

FROM A LENDER'S PERSPECTIVE...

ANOTHER WAY TO PROSPER IN THIS NEW LENDING ENVIRONMENT

*Part 5 in a series brought to you by Peter Cefaratti,
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Lender's Update: The Federal Reserve Open Market Committee announced the results of their September meeting last Tuesday. The Fed surprised many economists and traders with a half percent cut in both the Fed Funds and Discount Rates. Stocks soared higher and enjoyed their largest gain since 2003. What does the Fed cut mean for interest rates? Rates on consumer debt, car loans, and Home Equity lines will all benefit. Rates on FNMA fixed mortgage securities also dropped immediately.

However, fixed mortgage rates factor in future inflation, because they are repaid in the future. Traders have decided that the Fed moves will have long-term negative effects on the Dollar – it will lose value relative to other currencies. The US Dollar was already falling against foreign currencies. The Fed rate cut will keep it moving lower. This is inflationary because it takes more Dollars to buy foreign imports, which is effectively the same thing as a price increase. As a result, mortgage rates have moved higher during the past week. As usual, it pays to be informed and ready to lock in a loan rate when a market-moving event happens.

Short Sales may be back in style. If you've been in the business for less than ten years, this may be an entirely new term for you. A "short sale" refers to a situation where sellers lack sufficient equity to pay off their Lenders from the proceeds of sale. Accordingly, the seller must contribute additional funds or ask the Lender to reduce their loan payoff amount. The Lender must agree, or their lien will not be removed when title passes to the buyer – a real deal-killer! Short sales normally occur in flat or declining markets. They are also common when large numbers of buyers have purchased with no money down.

In 2005, approximately 40 percent of all sales closed with nothing down. Virtually all of these loans are adjustable rate mortgages. (These are national statistics). If these loans readjust and the sellers cannot afford the increases in payments, the loans will become delinquent. Most sellers in this situation will attempt to sell their property. Assuming no equity and eight percent closing costs, the sellers of a \$300,000 property would have to come up with \$24,000 to close. If the sales price were less than the loan payoff, the sellers would need to come up with even more. Many sellers won't be able to come up with enough money to close the sale.

Typically, when a seller has negative equity (they owe more than the property is worth), one of three scenarios results:

1. The owner tries to sell the property without representation. In a depressed market with a large amount of inventory, it's likely that the seller will be unsuccessful.
2. The owner allows the property to go into foreclosure. Depending on the state, the seller may live there six to nine months without making payments on their existing mortgage. Once foreclosure proceedings are finished, it may take an additional 30 to 60 days to evict the delinquent seller from the property.
3. The Lender agrees to lower the amount that they would require to close the sale, and agrees to pay the realtors' commission.

It's difficult to persuade lenders that they should reduce their loan payoff to close the transaction or that they should be responsible for paying the closing costs. Many times, the decision-maker knows little of the local market. The Lender's response may be, "We will just foreclose on the property." A realtor will have to persuade the Lender to take the short sale by sending the pictures and details of comparable sales, which justify a "low" value. Persuading the lender to pay the commission is also a challenge. Here's an approach from RealEstateCoach.com: Tell the Lender,

If you foreclose on the property, you will achieve the highest possible price in the shortest period of time by listing with a top agent. This means that you will pay the commission anyway. Given that sales are declining and inventory is increasing, it may take a number of months to sell the property. All the while the value will be declining. This means that you will have the commission costs, several months of holding costs, and a possible loss in value because of the substantial amount of competing inventory. A short sale now may actually net you more money than waiting. Would you prefer to lock in a sale today or would you prefer to wait and perhaps take even less for the property?

When you speak with a Lender, it's critical to have hard statistical data to show them. This should include how much inventory is on the market, how much the inventory has increased or decreased in the last six months, as well as whether prices are still decreasing, or staying flat. A \$300,000 property declining in value at 4 percent per year loses \$12,000 on an annualized basis. If it takes the lender ten months to foreclose, to prepare the property for sale, and to sell and close, the Lender will lose the equivalent of 10 months of payments plus \$10,000 in depreciation. Make sure the Lender understands this.

Almost 9,000,000 loans will readjust to higher rates this year, so an increasing number of loans will have higher payments. Foreclosure rates will continue to climb. Learning how to negotiate short sales could be a lucrative source of business for you for some time to come. However, negotiating short sales can be difficult. Some useful tips are given below, but this is just an introduction to the topic. If short sales interest you, be sure to pursue some solid training. Become the EXPERT.

1. Before taking any listing, check the existing loan balances. Don't rely on what the sellers say they owe. They may forget to mention that they have delinquent property

taxes or a home equity line of credit. Check all liens on the subject property. You may be able to obtain this information from a title company. This gives you time to negotiate with the existing Lender to pay the sales commission. Don't wait until later in the transaction to find out the seller does not have sufficient funds to close. The transaction may fall apart, or the lender might reduce their loan payoff just enough to close the transaction without paying the brokers a commission.

2. Check the seller's loan documents for prepayment penalties. Many borrowers are unaware they have penalties. This might cause a short sale. A prepayment penalty could be 6 months of interest and sometimes is even more, due as part of the payoff. If no one is aware of the prepayment penalty until the transaction is ready to close, the realtors must try to find additional funds from the sellers and buyers. The existing Lender will have the brokers in an awkward position, and could demand that the brokers cut into their commission to close the transaction. Again, the best way to proceed here is to show the Lender up front the cost of foreclosing, fixing up the property, and carrying the property while it's for sale. These numbers make the best argument for the Lender to be flexible.

3. Tax liens can be the kiss of death. Delinquent property taxes or IRS tax liens may not show up on the title report. The IRS is simply not flexible. Even if the Lender agrees to a short sale, the IRS can take months to release a tax lien, so it's likely the transaction will not close. It's extremely important to check for tax liens prior to listing a property and spending your time and money on marketing it.

4. Numbers are your friend. If the lender comes back at you with their appraiser's list of comparable sales indicating an above-market value, you will have to prove that those sales are inaccurate. You should also show the Lender that the market is decreasing. Try a square footage CMA. Compare the current average price per square foot for the subject property's specific subdivision to the figures from six to twelve months ago. Where prices are declining, the Lender will probably get even less for the property by waiting as opposed to doing a short sale now.

Short sales are for agents who have excellent negotiation skills and who can skillfully illustrate the costs of waiting to sell to the Lender. Patience also helps. These few points can help you avoid a great deal of grief.

One other area I would like to comment on was brought to mind by home stager Carol Ellis of "Luxury-Domain to Home Stage" (www.luxury-domain.com) at this year's CAAR Trade Show. Be careful of the image created by the MLS photos of your listings. Some sources say that a majority of Buyers locate the homes they want to view and purchase through Internet searches. There is an overabundance of competing listings in every price point. Be careful to use flattering photos, and lots of them. Don't let the photos eliminate your listings from consideration by able Buyers.

I hope this information piqued your interest and got you thinking about other niches that might be viable these days. I would appreciate your feedback. If you have other ideas to share, please call me. Thanks for your attention!

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