

# What Is A Short Sale?

In real estate, a short sale is a sale of real estate in which the proceeds from the sale fall short of the balance owed on a loan secured by the property sold. In a short sale, the bank or mortgage lender agrees to discount a loan balance due to an economic or financial hardship on the part of the mortgagor.

Economic and Financial Hardships Can Be Caused By The Following

- Payment Increase or Mortgage Adjustment
- Loss of Job
- Business Failure
- Damage to Property
- Death of Spouse or Family Members
- Severe illness
- Inheritance
- Divorce or Separation
- Relocation
- Military Service
- Insurance or Tax Increase
- Reduced Income
- Too much debt
- Incarceration

This negotiation is all done through communication with a bank's loss mitigation or workout department. The home owner/debtor sells the mortgaged property for less than the outstanding balance of the loan, and turns over the proceeds of the sale to the lender, sometimes (but not always) in full satisfaction of the debt. In such instances, the lender would have the right to approve or disapprove of a proposed sale. Extenuating circumstances influence whether or not banks will discount a loan balance. These circumstances are usually related to the current real estate market and the borrower's financial situation.

A short sale typically is executed to prevent a home foreclosure, but the decision to proceed with a short sale is predicated on the most economic way for the bank to recover the amount owed on the property. Often a bank will allow a short sale if they believe that it will result in a smaller financial loss than foreclosing as there are carrying costs that are associated with a foreclosure. A bank will typically determine the amount of equity (or lack of), by determining the probable selling price from a Broker Price Opinion BPO or through a valuation of an appraisal. For the home owner, advantages include avoidance of a foreclosure on their credit history and partial control of the monetary deficiency. A short sale is typically faster and less expensive than a foreclosure. In short, a short sale is nothing more than negotiating with lien holders a payoff for less than what they are owed, or rather a sale of a debt, generally on a piece of real estate, short of the full debt amount. It does not extinguish the remaining balance unless settlement is clearly indicated on the acceptance of offer.

Short sales are common in standard business transactions in recognition that creditors are not doing debtors a favor but, rather, engaging in a business transaction when extending credit. When it makes no business sense or is economically not feasible to retain an asset, businesses default on their loans (called bonds). It is not uncommon for business bonds to trade on the after-market for a small fraction of their face value in realization of the likelihood of these future defaults.