What is a Short Sale?

For owners who can no longer afford to keep mortgage payments current, an alternative to bankruptcy or foreclosure proceedings includes the short sale. A short sale in real estate occurs when the outstanding obligations (loans) against a property are greater than what the property can be sold for. The lender agrees to accept a discounted payoff (less than the total amount due), meaning the lender will release the lien that is secured to the property upon receipt of less money than is actually owed in hopes of avoiding or mitigating an impending loss.

If a property is sold under a short sale, the lender may require the buyer to make up the difference, either through a personal obligation or a collection. Also, the IRS may consider debt forgiveness as income so a seller may be faced with tax ramifications.

When the short sale enters escrow, it is likely to include restrictions from the lender on closing costs and the payoff amounts to the lenders and creditors. Throughout the escrow process, the seller and real estate agent should be proactive about the numbers that the lender will see. Take care to include every possible expense in the seller's net sheet, and be aware of the bottom line as the process unfolds.

What is a Foreclosure?

Foreclosure is the process whereby the lender takes possession of the property. When a homeowner fails to make the payments on his/her mortgage, the lender can begin foreclosure proceedings. This is a very specific legal process with set timelines and outcomes. In a short sale situation, the homeowner's name is still on title of the property and they are the official owners who are trying to sell the property. In a foreclosure, the lender takes possession of the house and as a result, the homeowner is no longer a party in the sale.

Foreclosure properties are auctioned at a Trustee Sale at the court house in the county where the property is located. Foreclosure properties must be paid for in full at the time of the auction.

Because these transactions do not go through the same escrow process as regular sales, typically only seasoned investors will purchase property at a Trustee Sale. This is due to the risks and potential problems that are normally investigated and cleared during escrow. Problems may include: title problems, superior loan pay offs, IRS liens, tenants or owners still occupying the property, and/or structural problems. The price may seem good at auction (priced well below other houses in the neighborhood), but costs and risks may come after taking title.

What is an REO?

Real Estate Owned (REO) is a term frequently used by lending institutions as applied to ownership of real property acquired for investment or as a result of foreclosure.

REO is property owned by a lender, usually a bank, after an unsuccessful sale at a foreclosure auction (Trustee Sale). The bank will then go through the process of trying to sell the property on its own. It will try to remove some of the liens and other expenses on the home, and then try to sell it through the use of real estate agents.

If the buyer of an REO is making any moving plans, they should note that a closing delay could occur. The bank, as the seller, will set the pace of the transaction. This is especially true in the last days prior to closing. Our experienced REO escrow officers are excellent resources for information and they understand the best ways to move an REO escrow to a timely, trouble-free close.

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