

What is a Short Sale?

In last week's column, we talked about the record number of foreclosures that are about to hit the real estate market. We also asked the question, "How can an investor buy a house that is worth \$100,000, has a \$105,000 mortgage and still make \$30,000 on the deal?" The answer is: Do a Short Sale.

So what in the heck is a Short Sale? It's when a real estate investor negotiates with a homeowner's mortgage company to accept a payoff that is less – *often a lot less* – than what is owed on the homeowner's mortgage.

For example, let's say you meet with a homeowner whose property is worth \$100,000. Unfortunately, because he is behind on his mortgage payments and is being charged late fees, he owes the mortgage company \$105,000. This means the homeowner owes more than what the property is worth.

Let's make this deal even worse. Let's say the property is in bad shape. It needs carpet, paint, the roof replaced, *and* the house has mold. In total, the property needs a \$20,000 rehab. What investor in his right mind would ever want this property? You'd have to be crazy to waste even one minute looking at this deal, right? Not necessarily.

Let's look at this deal from the **MORTGAGE COMPANY'S** point of view. If the homeowner doesn't make his mortgage payments, what must the mortgage company do? Foreclose, right? Once they foreclose, then what? They get the house back, right? Then what?

And this is the \$30,000 question!

Do you really believe the mortgage company wants this property back? Remember, the mortgage company is in the money loaning business, not the hammer swinging or property managing business.

Oh, and there is one little known detail I need to mention. When a mortgage company forecloses on a property, it must put up to three times the amount of the bad debt in an escrow account and leave it there until the property sells. In this case, the mortgage company would have to put up to \$300,000 in an escrow account. Ouch!

Things are really looking bleak for this poor mortgage company, aren't they? They are owed \$105,000 on a house that is only worth \$100,000. This puts the mortgage company \$5,000 in the hole. Once they get the property back, they will need to do a \$20,000 rehab. Then they must list and sell the property. This means they'll have to pay \$6,000 in realtor commissions. Then there is the expense of insurance and utilities. Oh, and let's hope that while the house sits vacant it doesn't get vandalized by the neighborhood kids. Finally, there is the fact that the mortgage company has \$300,000 in an escrow account that it can't loan to other homeowners.

Are we forgetting anything? Oh yeah, do you think the mortgage company has only one non-performing mortgage? No way! Most mortgage companies have thousands of pre-foreclosure

properties on their books. Worse still, the number of properties going into foreclosure is skyrocketing!

When looking at this situation from the mortgage company's point of view, do you see why they may want to consider accepting an offer that is **BELOW** what the property owner owes *and* **BELOW** what the property is worth?

Now for the big question: Who else, other than a knowledgeable real estate investor, knows how to do a Short Sale and solve both the homeowner's and mortgage company's real estate problem? In two words, *no one!*

So going back to the example above, our initial purchase offer to the mortgage company would be about \$45,000. We know this sounds crazy, but mortgage companies are accepting offers like this in record numbers. Why? Because they don't want the house back.

Are Short Sales easy to do? Not by a long shot. They require knowledge and persistence. With knowledge and persistence you will be able to do Short Sales and buy properties from which most other investors walk away.

If you want to learn more about short sales, or would like to be mailed a **FREE** copy of our 16 page monthly real estate investing newsletter, or would like information about our 1,500 member real estate investors group that meets monthly at the Holiday Inn in Cartersville, then please visit our website at **www.REIoutpost.com**