

## I Want One! A Home Bought in a Short Sale, That Is

By [Eric Rehling](#)

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How do I get one?

What is this one thing, you ask? A home bought in a "short sale".

With seemingly daily reports from the major media outlets, the thought of buying a home from someone in a distressed financial situation has probably crossed your mind once or twice. The media does a wonderful job with the headlines, but what is a short sale and why does seemingly everyone want one?

Let's first start with a little background. A "short sale" actually has two parts to it. The first part is quite simple; the home is sold for less than what is owed against it. The second part is really the part that defines a short sale and creates some of the interesting situations you read about. The note holder (bank, investor, etc.) agrees to sell the property for less and dismiss the remaining debt. In other words, the idea that a home sells for less than what is owed does not in itself make a short sale. The seller certainly can and is expected to have the cash on hand to make up the difference between the sale price and outstanding debt balance. It is only when the seller does not have access to these funds that a short sale is in order.

The idea behind the craze is that a "short sale" means a great deal or great investment for the purchaser. While no doubt this can and does take place, it is important to understand the whole situation. As is usually the case, the devil is in the details. A house purchased at the bargain price of \$50,000, but needing \$100,000 worth of work, is not necessarily any better of a deal than a home purchased at \$150,000 needing no improvements.

What should you expect throughout the "short sale" process?

- Traditionally the whole process from making a bid, to acceptance of the offer by the note holder (person or corporation agreeing to dismiss the debt for less than what is owed); to settlement will be a much longer time period than a more traditional purchase. This can add stress and complications to an already stressful experience.
- If you are obtaining a mortgage for the purchase, expect a few speed bumps during the process. The condition of the home can greatly impact the ability of the appraiser to put a value on the home. Without a value, your bank will be hesitant to make the loan.
- You're right to inspecting the home prior to purchase cannot be legally taken away, but understand that the note holder (the person or company agreeing to dismiss the debt for less than what is owed) wants to know the bottom line on what he stands to lose. Thus, a cleaner deal (one without inspection contingencies) is generally viewed in a better light.

You'll also want to evaluate your skills and experience in home remodels and home upgrades. If it is not something you have a whole lot of experience with, then you'll need a larger margin of safety. Or said differently, you'll want to buy the home for a lower price, so any cost overruns on the improvements won't put you in a pickle.

In summary, "short sales" are prevalent in today's real estate market, but they don't always translate into the best deal on the market. As with any major decision, the best deal is the one that satisfies the most amounts of your needs and wants for the least amount of compromise. These "short sales" can certainly

translate into overall good investments, but the process must be researched and understood. Education really is the key to good decision making.

You'll want to consult someone familiar with the "short sale" process.

For additional information, please feel free to contact the author:

Eric Rehling  
Associate Broker  
Mittman + Rehling  
Re/Max Realty Group  
215.256.8026 (direct)  
215.256.1200 (main)  
215.359.1906 (fax)  
[eric@mittmanrehling.com](mailto:eric@mittmanrehling.com)  
<http://www.MovingRights.com>

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