THE RECESS EXPER

By Shaila Wunderlich

With its perfect storm of record-low property values and record-high unemployment, The Great Recession of 2008 triggered a rash of residential short sales.

And a generation of REALTORS® skilled at executing them. The distressed-sale transactions allowed homes to be sold for less than their owed mortgage balance, providing millions of homeowners the best and only alternative to losing their homes to foreclosure. “These were people who found themselves in a very serious situation, and needed help getting through it, and help not getting taken advantage of,” says Steve Fiorella, CRS, associate broker with RE/MAX Results in Minneapolis, Minnesota.

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Training was trial-by-fire, as real estate, banking and mortgage professionals tackled the unprecedented scenario with little to no experience. By 2009, when the Minneapolis Area Association of REALTORS® (MAAR) was tracking one short sale for every 10 traditional sales, Fiorella and his colleagues had emerged as experts in the niche transaction. "My first short-sale listing was in fall 2007," says Addie Owens, CRS, principal broker with Touchstone Real Estate in Florida's Lake and Sumter Counties. "Within three months, I had about 30 listings."

Fifteen years later, short sales have practically vanished from public and professional consciousness. Commencing their decline in 2013, the transactions have dwindled from an 11% peak in 2008 to a mere 1% of all present-day home sales, according to Zillow. "In many parts of the country, anyone who's been in real estate less than five years only knows a white-hot market," Fiorella says.

Fiorella hasn't forgotten, nor have any of his seasoned peers. Collectively, their recession-era experience represents a vast residual brain trust in the discipline of short sales. And while no one knows when (if ever) real estate will suffer another short-sale episode, history suggests it could occur without warning. A calm, healthy market may be the ideal environment to lean into the learnings provided by these experienced short sale experts.

Deal breakers for agents

Asked for advice on breaking into short sales, the experts consulted for this article were unanimous on two key points.

1. Short sales are not suited to all REALTORS®.
2. Thorough education and preparation are essential prior to taking on a distressed property sale.

The pair of cornerstone statements suggest a central takeaway, which is that the business of short sales should be undertaken deliberately, with full knowledge of the pros and cons, and a total commitment to learning. "The thing about short sales is if you make a mistake, your client can end up in foreclosure," says Carol Moson, CRS, REALTOR® and associate broker for RE/MAX Around Atlanta in Atlanta, Georgia. One-fourth of Moson's portfolio comprised short sales during the recession years.

what are the pros and cons of short sales?

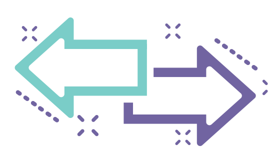
CONS: The downsides to short sales are numerous, ranging from the high stakes mentioned by Moson to the endless paperwork to the unpredictable and drawn-out timeframes. A typical short sale can take anywhere from three months to several years, depending on an agent's expertise and the efficiency of paperwork processing. "With larger lenders especially, any time something is submitted late or incorrectly, it goes back to the bottom of the pile," Fiorella says. "It can feel like starting from scratch."

PROS: There's something to be said for owning a specialized skill—especially when the skill becomes suddenly in-demand—but for most short-sale stalwarts, the "why" usually comes down to helping people out of desperate situations. "The homeowner avoids foreclosure, so the impact on their credit is not as severe, and typically they can purchase another home in less time than is permitted after a foreclosure," Moson says.

"There's nothing more humbling than sitting across the dinner table from a couple losing their home," Owens says. "There's also nothing more rewarding than selling those same people houses later. Watching them recover financially—those closings were the sweetest."

It's worth noting that short-sale commissions are usually comparable to traditional listings. "It was regularly reduced by the lender, but I always charged the same fee," Owens says.

Bowing out or forging ahead



When the cons outweigh the pros, Moson and Fiorella suggest handing the sale off to another, experienced agent in exchange for a referral fee. That applies to both new listings as well as those in-process. "If I hit a point where I become unsure, I'll seek out someone with more experience or hand it off to another agent," Fiorella says. "I'm not too proud to say if I'm in over my head."

If, on the other hand, short sales seem a good fit, it's time to get educated. Continuing education courses arm REALTORS® with knowledge to execute the job and accreditations to attract the clients. Examples include Certified Distressed Property Expert (CDPE) and Short Sales and Foreclosure Resource (SFR), which Moson earned just before the crash of 2007. "I felt it would be a source of business but also critical toward educating myself."

Next, seek out colleagues seasoned in short sales for possible mentorship opportunities. Moson mentored and assisted fellow agents both personally and professionally, as an instructor of a course on short sales. Owens did, as well. "I'm an open book when it comes to any agent asking who and how," she says.

Check out the webinar recording "Best Tips for Top Notch Short Sale Negotiations" at CRS.com/recordings.

Potential pitfalls

Most short-sale mistakes occur as the result of REALTORS® not being fully aware, from the outset, of all parties' requirements.

The documents

Topping that list are the many documents, instructions and deadlines set forth by lenders as part of their short sale "packaging" parameters. "Every bank is different, and they don't necessarily spell it out for you unless you ask," Fiorella says. "Each time you overlook a step or incorrectly submit a form, it can set you back weeks—or sink the deal entirely."

Trying to communicate with the lender without the homeowner's permission is one example of a packaging pitfall. "The homeowner must fill out a form stating you have permission to help facilitate on their behalf," Moson says.

The financials

Another common mistake is not properly vetting a homeowner's financial status. Homeowners must meet certain hardship criteria to qualify for a short sale. REALTORS® can wait for the bank to complete their audit (and risk rejection halfway through the process) or they can collect the information themselves, as early as possible. "For every homeowner who fell onto hard times after a serious medical condition or job loss, there often was another who had simply gotten underwater on their loan and was trying to take advantage of the situation," Fiorella says.

The right understanding

Once the lender approves a short sale, agents must be hyper vigilant of all subsequent communications. "Common practice among lenders back then was to send out a letter saying, 'Congratulations, homeowner, here is your lien release,'" Fiorella says. "To the untrained eye, that letter could be mistaken for full satisfaction of the loan."

In reality, a lien release simply frees the property to be sold. Successful short sales procure a "full release and satisfaction of mortgage," which not only releases the lien but also declares all debt satisfied and paid in full. This full release must be secured in writing and prevents the lender from seeking future payment from the seller. "If you don't know what you're reading, it can be misleading," Moson says.

The "fake" offers

Of a more unscrupulous nature are offers to take over an approved short sale. "These are third-party companies who reach out to REALTORS® and offer to take over the file for a fee," Moson says. "Some of them are frauds; they take the fee and never perform the service. And even in the cases where the company is legitimate, the fees can be hefty."

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Thankfully, most of these mistakes can be avoided with a proactive investment of homework and preparation before the transaction begins. "I can't stress enough how important it is to immediately connect with lenders, both to learn their specific protocols and establish a relationship," Fiorella says. "It saves so much time and mitigates a lot of risk."

"Keep up with industry expectations and potential pitfalls," Owens says. "If the lender asks for something 50 times, give it to them 52 times and keep records of it. Organization is your best tool." TRS