained by taking a trip to county assessor's office that usually has this information. Much of this information can be also discovered online.

Housing value is determined by the sale price of other houses that are similar to yours in the same area. Not the listed price, but the actual sales price. Other factors figure in to the value once a base value has been determined. Does the house need work? Have there been any updates and if so, what kind of updates? Some updates that add to the value of the home include:

- New windows
- Maintenance free exterior (aluminum siding, fascia)
- New roof
- New driveway
- Kitchen renovation (complete updating and not just decorating)
- Bath renovation (again, not just painting but complete renovation)
- New garage
- New furnace
- Central air conditioning
- Plumbing or electrical updates

These are all structural improvements to the house and will add value. The bathroom and kitchen remodeling, if needed, will add value as long as it is not just cosmetic changes that were made. Some things that make the house easier to sell but do not add value are:

- Finishing a basement
- Installing new carpet or tile
- Getting new appliances
- Exterior or interior painting
- New interior doors or woodwork
- Minor room renovations

Again, the above list are some things that people will notice right away and are relatively cheap to accomplish. If you are seeking a way to sell a house in a hurry, get rid of the old carpet and paint everything . Make some minor cosmetic changes (such as a change of old fashioned light fixtures) and you can have a better chance of selling the house. But cosmetic changes do not add value when the house is being appraised.

This is what you will have to make note of before you begin negotiating with your short sale seller. Before you meet with the seller, you should have as much information as possible so that you can give them an honest approximate value of their home.

The seller may have no idea how much their home is worth. Chances are that they see other homes in the area that are for sale and have even called on some of them. If they have chosen a real estate agent, the agent should have shown them comparables. This would be a few houses like their home and the sale price of these homes. This would give them an idea of the value. The agent also should have measured the rooms and also taken note of anything that could have added to the value of the home. Although they are not real estate appraisers, real estate agents are trained in determining home valuation so that they can accurately price the home.

When you sit down and talk to the seller, you should have a pretty good idea of the valuation of the home in question. You should have a good idea of other homes in the area that have been for sale and how long they have been on the market. You will then have to observe what needs work in your seller's home.

You are better off to present your proposal in writing to the seller. You do not have to present them with a real estate contract right off the bat, but this is a good way of letting him or her know that you are serious. Prior to presenting them with the contract, you want to sit down and talk to them about how you came up with the price. You also need to know how much the seller is behind on their mortgage, if any amount, and how much is owed.

One other bit of due diligence you should complete before you actually sit down with the seller and offer them money for their property is a quick title search. You can order what is known as an O & E, which stands for Owner and Encumbrances. This is not a formal title search and you are going to still need to do a formal search before you actually purchase the property. The O&E will let you know who owns the property and what type of encumbrances are on the property. Any mortgage is recorded against the property as well as any liens. Again, the more you know about the property before going in, the better off you will be.

Here is a checklist of items you will want to determine before making a proposal to the owner of the property for the short sale:

- Is the owner of the property the person with whom you are negotiating?

- How much is the property worth?
- How many other homes are on the market in the area and for how long?
- What type of updates are in the property and what type of improvements are needed?
- How much is owed on the property?
- Is there more than one mortgage?
- Are the taxes paid?
- Are there any liens on the property, such as mechanic's liens?

You do not need a title search to discover this information. A trip to the county building where the property is located will tell you everything you need to know about the property. Any liens or encumbrances against the property have to be recorded. Anything recorded against a piece of property is pubic knowledge. You can determine this information in the county recorder's office. In some cases, the information is on computer, in others, you have to look it up by hand.

Each time the property is conveyed to a new owner, a deed is recorded. All previous mortgages should be paid off at that time. When a mortgage is paid off, a release is recorded. The only thing that a title company does is pulls up information that is public record.

When a mortgage is recorded against the property, the amount of the mortgage will be public knowledge. Although you will not know if the seller has defaulted on that as it will not be recorded. If the recorded mortgage is for $130,000, and the seller has not paid the mortgage in a few months, the amount might have risen. You can get a rough idea of how much is owed by when the mortgage has been recorded. A mortgage holder pays off mostly interest and very little premium during the first few years of the loan. The older the loan gets, the more principal gets paid off and the less interest. Towards the end of the loan, the borrower is paying more principal and very little interest.

The name of the party to whom the deed is conveyed is also listed on the deed. You want to make sure that you are dealing with the owner of the property and that the owner is not in a nursing home and a nephew or relative is not trying to sell the house from under them.

Taxes can be a problem. They have to be paid up or the county can actually take the property. They will have more jurisdiction than the bank and unlike a mortgage loan, taxes cannot be negotiated. The information on how much the taxes are and if they are paid can be ascertained at the county assessor’s office.

Once you have done all of the research into the property, you are ready to negotiate with the owner of the property. You are going to want to point out all of the reasons why it will benefit them to sell the house to you and get out now. The multitude of homes on the market that are not selling. The amount of money that they owe that will continue to escalate. The fact that it is unlikely that they will get their price (show them what other homes are selling for), the defects in the house (if any), and the fact that the longer they stay in the property, the more taxes can be assessed.

You will also want to tell them a little bit about a foreclosure. If the lender forecloses upon them, they will not only take the house, but if they owe more than the value of the house, they can just as easily get a judgment against the borrower for any other amount due, including attorney's fees, which can be quite substantial.

You do not want to offend the seller, but you do want to give him a hard does of reality. If he owes more than the house is worth, is it really wise to continue to keep living there and paying a mortgage and taxes on this bad investment? And if he sells it, does he really want to throw good money after bad and bring a check to the closing when he can save that money towards a new house?

The argument that you will have to overcome from the owner is that they do not want any bad marks on their credit. Some people are willing to pay thousands of dollars to maintain a credit score, which is something that has become a source of concern over the past 10 years. Credit scores are simply a marketing device that are used in a variety of different ways to get you to borrow more money than you need. If the seller is in over his head, perhaps it is time he stopped borrowing to live and started living within his means.

Another myth about credit scores is that those with a low credit score will not be able to borrow money. Not true. You can be bankrupt and still get a home loan. You just have to go to secondary market. If your seller is behind on his mortgage, his credit score is already suffering. However, he can refrain from having a foreclosure on his credit history by going through with the short sale. The lender, after negotiations, will write the loan off as a bad debt. This will go on his credit but will not look as bad as a foreclosure. He will still be able to obtain credit and after a certain number of years, the event will be entirely erased from his credit history.

It is far wiser for anyone never to throw good money after bad. If a seller has a poor investment in a home, it is better for them to get out and save any cash that they have for the future so that they can rebuild. Not give it to the bank so that they can maintain a marketing tool such as a "credit score."

Typical Negotiation:

In a typical short sale negotiation with the seller, the short sale investor has done his or her homework and knows everything they need to know about the house. They know the following:

- John Smith is the owner;
- There are 32 other properties in the immediate vicinity for sale,

the average time span for the properties on the market is 9 months;

- The property is worth $120,000, although it was purchased at $150,000 and is listed at $135,000;
- Mr. Smith owes $130,000 on the property;
- The taxes are current and there are no liens on the property;
- The original mortgage was paid off and refinanced - it looks as if Mr. Smith took out equity;
- The house needs a new roof and the bathroom needs updating.

All of the above information can be obtained prior to your meeting with Mr. Smith. You have it all printed out on paper. Mr. Smith owes the bank $130,000. He took out the loan two years ago which means that he probably only paid about $1,000, if that, against the principal. He is not current in his mortgage.

You go over all of the above with Mr. Smith, excluding the fact that he is the owner and that you checked up on him. You then bring up the fact that there are 32 other properties selling that are in better condition than his - his property needs a new roof and the bathroom needs to be updated.

You bring up what he can expect with a foreclosure. How it can hurt his credit. Then you tell him how you can help. You can negotiate with the mortgage company to let him walk away from his $130,000 debt without having to pay any more money.

The offer that you make to Mr. Smith is $105,000 for his house. This is $15,000 less than the property is worth in its current condition and $25,000 less than he owes the bank. He will protest that this is less than what he wants, but with your deal, he gets to walk away from the sale without bringing a check to the closing, without having to pay any more mortgage payments. He can save the money he was willing to pay towards the closing towards another house, which he will be able to get even with the hit against his credit with the bad debt.

You then explain to him again the unlikelihood of him selling his house at $130,000. You tell him that you can even take care of the amount he will have to pay in commission to the real estate agent. Then you give him your signed purchase and sale agreement for $105,000 and tell him to think it over.

This is a typical negotiation. The seller might be upset because he is not getting the price for his property, but he is getting a better deal - a way out that is not going to cost him a bit of money. And as he is struggling to pay his mortgage on a property that is worth less than what he owes, he will most likely take the deal.

After the seller agrees to the short sale, you have to kick into gear and prepare the documents so that you can make the deal with the lender.

Chapter 5 - The Short Sale Document Package

Once the seller agrees to the short sale proposal, you have to then put together a package to give to the lender so that they will also agree to the concept.

Although you will be offering the lender less money than is owed on the property, they will be inclined to accept a reasonable offer. They know that the foreclosure process takes a long time and is expensive. They also know that once the house is foreclosed upon and goes back to the lender, they have to sell it, usually at a loss. Many times, it is a mess by the time the foreclosure is finalized, which can take up to a year. Yes, they can get a judgment against the borrower for attorney's fees and any amount due, but try to collect on that judgment. If the seller is out of work and has no assets, or better yet, declares bankruptcy, they are out of luck. And this judgment is one of the few that can be dismissed in a bankruptcy court.

So the lender has an incentive to go along with the short sale because in the long run, it will end up saving them money. Negotiating with the lender is usually easier than the seller, who doesn't understand the concept. The lender is fully aware of what you are trying to do but will still try to squeeze extra money from you.

The first thing you need to do when the seller accepts your offer is call the lender and find out who is responsible for the short sales. You will probably get bounced around from department to department. You might get a better deal at a larger lending institution which is more prepared for the write off, but you will have to wait longer for an answer and may have to deal with several different people. Once you discover who the person is to whom you have to submit information, talk to them, touch base, tell them what you are doing and that you are planning on purchasing a property on which they hold the mortgage that is in default or will soon be going into default. Tell them that you are sending them a package of information and ask them if there is anything else they need.

The documents that you will need to send to facilitate the short sale with the mortgage company are as follows:

- Purchase and Sale Agreement
- Consent Form
- Hardship Letter
- Comparables of other real estate sales
- Your financing information
- Seller financing information (possibly)

Purchase and Sale Agreement

The purchase and sale agreement, or real estate contract, will not have any contingencies except for one - that is clear title. You want to make sure that you get a house that is free and clear of any encumbrances. This means that in order for the deal to go through, the lender has to issue a release of the mortgage.

There can be no financial contingencies on the real estate contract. No inspection contingencies. All of your due diligence regarding the state of the home should be done prior to submitting the proposal to the lender. The only thing you should be concerned with is getting clear title.

If the lender has been paying the taxes from escrow, you are going to want to make sure that all taxes continue to be paid up to date. You may be liable for some back taxes if the seller is behind on their mortgage payments, but if they are only a couple of months behind, there should still be money in escrow to keep the taxes current. If the seller has been paying their own taxes, this is part of your own due diligence and not the problem of the lender. Be advised that all taxes will have to be paid to date in order for you to get clear title.

The purchase and sale agreement will list the fact that you are ready to close and how much you are willing to pay for the house. Any financing contingencies can be crossed out. There should be no attorney review rider - if you want your attorney to review the purchase and sale agreement, do so prior to submitting it to the bank. You have to be willing, able and ready to close the property in 30 days.

Consent Form

The consent form is a letter from the borrower to the lender authorizing them to discuss their mortgage with you. As you are a third party, the lender will not discuss the state of the mortgage with you without written consent from the borrower. This document should be dated and notarized and signed by all parties on the mortgage. It should list your name and the mortgage loan number.

Hardship Letter

This is something that should actually come from the seller but is a document that you can help him prepare. This is a letter that states why the borrower can no longer fulfill their obligation to make payments on their mortgage. The worse off the borrower appears, the better off for the deal. If the reason for the default is one of the following, you have a better chance of having the short sale approved by the lender:

- Loss of job
- Illness
- Divorce
- Death in the family

In addition to stating why the borrower can no longer afford his obligation, the letter should also give testament to his sorry state of financial affairs. The fact that he has no money, no prospects and is suffering from emotional distress because of the situation.

Remember that you want clear title. The lender has to be convinced that they are not going to be able to squeeze any more money out of their borrower and that it will be better off to write off the bad debt. They cannot put the borrower into prison because he cannot pay his mortgage - there are no more debtor's prisons in society. The only thing they can do is get a judgment on them and then try to enforce the judgment. This can be impossible if the borrower has no money or job. And again, if the borrower files bankruptcy, the mortgage company gets nothing.

You can write the hardship letter for the seller and go over it with him and then have him sign the letter. The letter must be signed by the seller/borrower.

Comparables of other real estate sales

The more information you can give to state your case to the lender as to why they should take a loss and accept your offer the better. If there are 32 houses on the market that are all sitting there, unsold, chances are that if the lender grabs the house in a foreclosure, there are going to be 33. If the houses are not selling and the market in the area is dead, it is in the best interest of the lender to take the deal.

You can get comparables at the county assessor's office or even online. Remember that these are sale prices of homes in the area that are like the home in question and not listed prices.

In addition to the value of the home by comparables, you should also list (if true) the number of homes that are in the area that are for sale. This gives the lender an incentive to want to take the deal.

This information should be formatted to build a case in your favor. In the area cited in the previous chapter, the lender is taking a loss of $25,000.   There has to be an incentive for them to do this. If they feel that even if taking over the property they are unlikely to sell it for the market value and that they are going to take a bigger loss if they go through with foreclosure (not to mention that the foreclosure will take a while at which time the house is liable to be in worse condition than it is now) they will take the deal. The lender will weight the checks and balances. You have to offer them a better deal than a foreclosure.

Your financial information

In order to make the short sale fly with the lender, you are going to have to show proof that you are able to close on the property in 30 days. This proof entails either bank statements that reflect enough cash in the account or a pre-approval letter from a mortgage company. The lender is not concerned with how you finance the property as long as there are not contingencies.

Again, you do not have to purchase a short sale with cash. You can finance the deal but your financing has to be pre-approved. This means that you have to get a pre-approval letter from the bank. A pre-approval letter is not a pre-qualification letter.

A pre-approval letter is a letter from the underwriter that states that you are approved for a mortgage up to a certain amount. They have reviewed the purchase and sale agreement and the only contingency is clear title (which is on the purchase and sale agreement anyway). They are ready to give you the money as you have submitted all supporting documents (proof of employment, income tax statements, financial information) to the lender. The lender is ready to close on the property.

Usually, a lender will only loan you 80 percent of the amount of the sale price. So you should also present the short sale lender with proof of your down payment. This should be a bank statement reflecting the amount of the down payment in your bank account.

One word about submitting bank account statements. You should submit three months worth of statements to the lender. Lenders are under an obligation not to deal with people who suddenly deposit large sums of cash into their bank account. They will want to know where this cash came from. It is better if you have bank statements that reflect a solid balance for more than one month.

If you are using investors, you should submit the information of a joint venture and a bank statement from the venture to the lender. We will discuss alternate financing for a short sale investment in the next chapter.

Seller's financial information

Remember, if the seller is in dire straits, the better off for your deal. The lender knows they cannot squeeze blood out of a stone so if you submit banking information and statements from your seller stating that he only has $300 to his name, the lender will be more inclined to take the deal, although the lender will run a credit check on the borrower, so this information should be true. The seller's financial information does not necessarily have to be part of the short sale package.

Chapter 6 - Short Sale Investors

The more you understand about the short sale, the better off you will be. You can use your knowledge to convince investors to go along with you in the deal. Some investors will be willing to enter into a joint venture with you so that they can make easy money with little financial risk to themselves and not much effort.

If you have the know-how when it comes to short sales, you can find someone with cash or borrowing power and form a joint venture. A joint venture is like a partnership that is limited to a particular project. In this case, the project would be the short sale investment.

You can have an attorney draw up documents that reflect everyone's responsibility with regards to the project. The responsibility of the financial backer will be to finance the project once the short sale is complete and the closing is set. The beauty of this type of investment that you want to stress to any investor is that no money actually has to change hands until the day of the real estate closing. Unlike buying a foreclosure, you do not have to put down a cash deposit on the property - just prove that you have the cash to close.

The only risk for the investor is if the house turns out to be worth even less than you pay for it. This is why it will be so important for you to do due diligence prior to the sale. You are going to have to show all of this information to the investor. We will discuss due diligence and title issues a following chapter.

For the most part, the investor just has to put up the money for the closing and then wait for the property to be sold at which time he gets half of the profit. Depending on what kind of deal you make, the return can be exceptional. It will be much more than the investor can get for a bank investment and much less risky than a stock investment.

The ideal short sale investor is someone who understands a bit about the real estate market but does not have the time or the inclination to negotiate the deal with the bank and the seller. This person can be an attorney, doctor or anyone who wants to make a good return on a real estate investment that can occur only in a down market.

You can divide the proceeds of the sale of the investment in any way you like. You may have more than one investor in the joint venture. If you are planning on investing in the property as a joint venture, you are going to have to have legal documents drawn up by an attorney and will have to present them to the lender as well as the closing agent so that the joint venture can take title to the property. In some states, a joint venture cannot take title. If this is the case in your state, you can simply have everyone who is involved in the joint venture take title as tenants in common. This means that everyone will get a share of the proceeds of the property. If one of the partners dies, their share will go to their estate and not to the other partners.

You can find short sale investors by joining investor clubs or talking to people who are interested in making an investment. Some people have found that pooling their money together makes for good short sale investments.

Start an investment club either online or locally for those who are interested in taking advantage of the buyer's market that we are now experiencing in the real estate industry. This can be a good way to meet others who would like to also invest in this type of real estate venture.

Chapter 7 - Lender Negotiations

After you present the package of information to the lender regarding the short sale that contains all the pertinent documents, you are then going to have to follow up with the lender. Chances are that they are going to take a while to give you an answer with regard to the deal. The average time span between the time you submit the package to the lender and when you get an answer is 60 days.

Lenders are inundated with requests for short sales. Each request must be carefully reviewed by the lender and the checks and balances weighed. The lender is fully aware of the options and wants to make the deal that will cost them the least amount of money,

If you are a good investor and are offering cash, you will get preference over someone who is offering to buy the property with a mortgage. Even with a pre-approval letter, a lender would rather deal with a cash sale. However, this should not put you off from trying the short sale with financing.

The lender has three options with regard to your proposal of the short sale. These are the options:

- No Deal
- Yes, Lets Close

- Yes, at a higher price

These are the options. Many times, the lender will choose option number three which is basically a counter offer for the purchase of the property. In the scenario described earlier in this book, we looked at a very reasonable and conservative offer with regard to the short sale. The property was worth $120,000; the owner owed $130,000 and we offered $105,000. The lender may come back and ask for $110,000.

Whether or not you choose to take the deal depends on several different factors. Are you planning on selling this house or are you planning on living in this house? Are you looking at this property as a short term investment or a long term investment? Are you sharing the proceeds with anyone?

If you are seeking to purchase the property as a primary residence, this can be a good deal for you. You are getting the property at less than market value. If you feel that this is a place where you wish to live and that the prices of the homes dropped due to an influx of homes for sale in the market, they are very likely to rebound once the real estate market picks up.

If you are seeking to rent the property out, you may think about taking the deal as well if you have renters who will cover the mortgage and taxes. Remember, you are still getting the property for less than market value.

If you are planning on selling the property, this can be a toss-up. The market value of the property is $120,000 and you are buying it for $110,000. Don't forget that you are going to have to pay for any property sales taxes and title charges as this is part of the deal with the owner of the property. Figure on an additional $2,000. Now your profit, if you sell it yourself, is about $8,000. If you can get market value. How many homes are on the market and will you be able to flip it? If you make some cosmetic repairs to the home and fix the roof, you may be able to raise the value to $130,000, so you may be able to earn a bit more in profit.

Figure on what your time is worth in the project and how much you will be expected to put forth to sell the property. The more you can do to cosmetically enhance the property yourself, the better off you are. Even if you make a few thousand dollars on a short sale all for yourself, it is not a bad investment if you are doing this on the side. A few thousand dollars for tying up your money for a month or so is not a bad return and is a lot better than you can expect to get anywhere else.

If you have to split the proceeds with others, however, you may feel that the deal is not worth further negotiations. You may choose to walk away from the deal. At this point, you lose nothing. The seller cannot force you to adhere to the purchase and sale agreement because he cannot give you clear title. The lender is not willing to release the mortgage for less than

$110,000.

You can call the lender and try to negotiate somewhere in the middle, say $107,500. You can also ask that the seller pick up some of the costs outside of closing to make the deal go through. Some of the costs that he seller can take on are the title charges which are traditionally a seller's burden anyway and the county and state sales taxes.

If you feel the property is worth fighting for, you need to negotiate with the lender for a better deal. In most cases, the lender will not want to lose a good deal over a few thousand dollars. And since the seller is now way behind in the mortgage, he or she will want the deal to go through as well.

Negotiating with the lender is only difficult because the person to whom you are speaking has to get an answer from someone else, usually a committee of people.   In most cases, however, the lender is more than willing to negotiate if they come back with a counter offer. If the lender comes back with a counter offer that is in the ballpark for you, you are wise to counter the counter offer and squeeze a few thousand dollars extra out of them. Remember that every dollar counts.

Chapter 8 - Due Diligence

Let's say that you got the deal and you are ready to close. The next step is to get a title commitment ordered. This is usually the responsibility of the seller and the seller is probably most likely using an attorney. The attorney will want to get the title ordered at a company where he can get money for examining the title. If the seller is paying for the Owner's Policy, which is what you will be getting, then traditionally they will choose the title company. If, however, you have made a deal that you will pay for title, you should make sure that the purchase and sale agreement stipulates that the title company will be that of your choosing. You can still opt for the seller's attorney's choice, but make sure that you shop around and they give you a good deal. The seller's attorney gets money for examining the title, which is his incentive for wanting to use a certain title company. This is not illegal. But you should not have to pay extra to feed your seller's attorney. Make sure the rate that you are paying for title is competitive. It is usually based upon the sales price of the home.

As far as house inspections, you have to do this prior to the deal. Remember, there are no contingencies allowed on the purchase and sale agreement. Prior to buying the house, you can choose to do a home inspection. You can eliminate this need if the owner is a new owner and had a home inspection, if the municipality where the home is being sold requires a municipal home inspection or if the property is new construction. Otherwise, you should get the inspection finished before you send the package to the lender and negotiate the purchase agreement with the seller.

You are entitled to get a copy of the title commitment that will be sent to the seller's attorney. Again, the only stipulation on that purchase and sale agreement should be clear title. The seller is obligated to give you free and clear title. If you did your homework, you should have an idea of any liens that are on the property and have them worked out prior to the closing.

You are going to want a warranty deed from the seller warranting that he or she has not done anything to the property to interfere with the enjoyment of the property. You are going to want an Owner's Title Policy from the title company in the amount of the sale price of the home. Do not let anyone talk you out of getting either of these documents. The seller should warrant the property and the title company should stick by their search and insure their findings.

Here are some things that can go wrong when you purchase a house for cash and you do not get a warranty deed or title insurance policy:

- The seller can take out a second mortgage a few days after the title insurance commitment was issued and it will not reflect on the commitment. But the lien will be placed on the property. If the seller skips out without issuing a warranty deed and you do not have an owner's policy, you are stuck with the lien on the property;

- The title company can make a mistake and might miss a mechanic's lien on the property;
- The seller can not be the legal owner of the property;
- The seller could have sold the house to someone else a few days before your sale which would not be picked up on the title search.

There are a lot of things that can happen between the time the title company does the title search and the deal closes. This is why you want an Owner's Policy. The owner's policy will require the seller sign an ALTA statement that states he has not encumbered the property. The title company will or should do a gap search. If anything like the above goes wrong and the seller is crooked or the title company makes a mistake, you have not one but two ways to seek retribution. You can go after the seller (he warranted that there was nothing to interfere with the enjoyment of the property) and you can go after the title company (you will make a claim against the company).

If you are not familiar with reading a title commitment or know the difference between a title insurance policy and a commitment, you should seek the assistance of a real estate attorney to review the closing documents for you.

You will also want to make sure that the property you are buying is indeed, the house in question. This is also ascertained by the title insurance commitment and policy. You should have a survey ordered that includes a site plan of how the property sits on the lot. The survey should include a metes and bounds description which should match the metes and bounds description on the title commitment as well as that on the deed. This is also known as the legal description of the property. This is how the property is described on the county maps. The street address of the property (123 Main Street) is merely the "commonly known as " address. The real address is the metes and bounds description (beginning at the Northwesterly corner of Main and running easterly 30 degrees, 4 minutes, 3 seconds…) Some legal descriptions can be very lengthy so it makes sense to have a shorter, common address to get your mail.

Also included in the deed and the title commitment is the tax identification number. This is assigned by the county assessor. It should be the same on the deed as well as on the title policy. It is not always reflected on the survey.

The documents and items that you should receive from the seller at the closing are:

- An Affidavit of Title
- Bill of Sale
- Seller's Closing Statement
- HUD-1 Closing Statement

- Title Insurance Policy
- Keys to the house

The deed will be sent to your in the mail after it has been recorded. Until you get the deed, the affidavit of title is your evidence of the conveyance. The Bill of Sale covers any items in the house that were sold that were not part of the house (garage door openers, window treatments, appliances, ceiling fans). The Seller should prepare a closing statement (his attorney will do this) and the HUD-1 is the closing statement that will be prepared by the title company.

The title insurance policy may be issued right at the closing. You want to make sure that it is good from the day of closing. Of course, you want to collect keys and garage door openers at the closing as well, unless you are giving the parties extra time to move out.

Note:

If you are giving the owner of the property some time to move out, get a title indemnity from the title insurance company. This means that they have to put forth some money that will be returned to them once they move out and the house is found to be in good condition.

Once you have successfully closed the short sale, it is then up to you do decide what you want to do with the house.

Chapter 9 - To Sell or Not To Sell

In today's market, flipping is not going to net you the payday that people were getting when the residential real estate market was booming towards the end of the last century. You can, however, end up selling the property and making a few thousand dollars for your efforts. You have the following choices when it comes to the property that you purchase on the short sale:

- Sell it as is and take any profit
- Fix it up and possibly sell it for more money than you can as is
- Rent it out
- Live in the property

The first two options are short term investments and the last two are long term investments. The residential real estate market today is better for the long term investment, however, you can still make money on a short term basis if you negotiated the short sale properly and got a good deal.

Sell it as is

If you sell it as is, you should try to do this by owner. Hold an open house and sell it for less than the market value. You may want to make some cosmetic changes to make it more appealing. You purchased the property for less than the market value so if you are not looking to make a killing, you can make a profit by selling it under the market value.

Fix it up and sell it

If you are in the trades or know someone who is willing to work to fix up the property, this can be a better option. You can make all of the necessary repairs and make the house more appealing. Be sure to concentrate on cosmetic effects as this is what people notice more than those that are more expensive and add value to the home. If you have a choice between new carpeting and new windows, new carpeting will sell them every time, although new windows will actually add to the value of the home. New carpeting is a lot cheaper, too.

Fixing it up and selling the property only works if you can do the bulk of the work yourself. If you are planning on contracting the work out, you may end up spending more than the house is worth.

Rent the house out

Before you do this, you should study the market, see the comparable rents and make sure that the rent you charge will cover the mortgage and taxes and leave a little left over for repairs. You are better off to enter into a “rent to own” agreement than just renting the property. This is because people tend to take better care of property that they are renting to own rather than just renting.

Renting out the house can be a good way to pay for the mortgage. Even if you paid cash for the property, you can finance it after closing, take the interest deduction off on your taxes (although you will have to claim the rent) and hold onto the property for a longer term. If you anticipate the property values rising (if the home is in a nice area, chances are very good the value of the home will accelerate once the housing industry gets back on its feet - which it always does), then this can be a smart long term investment.

Live in the home

If you are looking for a house in which to live, the short sale may be the best option you can get. You can get a house at less than market value and hold onto it for as long as you want. You can gradually fix it up over the years As we all need a place to live, this is a viable option for you. In this case, this can be a long term investment that really works out.

Real estate is a good investment. It is unlike stock, which is really just shares in a company. It is a tangible asset that is needed by everyone. We all need shelter so real estate is not about to go out of style. You just have to know how to invest, where to invest and when. Right now, investing in the short sale is the most lucrative form of real estate investing - regardless of whether you are looking long term or short term. Before you make your next investment or buy a home, take a look at what you can get with a short sale real estate investment.