

Short Sales Provide Relief for Struggling Massachusetts Homeowners

In the early and mid 2000's, home values throughout the United States appreciated at an unprecedented pace. During this time, buyers commonly borrowed in excess of 90% of the cost of their new home purchase, and many homeowners refinanced their existing mortgages in order to cash out newfound equity. When the real estate bubble finally burst and home values began to decline, thousands of Massachusetts homeowners found themselves "under water" - a phrase that has come to describe the situation where an individual owes more on their mortgage than their home is worth. For those wishing to sell, this presents the problem of bringing thousands of dollars to the closing table.

As a result, many would-be sellers are simply staying put, hoping for the real estate market to rebound. Unfortunately, the collapse of the real estate market also hastened further economic turmoil, resulting in, among other things, reduced wages and increased unemployment. For those now without adequate means to make their monthly mortgage payments and lacking available cash to sell the home and pay off resulting deficiency balances, foreclosure seems an inevitable conclusion. However, with increasing frequency the short sale is providing struggling homeowners with the ability to avoid foreclosure, extricate themselves from the underlying debt, and move on with their lives.

So, what exactly is a short sale? In its simplest form, a short sale is a real estate transaction wherein a homeowner owes more on their mortgage than the property is worth, but the lender agrees to release the mortgage for a partial payment so that the property can be sold to a third party. Although a mortgage holder could attempt to recover what is owed through the foreclosure process, the fact of the matter is that foreclosure is expensive to pursue and typically yields greater losses in the end. Therefore, most lenders will try to work out a short sale with their borrowers if the circumstances warrant.

In order to be considered for a short sale, the lender will first require evidence that the borrower is experiencing a personal hardship which requires them to sell their home. A "hardship" can be anything from job loss or income reduction, to illness, marital difficulties, or work-related relocation. The lender will also request evidence of the borrower's personal financial situation, including the disclosure of tax returns, bank statements, current paystubs

and statements detailing monthly income and expenses. Although somewhat counterintuitive, the borrower does not necessarily need to be behind on payments or in imminent risk of foreclosure to qualify, and in my experience there is little if any correlation between the amount of a borrower's arrears and the speed or willingness of a lender to consider a short sale request. In fact, from the standpoint of preserving credit, borrowers are well advised to continue making mortgage payments to the extent that they are able. However, a borrower in a relatively strong financial situation may find that their lender is only willing to approve the sale and/or waive any remaining unpaid balance on the loan if the borrower contributes some out of pocket funds at the closing.

A final consideration worth noting involves the negotiated sale price for the property, relative to actual market value. Short sale buyers are often looking for a bargain, and are well aware that sellers are generally anxious to part ways with the property. As such, offers can be well below market value, and sellers should exercise caution when determining how to proceed. In addition to evaluating their borrower's financial circumstances, lenders will also undertake an investigation as to the current market value of the property, typically through the written opinion of a disinterested real estate broker, and occasionally through a formal appraisal. If the lender determines that the offer price is too far below its appraised value, this will likely lead to the lender rejecting the short sale. As such, sellers and their real estate brokers should look closely at comparable properties on the market for sale when evaluating a given offer, as well as recently sold properties, as these will surely be on the lender's radar as well during the short sale approval process.

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370 Main Street, 12th Floor
Worcester, MA 01608
TEL 508.459.8000 FAX 508.459.8300

THE MEADOWS

161 Worcester Road, Suite 501
Framingham, MA 01701
TEL 508.532.3500 FAX 508.532.3100

CAPE COD

1579 Falmouth Road, Suite 3
Centerville, MA 02632
TEL 508.815.2500 FAX 508.459.8300