



**1-800-CashOffer**  
America's Premier Home Buyer

## The Real Deal on Short Sales

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### Introduction

We've been amazed at the explosion in the number of courses and materials available to real estate investors these days.

Your opportunities range from dropping \$5,000 or more to spend some time with a real estate "guru", to purchasing individual courses and CDs that sell for hundreds if not thousands of dollars.

Make no doubt about it, there are many people who are making money in the real estate investing market, but they don't have to take risks buying property - their market is **you**.

Whether you've been investing in residential real estate for a decade or a month, you represent a lucrative market to people that actually refer to *themselves* as "gurus". And the gurus call each other gurus, furthering the notion that they actually *are* gurus. But there is a reason for this – they all make money by referring to each other.

Some "gurus" simply run teleconferences to feature other "gurus" who speak for hours, telling you what they *are going to tell you* – if you buy their pricey course which is pitched at the end of the call.

We'd like to dispel one myth of real estate investing right here and now. You don't need these gurus.

There **is no silver bullet** that is going to make you rich overnight. Real estate investing is not comprised of secret techniques and knowledge only known to "gurus".

The basics of real estate investing are not rocket science, but you *do* need a reliable source of

information, especially if you are new to real estate investing or new to some part of it that you have not done before – such as short sales, which we will cover in this article.

At **1-800-CashOffer** and our sister company, **FastHomeOffers.com**, we've had the pleasure of working with thousands of real estate investors over the last 6 years.

During that time, we've been investors ourselves in markets throughout Texas and reviewed hundreds of books, articles, courses and other materials offered to real estate investors.

We've been on CNBC speaking about short sales, we've been featured as industry experts on panels in USA Today and on National Public Radio, and we are regularly quoted in magazines and newspapers throughout the country.

After all that, we don't refer to ourselves as "gurus", but we are real estate professionals that have seen just about everything when it comes to investing.

As a service to our many friends in this business, we've decided to offer a series of articles on topics that are important to real estate investors in today's market. Our price for this information may shock the "gurus"...

**We've decided to give it away for free.**

## Overview

If you're not doing short-sales, you are severely limiting your real estate investing business.

We help investors throughout the country grow their business and we know what everyone knows by now – many, if not most, motivated home sellers owe too much on their homes to fit the old model of real estate investing. Some people even owe *more* on their homes than they are actually worth.

We're not only dealing with an environment in which more people than ever are in a possible foreclosure situation, but in most markets house values have **dropped**.

There are a lot of motivated sellers right now, but they have less equity than ever before. If you are just going through the sellers that contact you looking for those deals with 40% to 50% equity, you are not going to find many that fit that profile and you are severely limiting your business.

The response shouldn't be that "there are no deals", but that real estate investors today need to find new ways to monetize their leads.

Many investors have found that there is money to be made by buying properties via short sales – offering less to the lender than is currently owed on the property.

Short sales change the nature of the deal. Now, instead of working just with the seller, you are working with the lender to discount the loan payoff so you can purchase the property.

Here in our quick course on short sales, we'll talk about how you do that successfully.

There is another realization that comes along while working with the lenders to purchase houses for less than the loan value – short sales take **time**. Lots of time.

Unless you are going to spend your days calling lenders and sitting on hold, you're going to need help if you're going to do more than a few short

sales each month. This help can come in two forms – you can hire someone to handle your short sales, or you can outsource the short sale process to a competent firm. Either way can work. There are pros and cons to each.

In the spirit of giving you a quick overview here, we want to highlight that there are a few things that you should recognize as the most important aspects and realities of doing short sales:

- 1) Lenders are not going to accept a short sale if they think the homeowner can make the payments. If the homeowner can't show that they are unable to pay the loan, the lender is not going to discount the loan. To make a short sale work, you'll want to help the homeowner show the evidence of their hardship (why they can't make their payments).
- 2) Lenders do not give houses away. Just because you make an offer, don't assume that they will accept that offer. It's going to take some effort to prove to them that your offer is the most they are going to get for the property.
- 3) Lenders estimate the current value of the subject property by ordering a "Broker's Price Opinion" or "BPO". This is simply a real estate agent or broker who gives an opinion to the lender on what they think the value of the house is. It is critical to work with the BPO agent and provide them comps, examples of needed repairs and other issues that will show a low value. If there is a recent appraisal on the property, many lenders will use this instead of ordering a BPO. A large part of a lender's decision to accept your offer is based on the BPO.
- 4) It helps to know people at each lender and how each lender works. This is going to be challenging if you try to do this yourself or hire a person to work on the short sales

(unless that person has prior experience working with multiple lenders).

- 5) A short sale requires a great deal of paperwork. If you want the short sale to happen, you're going to need to help the home seller put that paperwork together – or at least make sure it gets done. Most outsourcers are not going to do that for you; their process usually begins when that paperwork is compiled and submitted to them.
- 6) The lender is going to be a hesitant to sell the house to you if your low-ball offer is the only offer they have received. It would be better if (at least) two offers were made, and yours was the higher of the two. Multiple offers will help to show that the market value of the house is really at that low level, and if your offer is the better offer, it makes sense to accept yours.

Despite all the harsh realities of short sales, there are investors out there that are successfully buying houses via short sales. And, no matter what market you're in, there are short sale investment opportunities. Let's take a look at how to make short sales work for *you*.

## The Short Sale Process

Regardless of the lender and the market, short sales typically follow a common process. By understanding that process, you can better identify which of your leads represent good prospects for short sales.

### Step One – Qualifying the Seller

As mentioned in the overview, the seller must be in a pretty bad financial situation for the lender to consider the short sale. Even if the seller has suffered a job loss or a devastating medical situation, if they have \$100,000 in savings and brokerage accounts, the lender is probably not going to consider them to be “broke enough” to qualify for a short sale. The lender may expect the person to use their savings to cover their

debt obligations, before forgiving any of those obligations. You should use a set of simple questions to qualify the seller for a short sale:

- 1) What is their “hardship”? Did they lose their job, etc.?
- 2) Are they behind on payments and facing a potential foreclosure?
- 3) Do they have any savings or investments that could be liquidated to pay their mortgage?
- 4) Is their property in disrepair? Does it need a lot of work to make it ready to sell?
- 5) Has the property value dropped significantly?
- 6) Do they owe more on the house than it is worth?
- 7) Have they tried to sell their house via a Realtor or “For Sale by Owner”? If so, what was the listing price and how long was it on the market?
- 8) What is the condition of the local market/community? Increases in crime? Job losses?

The fundamental consideration that qualifies someone for a short sale is that their property is worth *less* than the liens against it. In addition, a seller is a good candidate for a short sale if they can no longer make the payments, they've tried and were unable to sell the property, and the property needs repairs.

### Step Two – Completing the Paperwork

For those sellers that appear to be qualified for a short sale and wish to proceed, you'll want to help them to complete a package of paperwork to document their hardship and provide relevant information about the house. Typically this information would include:

- Copy of recent mortgage statement for all lenders.
- Copy of any delinquency notices, notice of trustee's sale, notice of default and any other

documents that they have received, or will receive from the lender.

- Past two years' tax returns
- Past two months' paystubs
- Past two months' bank statements
- Last six months' Profit and Loss (if self employed)
- Divorce Decree (if applicable)
- A **hardship letter** that explains the owner's financial problems and inability to pay
- A **financial statement** that summarizes the owner(s) current financial situation
- An **authorization letter** that authorizes the appropriate parties (you or your short sale processor) to interact with the lender on the seller's behalf (related to the short sale)

In addition, the following information about the house should be included:

- Verify the value of the property. If there is a broker involved, they can provide comparable sales. Well-chosen comps are critical, especially if the BPO shows comps that do not accurately reflect the type and condition of the subject property. While comps are important, you will want to perform the most comprehensive market analysis possible and provide those results. Although it may not be financially feasible to do on every short sale offer you are making, it is best if your market analysis includes an actual appraisal, especially if an appraisal might provide a more realistic assessment of the property than the "drive-by" BPO that lenders often get.
- Compile an exhaustive list of all the repairs or "deficiencies" of the property; even better if this is an actual inspection completed by a reputable inspector. Include the most aggressive contractor estimates of these repairs. Provide photos of all damages.
- Add up all the costs of selling the property. As an experienced investor, you may know these costs. Otherwise, if a real estate broker is involved, they can provide an estimate of closing costs. Or, you can call a local title company or real estate attorney and ask what the closing costs will be.
- Summarize the amount owed against the property. This will be the total of all loans against the property.

- Do the calculations. Subtract the total amount owed against the property from the estimated proceeds of the sale. On a short sale, this will be a negative number.

Finally, the package of paperwork should include:

- A written contract between you and the seller. It should be written in such a way that the buyer pays all costs associated with the transaction, so that the "net cash" to the seller is the exact amount of the short pay to the lender. The contract should be between the seller and an individual buyer; (don't use "and/or assigns" or a company name). Lenders prefer to deal with individuals and may think there is more equity in the house if they believe you are going to flip it quickly.
- A preliminary HUD-1 settlement statement. Your title company can prepare this for you, or if you know the costs you can prepare one yourself and simply write "preliminary" on top.

### Step Three – Contact the Lender

The contact with the lender can be made by the seller, but they will most likely be overwhelmed with the process, and they may not have the same incentive that you have to push the deal through. We recommend that either you or your short sale processor, acting upon the Authorization Letter from the seller, should contact the lender or lenders to present the case for a short sale. You (or your processor) may need to start with someone in the customer service department and tell them the situation. They should direct you to a specific department, usually "Loss Mitigation". Once you get to the right group, you'll want to talk to a supervisor or manager if possible; this person will have more authority. Ask the lender what their procedures are for a short sale – get them in writing, if possible. Using a short sale processor could help greatly in this stage, as they may already know who to call at the lender, and they may already understand the lender's process. This can speed up the process significantly.

In some cases the lender may indicate that they prefer to first try other means to settle the problem with the homeowner (e.g., a loan modification, forbearance, etc.) – this could knock the short sale off the track, but if the seller is truly in a desperate situation and unable to pay their loan, the short sale may look like the best option for the lender to consider.

#### Step Four - Work the Deal

Working the deal through the lender generally involves a great deal of calling and sitting on hold to find out the status of the short sale. Here again, using a short sale processor can work to your and the seller's advantage, as the processor is the one making these calls and working the channels within the lender. An experienced processor may have designated contacts within the lender organization so that their deals are worked in a different queue than the potentially hundreds of others that are being pushed through the lender.

It is during this phase that the lender will order a BPO. We cannot emphasize enough that you want to be involved in this process. Too often these BPOs are really just an agent "driving by" and not even going into the house. The person coming out to do the BPO is, unfortunately, not a skilled inspector or appraiser. In essence, they are just looking at the house to say, "If I listed this property, I would list it at X." As the name implies, it is just their opinion. If you know about repairs needed, or slow sales in the area, you can help to influence their opinion. They may not have seen that evidence of a foundation problem. They may not realize that the roof needs to be replaced if it "looks OK". As they walk through, they may not discover that there are electrical problems. You can meet with them and show them the issues that will prevent the house from selling at top "market value". It can be advantageous if you or the seller invested in an inspection prior to the BPO, especially if that inspection revealed serious issues that a real estate broker or agent is unlikely to see. The BPO is very important. If it comes in much higher than your offer, it will be a big red flag to

the lender, and you will be swimming upstream to purchase the property at your offer price.

While the short sale is in process, the lender may come back and ask for more information – several times. Each time they do, understand that the process is not moving until they get the requested information. You may get frustrated because they don't ask for everything they need at one time but just hang in there, periodically checking on the status and responding quickly to any questions they have.

The lender may come back with a counter-offer, saying they are not willing to accept anything lower. If the counter is acceptable, take it. But if it's not, stick to your offer or raise it slightly. They most likely have no other offer on the table, and if the conditions are right, they may still take it.

#### Is it a "Slam Dunk"?

The process can take months, but with persistence the deal will be pushed through to a conclusion. Don't be disillusioned – many times these deals fall through, especially if the offer is an obvious "low ball". Do not be surprised if the bid is rejected. Lenders are running a business and are primarily looking at the numbers and gauging their risk. Many short sales fall apart if the BPO comes in too high (a common occurrence). You can't trick the lender – if the property does not need serious repairs, it is unlikely you can convince them the property is worth a much less than the appraised value.

The key to success is identifying the **sellers** and the **properties** that are good candidates for a short sale, and focus on getting as many of those going through the process as possible, so that a number of purchases come out at the other end of the short sale pipeline. The right sellers are those who are unable to make their payments going forward, and the right houses are those that need repairs and are unlikely to sell at full market value.

## Outsourcing the Short Sale Process

If you are just doing one or two short sales a month, you may be able to do them yourself or with the help of a part-time employee. But we are assuming that you want to grow your business and purchase as many homes as possible. To accomplish that, you'll need to either hire a small staff or outsource the short sale process. In most cases, we recommend the latter. Even if you hire people to do this, most likely your people will not have the experience with the process or with the lenders to give you an advantage. It is true that people you hire could ultimately acquire that experience, but a group that you set up will never do the volume of deals that a good short sale processor does. And there are processors that will put most of their compensation at risk – they get most of their pay only if the deal is successful. You will not find employees to work for you on those terms. Hence, if you want to process a high volume of short sales every month, we think you need to outsource the process.

### Profile of a Short Sale Processor

#### I PowerSource

In addition to doing short sales themselves, 1-800-CashOffer licensees have worked with a number of firms that are devoted to the processing of short sales. One such firm is I PowerSource.

I PowerSource is based in York, PA, and they have been processing short sales for our 1-800-CashOffer licensees for several years. One licensee, Craig Reich, says: *"I PowerSource is an important extension of our team. Without them, we could not capitalize on short sales and many of our leads would be wasted opportunities. With their help, short sales are now a significant part of our business."*

I PowerSource founder Ed Petrie explains, *"Our company is designed to serve the needs of investors and real estate agents to enhance their*

*sales & profitability. We designed the company to be flexible and adaptive to the changing real estate marketplace and it was this proactive industry analysis that helped to foresee the needs of a changing real estate marketplace. We've now expanded to handle 300 short sale requests on a monthly basis."*

As a result of processing a high volume of deals, I PowerSource has advantages in working with lenders that are difficult for a local investor to replicate. I PowerSource claims to have a very high level of success. According to Petrie, *"Our average approval ratio is 84%. Because of our systems and processing methods we are able to handle larger volume than other vendors in a more effective and efficient manner. Our goal is to turn every file within 4 weeks."*

While many short sale processors begin their work when the short sale paperwork has been completed, I PowerSource says that they will work directly with the home owner to help get the paperwork together. In addition, they know how to guide the critical BPO process, and they are skilled at getting the property favorably valued. It would be difficult to replicate these capabilities in-house. And many times a short sale processor can work out a better deal. Petrie says, *"Our style and approach is to discount the mortgage to create as much equity as possible. While we may be able to meet a set of numbers, if we feel there is more money to discount we will continue working with the lender to gain as much equity as possible for our investors."*

You can learn more about I PowerSource at [www.iPowerShortSale.com](http://www.iPowerShortSale.com).

## The Real Deal on Short Sales

In the current housing market, professional investors must have an aggressive short sale strategy. Otherwise, the deals available to them will be limited and they will miss out on a lot of opportunity.

There is no magical source of leads that will give you all those high equity deals that you are looking for. In this market, you need to change the idea of what your role is as a real estate investor and see yourself as a problem solver. If someone is facing foreclosure, can you work out a solution that helps them while creating a profit for you? If lenders are ending up with too many houses, can you help them to avoid foreclosing, thereby avoiding all the expenses and issues associated with the foreclosure process? There is money to be made in solving these problems.

Short sales are not easy; they are not a “slam dunk”. Understand the profile of a good short sale deal, and you can mine your leads for those diamonds. We recommend that you use an experienced short sale processor – doing so will save you money and dramatically increase your chance of success.

At [1-800-CashOffer](http://1-800-CashOffer.com) and [FastHomeOffers.com](http://FastHomeOffers.com), we're here to help you grow your business by providing education, resources, and by connecting you with the motivated home sellers in your local market. Call us today at **1-888-424-4722** if we can assist you with short sales or any other aspect of your business.

For more information on 1-800-CashOffer visit [CashOfferInvestor.com](http://CashOfferInvestor.com), for more information on Fast Home Offers, visit [FastHomeOffers.com](http://FastHomeOffers.com).

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