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Homebuyers Having Problems with Short Sales

The average time on market for short sales has increased significantly in the past year, according to the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*. The problems appear to be due to approvals from sellers as well as lenders' concerns about financing such purchases.

Short sales completed in February were on the market for 17 weeks, based on a three-month moving average. That's a 30.8 percent increase from the average time on market for short sales in February 2013. Time-on-market trends for other real estate owned properties and non-distressed properties have remained relatively level in that time.

The extended time on market for short sales does not appear to be due to a lack of demand, as short sales completed in February averaged 3.1 offers, based on a three-month moving average. Move-in ready REOs averaged 2.2 offers during the month, and non-distressed properties received an average of 2.0 offers.

Instead, real estate agents report problems getting responses to offers on short sales. "Poor communication," said a real estate agent in California. "They continually ask for the same documents over and over."

Another agent in the state reported a one-month delay from the notification that the short sale was approved in the Equator system to the actual issuance of the approval letter. Some transactions have experienced even longer delays.

"One of my short sales took 10 months to get approval from the first lender," said a Maryland agent. "When we finally received that, the second-lien approval had expired."

And some borrowers are facing obstacles hindering them from obtaining financing to purchase a short sale. "Some short-sale closings were delayed due to issues with lenders after inspections or appraisals," according to an agent in Oregon.

As borrower performance has improved, short sales have accounted for a lower share of home sales in recent years. In February, 6.3 percent of home sales were short sales, based on a three-month moving average. REOs accounted for another 19.5 percent of sales during the month. In February 2012, short sales accounted for 16.8 percent of home sales and REOs accounted for 27.6 percent.

"Short sales have taken a dive," according to a real estate agent in Colorado. "Negotiators are closing their doors and handing files back to the agents."

While short-sale activity has decreased in the past year, analysts at Fitch Ratings said short sales typically provide better recoveries than REOs and foreclosures. "The time to resolution is much faster than a full foreclosure and the sale does not suffer from the market stigma of being a bank-owned property," the analysts said.

As of the end of the fourth quarter of 2013, Fitch found that average timelines for non-agency mortgages liquidated through short sales are roughly 12 months shorter than those liquidated through REO. And loss severities on short-sale liquidations have been 10 percent to 15 percent lower, on average, than loss severities on REOs. ►