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Use of short sales on rise in Sacramento housing market

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For years real estate agents have steered buyers away from "short sales," labeling them a mind-numbing, difficult experience that could exhaust the patience of the biblical Job.

Now buyers can hardly avoid them.

"When it's 50 percent of the inventory you don't have a choice," said Scott Williams, a Roseville-based ReMax broker. Williams specializes in a complex transaction that may be the next evolution of the real estate market in Sacramento.

Banks, with their balance sheets battered after 40,000 capital-area foreclosures since early 2007, are finally warming up to short sales, a traditional marker of soured real estate markets. Increasingly, so are buyers. Some analysts believe short sales – those transactions in which banks accept offers below what they're owed to avoid the higher costs of foreclosing – may help avert a few thousand new foreclosures in the capital region.

"I still see a ton of defaults coming down the line ... but a large percentage, 50 percent or more of these, will get done as short sales and keep the flow of repos to a manageable level," said Williams. "I don't see us getting flooded."

Industry analysts say half the for-sale signs in El Dorado, Placer, Sacramento, Sutter, Yolo and Yuba counties that aren't bank repos are short sales. They're especially prevalent in newer suburbs built during the housing boom. According to Sacramento-based Metrolist Services Inc.:

- 56 percent of Lincoln homes priced between \$200,000 and \$250,000 are short sales.
- 55 percent of Rancho Cordova homes priced between \$200,000 and \$300,000 are short sales. In Folsom, 46 percent of homes in that price range are short sales.
- 44 percent of Elk Grove houses priced from \$300,000 to \$325,000 are short sales.

All their owners owe more than their homes are worth. (Online evaluator Zillow.com says 68 percent of Sacramento-area households that bought in the past five years are in that boat). And most are believed to be in some stage of the foreclosure process.

Currently, nearly one in four sales pending – those expected to close escrow within weeks – are bank-approved short sales, according to Williams' analysis of Metrolist data. That's a rise from a January-through-June average of one in seven.

Bank repos, by comparison, are about 60 percent of area sales this year. But their share is falling now as the region's short-sale market share rises.

"It's a more cooperative solution," said David Sunlin, senior vice president with Charlotte-based Bank of America Home Loans. He said the firm is adding staff and streamlining procedures to do more short sales more quickly as an alternative to foreclosing.

"It allows the borrower to leave on their own terms. It's a more dignified exit strategy and the credit reporting is less negative afterward," he said. "It's a win for the lender as well. It's going to shorten the recovery cycle, which is important to all of us."

The firm, which bought Countrywide Financial last year, services one in five U.S. mortgages and is a top lender in the capital region.

Agents such as Williams hope the new BofA approach brings results. They complain that Countrywide has been among the industry's most difficult servicers for short sales.

Buyers say short sales make great deals – if you're patient.

"It probably saved us \$50,000" said Helen Martinez, who, with her husband, Robert, closed escrow two months ago on a short-sale property in Davis. It took almost four months, she said.

"If you need something right away it's not going to work out," she said. "You'll sit around and wait forever and find something else."

Jamie Trussell also expects to go into escrow soon on a short-sale property in Elk Grove. He and his wife, Tricia, made an offer on the house in February, then sweetened it by \$10,000 when others bid on it.

"We fell in love with the house so we remain dedicated to it," he said. The two checked out other houses while waiting, including bank repos, but Trussell said, "It's been tough to beat the house we have with everything we want."

Their long wait has had consequences, however. Higher interest rates are adding to their expected borrowing costs.

"The last few weeks I've been watching the interest rate climb," said Trussell. "It was 4.8 percent in May, and now, it's at 5.2 percent.

"Our greatest concern when we started was 'how long is this going to take?' It's really pushing to the wire for us."

Williams said many short sales fall apart between the offer and acceptance because people find other properties.

Short sales take so long because lenders must negotiate permission from other parties, such as investors and private mortgage insurers. Most recent home loans also have so-called "seconds," an extra loan that financed the down payment. Other short sales involve home equity loans or homeowner associations seeking restitution for unpaid dues.

"That can make the process more complex," said BofA's Sunlin. He said BofA also asks some borrowers to contribute funds to ease the lenders' losses "or sign a promissory note for a later date."

"We see this every week," said Scott Thompson, principal at Carmichael-based Mortgage Resolution Services, a short-sale specialty firm. He said such lender requests scuttle many short sales, prompting homeowners to instead "walk away" from the house.

Thompson said homeowners often prefer to walk away than request a short sale.

"Now, banks are ready to do them," he said. "But many homeowners are so far under water on their mortgages that they're disinclined to participate at all."

Sunlin concedes the difficulties on both ends in a still-unraveling housing market.

"These are tough times," he said. "But we are committed to make the process work better ... By doing this we should see more private sales instead of bank-owned sales."