

An Example of a Short Sale

Last week's column about Short Sales sparked quite a reaction. The most common reaction was disbelief. The second most common reaction was Kim and me being called a couple of lying curd dogs.

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.

Few believed that if a seller was behind on his mortgage, that a seller's mortgage company would actually discount a seller's mortgage by 30% to 50% in order to get the property sold.

Funny, of the disbelievers, three were bankers and five were mortgage brokers. We had to fax each of them one of our deals in order to prove we weren't egg sucking dogs.

After some discussion, Kim and I realized that there were many folks who didn't believe last week's column. Therefore, this week's column will be about a Short Sale Deal in which we are presently knee deep.

Hope today's column helps you to see that not only are Short Sales possible, they are a common deal structuring technique used by experienced real estate investors.

NOTE: If you missed last week's column, please visit our website at www.REIoutpost.com. Once there, click on the "Articles" button on the left hand side of the screen, then click on Short Sales, then on *What is a Short Sale*.

On February 2, 2006, Kim talked to a homeowner who was behind on her mortgage. The property address is 770 Lewis Ridge Drive in Lawrenceville, Georgia.

The property has a fair market value (FMV) of \$216,000. The mortgage was \$217,000. The house was built in 2002. It has five bedrooms and two and one-half baths. It is two stories over a full basement and has a two car garage. The property is in great shape and only needs interior paint and carpet.

The homeowner was in foreclosure. Her house was due to be sold at the foreclosure auction on Tuesday, March 7, 2006. If her house had gone to auction, she would have a foreclosure on her record, and because the property had no equity, the mortgage company would get the property back. As it was, this was a lose – lose deal.

Wanting to avoid foreclosure, the homeowner asked Kim to try a Short Sale. Kim promised to do her best.

After signing a purchase and sale agreement with the seller and getting all of the seller's mortgage information, Kim contacted the Loss Mitigation Department at Citi Financial (the seller's mortgage company). The Loss Mit rep agreed to consider a Short Sale.

Kim's Short Sale offer was \$155,000. Citi Financial countered back at \$167,000 (a reduction of \$50,000!). Kim stuck to her guns. She told the Loss Mit rep that her top offer was \$155,000 and not a penny more.

On March 30, 2006, Citi Financial agreed to our purchase offer of \$155,000. This was a price reduction of \$62,000!

After Citi Financial finally got all their paperwork together, we bought 770 Lewis Ridge Drive on April 20, 2006. Our purchase price was \$155,000.

Kim immediately began marketing Lewis Ridge. Three days later, we had a signed purchase and sale agreement to sell Lewis Ridge. Our "as is" wholesale sale price was \$175,000. The buyer is another investor who plans to keep this property as her personal residence.

As I write this (May 15, 2005) we are due to sell Lewis Ridge on May 25, 2006 for \$175,000. At closing we will receive a check for roughly \$20,000.

To sum up: The homeowner avoided having a foreclosure on her record; the mortgage company didn't get a house back after the foreclosure auction; our buyer is getting a \$217,000 house for only \$175,000; and we were able to make a nice profit. In other words, by doing a Short Sale, we took this from a lose – lose deal to a win – win – win – win deal!

Don't you think it is about time you learned more about Short Sales?

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**