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BUSINESS

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Short sales: Real estate limbo

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SACRAMENTO, Calif. —

Bill Joyce starts every short-sale journey with "The Speech."

In a what's-ahead warning to homebuyers, the Roseville real estate broker promises something resembling burning deserts, howling winds and crops destroyed by hail. Buyers will be tested and tortured, he tells them. They will endure privations beyond all expect-

Process put buyers through wringer with no guarantees

tations.

And then they might fail.

"All the things you normally expect are suspended," Joyce says of changes sweeping across the distressed housing market.

"There's a new set of rules that apply here."

That's because short sales are back and bigger even than during the troubled 1990s.

Short sales are a phenomenon that reappears like clockwork when real estate sours.

Even this far into the

housing crisis, many real estate agents barely understand short sales. Buyers often endure waits of six months or more to close a deal. Neighbors dislike their vicious hits on property values. Banks, too, find short sales difficult, a minefield of competing parties and interests. Yet the method is necessary to unload their problem houses.

It all means that any buyer serious about getting a

house in 2010 is likely to reckon with them during the search.

Thousands of buyers have scored fabulous deals with short sales. Thousands of others have learned the ropes the hard way.

"That was the worst nightmare," said Pauline Huerta, describing an offer she made last year on a house in Natomas, Calif. She and her husband,

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SHORT SALES: No guarantee

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Felpe, waited nearly a year for a decision. But the \$175,000 home that captured her heart went into foreclosure instead.

"It caused us to wait and lose out on other homes. It was a big waste of time," Huerta said.

Eventually, the Huertas bought a house the old-fashioned way. Their offer was accepted in 10 minutes, and they moved in recently.

As a new century gets on its feet, the inexplicable dimensions, frustrations and utter surprises of short sales have done more than frustrate everyone connected with them. They've become part of local culture. Adventures in short sales are making their way into family stories to be told for years. Maybe the homeowner

filed for bankruptcy at the last minute. Or the buyer had the truck loaded and saw no sign an angry seller was packing to leave. Or at the last moment, a secondary lender asked for an illegal payment outside of escrow and scuttled the deal. Such short-sale lore is a favorite blog topic.

Consider a recent post titled "Torture!" Chelsea Irvine, 27, of Sacramento wrote about being five months into a short sale, and waiting for action on her \$160,000 offer in midtown.

"Every day I drive by the place and see it sitting there, getting older and more lonely by the day," she wrote on her "Adventures at the Disco Ball Speakeasy" blog in June.

"Sometimes I try to block it from my mind by blaring

a little Jamiroquai or Stevie Ray. But no matter what I try," she said, "my eyes always wander to my little shack by the road."

Irvine's journey ended well. She closed escrow in July. Now in the throes of home improvement, the legislative assistant for a lobbying firm says, "I love the house. It's one of the reasons I stuck with it. But oh, what a miserable experience."

In short sales, lenders accept a sales price below what they're owed. For a bank, that's often cheaper than foreclosing and reselling the house in an unstable market. Typically, sellers in short sale situations are behind on payments and owe way more than the house is worth. Selling short is a way to move on with their lives mi-

nus the more serious credit damage of foreclosure.

In his "speech," Joyce warns buyers to drop any ideas about themselves as center of the universe. In short sales, they're just bit players in a larger drama.

"The buyer is really sort of along for the ride in somebody else's transaction, this loss mitigation situation between the seller and the lender," he said. Joyce said it's all about "a borrower negotiating a solution with the lender. The buyer is not the primary party."

JPMorgan Chase spokeswoman Eileen Leveckis said the primary party is the owner of the loan, usually an investor. "That's really the No. 1."

The seller's role "is to prove a hardship," she said.

Beyond sellers, a secondary lender — maker of the down payment or home equity loan — is also involved and usually wants as much money as possible.

J.K. Huey, a senior Wells Fargo executive heading the bank's short sale unit, said short sales take so long because the bank must negotiate deals with investors, secondary lenders and mortgage insurers. Amid the large-scale meltdown in U.S. housing markets, Wells Fargo stands in line to negotiate short-sale agreements with these parties alongside all the other major lenders.

"Everybody is trying to minimize their losses," Huey said.

Among major threats to getting a deal done is a secondary lender refusing to release a lien. Agents say it

happens often: The lender that financed the down payment or home equity loan balks at the short sale unless the buyer or seller kicks in a couple of thousand dollars extra. Worse, the secondary lender might want that to be kept secret from the primary lender.

Most real estate agents believe short sales will continue for years as the market rebalances. But few believe they will become much easier.

Said Joyce, "I've been in real estate about eight years. Short sales have been around for four years and miserable for three of them, just horrendous. They're improving now to just bad. And that's progress."