

In the Short Sale process, it's all about the Value  
By: Kim Cook

One of the hottest, most talked about tools an investor must have in his 'tool belt' is the ability to successfully negotiate a short sale with a mortgage company. When an investor has the knowledge and ability to create equity in a deal where there previously was none, then the possibilities for financial freedom are endless for that investor.

As most savvy investors know, a short sale is when a third party (usually an investor) negotiates with a mortgage company to accept less than what is owed on a mortgage as payment in full.

I recently had the opportunity to spend several days with a senior loss mitigation representative who has worked with one of the country's largest banks for the last thirteen years. I wanted insight as to how a mortgage company handles a mortgage in default and what steps are taken in their attempts to get the mortgage current or take the property to sale. I also wanted to know how a mortgage company deems the value of a property and what percentage, once they've deemed the value, will they accept as a short payoff.

To say that my weekend spent talking short sales was informative and educational, is an understatement! Following are a few of the questions I asked my loss mitigation contact and the answers she gave.

**Question:** In a non judicial state like Georgia, when is the best time to approach a mortgage company with a request to accept a short payoff; before a foreclosure sale date has been scheduled or after?

**Answer:** Before the mortgage company has deemed a value on the property. When a mortgage becomes more than 30 days delinquent, the lender hires a real estate agent to do a 'field inspection' report on the property. The lender wants to know several things; 1) are the homeowners still living in the house, 2) what condition is the property in, 3) what is the RMV (real market value) of the property. The agent does a 'drive-by' BPO (Brokers Price Opinion) to gather this information. The mortgage company then takes the appraisal from the loan origination and the information gathered from the BPO's and assesses the value of the property. The value is normally deemed before the foreclosure sale date is scheduled. Therefore, the sooner you ask the mortgage company to entertain a short payoff, the better. This means the investor must work hard to find a property when the homeowner is just a few months in arrears.

**Question:** Once a value has been deemed on a property, to what percentage will a mortgage company reduce the payoff, and what can we, as investors, do to seek a lower payoff?

**Answer:** That depends on the type of loan secured against the property, the age of the loan, the condition of the property, and the FMV (Fair Market Value) of the property. In Georgia, if a property is valued at 0-50k, then most mortgage companies will accept 30% less as payoff. If the value is between 51-75k, then most mortgage companies will accept 25% less. If the value is between 76-100k, most mortgage companies will accept 20% less. If the value is 101k or higher, then most mortgage companies will accept 15% less.

Once a value has been deemed, an investor fights an uphill battle to get the mortgage company to accept less than its 'loss percentage'. Of course, the rewards come with the battle scars. An investor must validate his/her offer by sending comparables, a contractor's list of repairs, pictures of any damage to the property, the homeowner's financial packet (short sale packet) and hardship letter, the purchase and sale contract, the offer (preferably on a HUD-1) and a proof of funds letter.

In this day and time of 80/20 loans, interest only ARM's, and upside-down mortgages, banks and mortgage companies are totally overwhelmed with requests for loan modifications, Deed in Lieu and Forbearance agreements. Banks and mortgage companies are in the unenviable position of having to pull employees from different departments to work in the loss mitigation department. So we, as investors, need to educate ourselves and become smarter than the loss mitigation representatives so that we can help direct our short sale requests to a successful close. Never allow someone else to control your success!

Case in point; I recently asked a loss mitigation representative what 'RMV' meant. She constantly referred to the 'RMV' of the property, but she kept referring to it in a strange context. So to test her knowledge of the loss mitigation department, I asked her several simple questions. Believe it or not, though she kept referring to the 'RMV', she had no clue that it meant 'Real Market Value'. It was at this point that I knew I would have to guide her through the short sale process, or lose my short sale.

**Question:** What importance does the loss mitigation department give the BPO appraisal?

**Answer:** When mortgage company mitigators are asked to consider a short sale, no information is as important to them as the information they already have. Hardship letter, financial information, comparables, contractor's estimate of repairs.....nothing means more than the deemed value of the property. As mentioned above, they consider the original loan appraisal and the field inspector's appraisals to deem the property's value. When a bank is asked to

consider a short payoff, an 'interior BPO' is requested. The bank uses the information and pictures from the internal BPO to reassess (if necessary) the value of the property.

The bank also considers what it costs to foreclose. Georgia, being a non-judicial state with no right of redemption, is considered a 'fast' foreclosure state. It takes a lender three months to take a defaulted mortgage through the foreclosure process. A lender is less inclined to accept a massive reduction on a property in Georgia than they would with a property in Alabama, which has a twelve month right of redemption. Georgia is considered a medium risk state because of its fast foreclosure process. Alabama is considered a high risk state because of its lengthy redemption period. A state is considered a high risk if the redemption period is six months or over. You have a much better chance of acceptance of your short sale in a judicial state versus a non-judicial state.

There are so many variables when it comes to the short sale process. Learn as much as you can about this awesome deal structuring tool. Learn as much as you can about the foreclosure process in your state. The rewards from this knowledge are priceless!

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