

Businesses step in to negotiate 'short sales' of homes in distress

BUSINESSES NEGOTIATE WITH MORTGAGE LENDERS ON HOMEOWNERS' BEHALF

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One in five homes put on the market in Santa Clara County recently is an attempted "short sale," in which strapped homeowners try to sell for less than they owe their lenders.

That process of short-selling is so notoriously slow and complex that it has presented a business opportunity for new companies promising to speed things up.

A total of 2,572 properties listed for sale in Santa Clara County from mid-September to mid-March were short-sale attempts, according to realty brokerage Movoto. That represented 20.4 percent of all listings.

Only 3 percent of short-sale attempts actually sold, compared with 19 percent of other listings.

Until last year, short sales were nearly unheard of in

the county. When prices were rising, most people in financial distress could sell their homes for more than they owed. Now, many valley residents are familiar with the difficulties of this type of sale.

"You know what the reputation of short sales are; they're horrible," said David Fetherstonhaugh, chief executive of Featherstone National. His 5-year-old San Ramon company serves as a go-between for homeowners attempting a short sale and their lenders. "Buyers' agents just avoid them like the plague. It's a recipe for weeks of waiting and a shaved commission at the end.

"We saw this huge need for a market-clearing function, someone who can organize the three parties," he said, referring to sellers, lenders and real estate agents.

Part of the problem is that lenders are overwhelmed by managing so many short sales nationwide, said Mike Mueller, co-founder of Suburban Renewal, a Concord short-sale negotiator. Another problem is that many agents handling such sales lack experience at it.

"Most don't know how to put together a compelling package and push the lenders' buttons," to get a swift sale, Mueller said.

Opportunity for some

Many "short sale negotiators" or "intermediary" companies have jumped in to try to speed the process, and make money on it.

Most companies operate in a similar way:

- They position themselves as experts in knowing exactly what documentation lenders need to allow a short sale, and they help listing agents assemble that information into a complete, legible package.

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- They have, or claim to have, relationships with people at mortgage companies' "loss mitigation" departments, so that their clients' files will get attention faster than most.
- They contact lenders - even spending hours on hold - so listing agents don't have to.
- They negotiate commissions for the listing agent and buyer's agent, who tend to get paid less in a short sale.
- The intermediary typically gets paid one-third of the listing agent's commission.
- Some companies will negotiate with lenders to minimize the seller's tax or credit consequences. Despite recent changes in federal laws, some sellers owe tax on the portion of their debt "forgiven" by the lender. But whether or not the lender reports the forgiven debt is negotiable, Mueller said.

One Bay Area homeowner in the midst of short-selling her home said so far, she's in favor of working with an intermediary company. The woman, an information technology consultant with three young children, said she needed to sell her Contra Costa County townhouse following her recent divorce. She owes more for the home than it's worth, and her real estate agent suggested working with Mueller.

"He's given some amazing tricks and tips on what you need to do to make a short sale work," said the homeowner, who did not want her name published.

The townhouse was listed in February and got four offers, which her lender received about a month ago, she said. She hopes the lender will make a decision in the next week or so. "It's a stressful

situation. It's nice to have someone else dealing with the ugliness of it."

Most don't close

The data from Movoto show that while short-sale and regular listings received offers at about the same rate, short-sale transactions were much less likely to close - illustrating how flawed the process can be.

Scott Thompson, who runs Mortgage Resolution Services in Carmichael, said one factor is that most "loss mitigation" workers employed by the mortgage companies work with 250 customers at a time, but they can only manage perhaps 50.

Because his company has relationships with lenders, he said, "we get in the 40 to 50 stack." And how did he get to that point?

"You get on an airplane and go see them and you show them you know what they're up against," Thompson said.

Thompson said his company is handling about 200 cases with eight employees, but will probably double its staff by summer to manage a growing caseload. He said about 75 percent of the short-sale attempts his company handles are approved by the lender, but only about half close. He said the percentage is improving, though.

Dennis Delisle, an agent with Prime Bay Realty in San Jose, is working with Thompson's company on six short-sale listings, most in San Jose. He said it's worth it to pay out some of his commission.

"I couldn't do six to eight at a time without his help," Delisle said, largely because of time spent on hold with lenders. "My job is real estate. That's

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what I'm good at. I'm not good at phone calls."

Robert Aldana is a Silicon Valley agent who said he has about 105 listings, about 90 of which are short-sale attempts. Aldana said he prefers to maintain control of the transactions, and has help from five others in his office. He has never worked with an intermediary company.

"There are some that can help, if they have enough experience closing these and they've built some relationships with actual loss mitigators, and not just an 800 number," he said. "It's all about relationships, at the end of the day."

Laura Pephens, a lending industry consultant in Orange County, said homeowners facing foreclosure should contact their lenders about options before assuming a short sale is the answer. But if it is, working with an intermediary can be helpful, because the intermediary is less emotional.

"It's always good to have someone negotiating for you," she said.

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