Are Banks Making Short Sales a Long Process?

RISMEDIdA, May 16, 2009-(MCT)-Short sales are making up a larger percentage of distressed home listings in several of the more harder hit markets around the country, such as Las Vegas, for example. And local real estate agents there say banks continue to drag their feet on approval. Although short-sale listings, or homes offered for less than the mortgage owed, have climbed steadily since January, short-sale closings declined to 7 percent of all resales in March from about 10 percent in August, Frank Nason of Residential Resources said.

During that same time, foreclosures increased to 80 percent of all sales from 70 percent.

The median price of a short sale in the first quarter was $184,250, compared with $139,900 for a foreclosure, Nason reported. On a per-square-foot basis, short-sale prices were 18.4 percent higher than foreclosures.

“Why aren’t the banks and the Feds trying to expedite and enhance the number of successful short-sale transactions instead of losing more than one-fifth the value of the property?” Nason asked. “That’s not even taking into account the continued financial beating they take while the foreclosure process transpires.”

There were 246 short sales completed in Las Vegas in April, a 27.5 percent increase from the previous month, Rob Jenson of The Jenson Group reported. Short sales on the market increased 4.3 percent to 8,119 units.

Distress sales, which include foreclosures and short sales, accounted for 86 percent of all sales in April and has been in the 80 percent to 90 percent range for the last seven months, Jenson said.

Nason said he usually encounters mass confusion and exhaustive delays at a bank’s loss-mitigation department. Most real estate agents generally avoid short sales because of the “brain damage” sustained from dealing with financial institutions, he said. “More often than not, the transaction falls apart because of the extremely long period of time it takes to get any meaningful response from these institutions,” Nason said. “Or they decide to change the agreed-upon terms at the last minute.”

Given the current state of the housing market, especially in Nevada, short sales are cropping up more than ever as an option for avoiding foreclosure, said John Mechem, spokesman for the Mortgage Bankers Association. That taxes servicers who are set up to receive and process mortgage payments, not manage and approve home sales, he said.

“Short sales are complicated and take time,” Mechem said. “It’s not like submitting a bid to a private owner. The servicer has to do its due diligence, both for its own purposes and on behalf of the investor or the entity that actually holds the note or owns the mortgage on the property.”

Another problem is that borrowers aren't talking to their lenders first. Instead, they're working only with real estate agents and then presenting a short-sale offer "cold" to the bank, Mechem said.

Many of those offers come in absurdly below fair market value, he said. Each offer must be evaluated, which clogs the pipeline and slows the process.

"Oftentimes a buyer will see a short sale and mistakenly think that the bank will sell it far below list price because the bank doesn't want to own the property, so they make an offer significantly under value," Mechem said. "While it's true that the bank may not want to own the house, the bank still is not going to sell the home far below what it has determined as the true market value of the property."

Lenders are being inundated with short-sale offers that are 20 percent to 40 percent below market value, he said.

By approving more short sales, banks could save money and spare people the mental anguish of losing their homes, Nason said.

A short sale will hurt the consumer's credit, but not nearly as much as a foreclosure, which can reduce a credit rating by more than 250 points. Short sales appear on a credit report as "preforeclosure in redemption," not as "debt discharged due to foreclosure."

It would help solve some of the problems associated with foreclosures such as deteriorating landscaping, declining property values and lost revenue for homeowners associations, Nason added.