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▶ Welcome the New Year at the REIC2

LV Market *watch*

COVERING CURRENT LAS VEGAS MARKET TRENDS AND ALERTING INVESTORS TO NEW OPPORTUNITIES

Short Sales Increase Dramatically *Available REOs Continue to Shrink*

Over the last year, many of my clients have asked me about the feasibility of short sales...both from a seller's perspective, as a way out of an upside down property; and from a buyer's perspective, as a way to acquire properties below market rate. Up until recently I have advised most of my clients away from short sales...as a buyer or as a seller. The reason was simple: lots of time invested, small chance of success. As a rule, since the housing bubble burst and the credit crunch began, banks have been overwhelmed with defaults and the departments in charge of evaluating and approving short sales have been notoriously slow and inefficient. Trying to

negotiate a short sale with the bank often resulted in frustration for all parties involved with a very low success rate. As a result, I have advised my investor clients to seek out REOs as the best buying opportunity here in Las Vegas. Times, however, are changing. My recent articles on the Las Vegas housing marketing have highlighting the dwindling supply of bank-owned REO properties available. Each month the demand for these REOs and the closings exceed the fresh supply of foreclosed homes coming from the banks. This has resulted in bidding wars across the Las Vegas valley as investors and primary
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For More Information on Short Sales and other Real Estate Investments, please visit my blog at:

www.vegasforeclosures.blogspot.com

Short Sales vs. Foreclosures

Many of my investor clients have asked me to explain the differences between short sales and foreclosures/REOs. Some aspects of short sales favor the buyer or the seller vs. foreclosures...some do not. Below is a brief graphic showing where short sales shine or fall short. See page 2 for a more thorough discussion.

Short Sales



Difficulty of Transaction
Time Frame to Close



Price
Reduction of Credit Score (to Seller)

Short Sales... continued from pg.1

residents eager to capitalize on the best real estate buying opportunity in decades flock to purchase the REOs that make their way on to the market. But with the percentage of homeowners behind on their mortgages still at all time highs, why is the number of foreclosures entering the market declining?

The answer may be the increase in short sales.

Brian Wargo of the Las Vegas Sun recently wrote an article discussing this increase in short sales. In it, he quotes Larry Murphy, president of the real estate monitoring firm SalesTraQ, who says that of the 35,742 closings through the first three quarters of 2009 75% were foreclosures and only 10%

were short sales. However, of the 11,249 contingent sales currently in place in Las Vegas, 71% are short sales and only 21% are REOs or foreclosure homes. This represents a dramatic shift in banking policy.

Murphy believes banks are becoming much more willing to consider short sales because they are finally realizing that short sales generate a higher sales price for the banks than REOs. Data supports this. The median price of homes sold through foreclosure is \$116,900, while the median price for homes sold through short sales is \$150,000.

The federal government has also adopted

standardized rules for short sales, simplifying the process. This, combined with the pressure being exerted by the Obama administration to keep homeowners out of foreclosure, is creating a much higher approval rate for short sales. This, in turn, is keeping the flood of foreclosures that we had been expecting here in Las Vegas off the books and creating the progressively lower inventory monthly of bank-owned REO homes.

All-in-all, whether you are a seller looking to get out of an upside down situation or a buyer looking to capitalize on low home prices, now may be a great time to consider the short sale as an option.

Short Sales vs. Foreclosures... continued from pg. 1

A more detailed discussion about the differences between short sales and foreclosures should start with the definition of each: A short sale occurs when a buyer negotiates with the bank to purchase a home from the seller for less than what the seller owes on the mortgage. In many cases, where the equity in the property has dropped sharply, this means that the second lien holder (if any) receives next to nothing on their note (think \$1000 for a \$90,000 note as an example) and the first position lender very often must still accept less than the amount of the first mortgage. REOs are bank owned properties that have already completed the foreclosures process. The owner of the property, upon failing to make their mortgage payments, has been notified of their delinquency, received a notice of default and then a notice of sale. Subsequently the property has been sent to auction at the trustee sale where, in absence of a successful winning bid, it has reverted back to the bank holding the mortgage. These properties are then re-listed by the banks on the open market as REOs or Real Estate Owned meaning bank owned real estate.

The major differences between the two transactions can be summed up in two categories: Differences to the Buyer and Differences to the Seller.

Differences to the Buyer

Difficulty of Transaction - Short sales are traditionally much more difficult to

transact than purchasing an REO. Once a bank has taken possession of a foreclosed property and re-listed it as an REO, that REO property can then have offers placed upon it and the bank will respond to those offers just like any other seller. Short sales must go through a special evaluation and approval process at the bank. This process usually involves not only evaluating the fair market value of the property, but also evaluating the potential of the current owners to continue making their payments. Sometimes, a bank will offer to modify the existing loan if the sellers wish to stay in their property rather than negotiate the short sale. This can result in the property being pulled from the market altogether.

Time Frame for Closing - REOs can often close in a 30 day escrow just like a normal transaction. Short sales can take months to negotiate and then might not be approved at all.

Price - Because the buyer is usually not competing against other offers in a short sale situation, they can often obtain the property for less than what the same property might end up costing as an REO.

Differences to the Seller

Future Home Purchases - Homeowners who go through a foreclosure cannot apply for an FHA loan for 5 years after the date of foreclosure (7 years for investors), but homeowners who complete a short sale can

apply for an FHA loan 2 years later. When homeowners apply for a loan through a mortgage company, they must state on the application if they have had a property foreclosed upon or given a deed in lieu of foreclosure within the last 7 years. There are currently no questions on standard mortgage applications asking whether or not a homeowner has ever completed a short sale.

Credit Score - A foreclosure will typically lower a homeowner's credit score by somewhere between 250-300 points and this decrease will last approximately 3 years. Short sales can often affect an owner's credit by only 50 points and that decrease may sometimes be remedied in as little as 12-18 months.



The real estate insider club is looking forward to another great year of education and networking. If you've never joined us, make 2010 your year to educate yourself on the local and national real estate markets.

Join us at Putter's Grill on South Rainbow The second Wednesday of each month at 6pm.

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