Home sellers frustrated as short-sale deals collapse

By Stephanie Armour, USA TODAY

Scores of homeowners who thought they'd cut a deal with their banks to sell their houses for less than their unpaid mortgages are seeing those agreements fall apart months later, contributing to the mounting foreclosures that threaten the housing market's recovery.

The sales of homes for less than the amount owed the bank, known as "short sales," have been widely viewed as an alternative that could help slow the foreclosure epidemic. In theory, delinquent homeowners escape a mortgage they cannot afford, and lenders, although taking a loss, avoid the even costlier process of completing a foreclosure.

Instead, many homeowners are watching potential buyers walk away as months pass while they deal with lenders' lengthy delays, lost documents and unreturned calls, according to the National Association of Realtors (NAR). Not all the snafus are lenders' fault; inexperienced real estate agents who fail to turn in complete paperwork also are causing holdups, as are severely underpricedhomes.

The problems have become such a kink in the market's recovery that banks and the federal government are launching new efforts this month to simplify and speed up the short-sale process.

Just 23% of short-sale offers that homeowners receive from potential buyers actually close, according to a February study of 1,300 real estate agents by Campbell Communications. More than 90% of agents cited a slow response from the lender as the reason short sales were lost.

"The delays are quite extensive and a real problem. It's a serious issue," says Mark Zandi of Moody's Economy.com. "You're seeing a lot of short sales go bust, and it's contributing to the crisis because it's one of the reasons foreclosures continue to mount."

Jorge DeMattos, 45, just completed the short sale on his home in Pembroke Pines, Fla. — a process he and his real estate agent, Edward Goldfarb, say took 17 months and eight separate offers.

DeMattos began pursuing a short sale after he was laid off two years ago and his income plunged from $46,000 to $26,000 a year.

Chase Bank, his mortgage servicer, rejected the first offer, which was $14,000 over what was then fair market value, according to Goldfarb.

On the next seven offers, the bank took months to respond. Each prospective buyer got tired of waiting and canceled the contract. The eighth offer, accepted in May, was $24,000 less than the first one that Chase rejected in February 2008, Goldfarb says.

"Chase made it very difficult. I had to stop paying the mortgage. It was so frustrating," says DeMattos, who now lives with his sister in Kissimmee, Fla. "We would put the paperwork in, and they would never give a definite answer. Buyers waited for months."

DeMattos says he owed $355,000 on his mortgage. The short-sale price was $225,000.

Christine Holevas, a Chase spokeswoman, says earlier offers on the home weren't accepted because they were significantly below the appraised value and the homeowner didn't send in updated financial information.

No longer uncommon

Short sales once were extremely rare. But now, with unemployment climbing and home values down, more homeowners are pursuing short sales when they can't afford their mortgage. About 11% of all sales transactions in June are such short sales, according to the NAR.

Some delays stem from agents who fail to prepare buyers and sellers for the length of time it takes to get a short sale approved or who supply incomplete information to banks.

But many short sales are faltering, largely because some lenders may lack the internal staffing, expertise and systems to process such sales in a timely fashion. And short sales can be complex, especially if they involve home-equity lines of credit or other second liens held by different lenders, who also must agree to take less than the amount they're owed from a home's sale.

Several lenders acknowledge that banks have been part of the problem, in part because most have done so few short sales in the past that they've faced a steep learning curve.

"About half of short sales never close. We see it as a big lost opportunity, and we need to improve the rate we close them," says David Sunlin, vice president in charge of short sales at Bank of America.

Uncompleted short sales that go to foreclosure are costlier for lenders and homeowners. For lenders, a short sale may save as much as 30% of the expense incurred by going to foreclosure.

For homeowners, a foreclosure wreaks longer-lasting damage to their credit records. A homeowner who has gone through a short sale typically can get a new home loan in one to three years, according to the NAR. A foreclosure usually means it takes seven.

Borrowers are expected to pay their mortgage during the short-sale process, but not all can afford to. That leads to abandoned properties that may sit vacant and deteriorate for months. In other cases, homeowners unable to make their payments may stay put and pay nothing, in some cases for up to a year, until the lenders' review-and-approval process plays out.

Large numbers of uncompleted short sales are especially troublesome, because other efforts to stem foreclosures have been less effective than expected. The Obama administration's housing rescue plan, which includes getting banks to rework home loans into more affordable mortgages, has made such slow progress that representatives from 25 major mortgage servicers were called to Washington, D.C., last month to discuss improving the efforts.

Short sales are moving into the national spotlight now as:

•**Mortgage servicers ramp up their programs.** Bank of America has begun trying to slash the turnaround time on short sales from up to 90 days after a buyer submits an application to just a week. In a typical short sale, a buyer makes an offer, then the bank conducts appraisals to determine the price it will accept. Setting that price can take so long that would-be buyers may walk away. To try to avoid such delays, Bank of America has begun doing appraisals and determining a minimum price it will accept before a home goes up for sale.

Meanwhile, Wells Fargo has created a real estate agent education guide that explains the process, has increased staffing and has set up procedures to handle short-sale requests and explain the process to homeowners. The bank says it has cut its average turnaround time from offer to approval from up to 90 days to about 30.

•**The U.S. government is getting more involved.** The Treasury Department soon will detail a plan to streamline short sales by providing standardized documentation and cash incentives to lenders and a moving allowance to homeowners.

Treasury has said that servicers have opted to pursue foreclosures instead of short sales because of the complexity and time required to complete the discounted home sales.

Borrowers who complete a short sale will be eligible for $1,500 to help with relocation expenses. Second-lien holders will get up to $1,000 to relinquish their claims in such transactions.

Eligible homeowners can be accepted through Dec. 31, 2012, but the short-sale program is for those unable to get mortgage modifications from their banks.

"We realized we couldn't reach everyone with a modification. For us, that wasn't the end of the story," says Michael Barr, Treasury assistant secretary for financial institutions. "The alternative is to significantly speed up short sales."

No authoritative figures on short sales' completion times are available, but some research indicates the problem is worsening.

A survey in March 2008 by Campbell Communications found that the average time for a mortgage servicer to respond to an offer to buy a short-sale property was 4.5 weeks. Campbell's follow-up survey in February found that the average response time had doubled to nine weeks.

A third survey in June found the response time was 9.5 weeks. The surveys were sponsored by *Inside Mortgage Finance*, an industry publication.

"The foot-dragging means it's taking six weeks to six months," says Lawrence Yun, chief economist with the NAR. "There are big delays. The review process is taking way too long."

'We had a learning curve'

Lenders say the approval process takes time because there are so many parties involved. Some bank officials say they've been learning as they go.

"We had a learning curve," says David Knight, senior vice president for Default Retention Operations, Wells Fargo Home Mortgage. "Any stakeholder has a right to disapprove the sale. Realtors out there were used to regular sales. Now, all of a sudden, the servicer and Realtor have had to learn a lot."

Some real estate groups also are trying to improve the process. Re/Max International Chairman David Liniger says his company is aggressively working to train agents on handling short sales and other so-called distressed properties. Instead of eight weeks to close a short sale, trained agents can get them done in two to four weeks, he says.

Within the real estate industry, hopes are rising that short sales will become a shorter process.

"It's horrible the amount of time it's taking to do these sales," says Valerie Torelli, who owns Torelli Realty in Costa Mesa, Calif. "It happens all the time that short sales fail and then go to foreclosure. A seller doesn't make payments for a year and then just walks away. It's unbelievable."