



? SHORT SALE ?

QUESTION:

Friends have told me that there are some great deals to be had right now in homes offered as a short sale. What is a short sale? Should we be wary of one?

ANSWER:

In a short sale, a buyer pays less than the amount a seller owes the lender. There are more cases of 'short selling' in markets where home values are dropping. Typically, when a homeowner can't pay his mortgage because he has suffered some sort of hardship - - loss of a job or divorce for example - - he simply sells his home. But when home values are dropping, this can be a problem.

In some cases, a homeowner might find he owes more on his mortgage than his home will sell for. In these cases, lenders will sometimes accept less than the amount owed on the home, assuming the homeowner doesn't have other assets that can be sold to make up the difference. The lender then doesn't have to go to the expense of selling the house at auction.

The question you have to ask yourself is: Are you really getting a great deal?

If the house was purchased at the peak of rising home values, then the homeowner might have paid a premium price for the property. If values are dropping today, the lender may only be able to discount the property to current market values. So in that case, you wouldn't really be getting a bargain at all. You'll have to know what similar houses in the market are selling for to find out if you are getting a good deal. Find out how long the home has been on the market and make sure you get good inspections. A seller who is in financial trouble often can't keep up with repairs. You'll want to have a good idea what has been neglected.

Short sales are tricky legal propositions. You'll want to make sure you have an attorney experienced in this sort of sale. You will also want to know who the lender or lenders are and remember the lender will be looking for a better deal than a short sale will offer so the lender probably will not instantly agree.