



INSIDE MORTGAGE FINANCE[®]

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Despite Continuing Problems, Short Sales Now Account For 1 in 5 Home Sales, New IMF-Sponsored Study Finds

The mortgage industry's ongoing attempts to reduce mortgage defaults and losses in the current depressed housing market have produced a big jump in the number of pre-foreclosure and short sales now taking place. Nevertheless, problems – ranging from delays in servicer action to home inspection issues – are continuing to result in many failed pre-foreclosure and short sales transactions.

These are among the many revelations coming from a major new study of mortgage servicer loss mitigation practices sponsored by *Inside Mortgage Finance*. The new research is based on a nation-wide survey of real estate agents conducted by Campbell Communications in March that produced more than 3,000 validated responses. In addition to tracking important trends in how mortgage servicers deal with pre-foreclosure/short sales, foreclosures and real estate owned or REO, the study rates all major firms on their loss mitigation performance in various categories.

One of the most significant findings in the new research is that pre-foreclosure and short sales now account for about one-fifth of completed home sale transactions nationwide. Pre-foreclosure sales are home sales that are initiated to avoid foreclosures while short sales are pre-foreclosure sales where the sale price is below the mortgage debt owed.

According to survey respondents, about two-thirds of pre-foreclosure and short sales are home-owner-initiated while the balance or one-third is mortgage servicer-initiated. For homeowners initiating short sales, the most common reason given was “inability to make mortgage payments.” But one quarter of respondents also cited “decline in property value” as the primary factor behind a short sale.

Despite the growth in pre-foreclosure and short sale activity, real estate agents reported encountering a lot of problems in successfully completing pre-foreclosure or short sales. In fact, survey respondents reported that on average one-third of these transactions fail – even though there is a signed purchase and sale agreement.

One of the biggest obstacles cited by real estate agents in completing short sales is the delay in hearing back from mortgage servicers regarding a potential short sale. On average, home listing agents reported it

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**7910 Woodmont Avenue
Suite 1000
Bethesda, MD
20814-1709
Tel. (301) 951-1240
Fax (301) 656-1709**

Publisher
Guy D. Cecala

Managing Editor
John Bancroft

Associate Editors
George Brooks
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takes servicers 4.5 weeks to provide an answer on a potential short sale, resulting in many potential buyers simply walking away while awaiting a response to their offer. In contrast, mortgage servicers are much faster in providing a “yes” or “no” on REO sale offers as survey respondents reported a response time of less than two weeks on average.

Some of the delay in approving short sales appears to stem from a general reluctance by mortgage servicers to accept an up-front loss on a loan. “With rapidly declining prices, combined with 100 percent or greater financing, many of the sellers are so far in the hole that the mortgage companies are hesitant to accept what the market will bear, and end up forcing these [would-be] sellers into foreclosure. This results in months of lost time, huge legal fees and, in most cases, they get a home back in a much deteriorated condition, resulting in a net loss of thousands more than they would have had by agreeing to a short sale,” complained one survey respondent.

Respondents said the most common reasons for failed transactions are tied to problems with home inspections or damage to the property, seller refusal to sign a deficiency note and the seller’s inability to pay a real estate commission or closing costs.

Rating Servicers

The survey also asked real estate agents to rate mortgage servicers on a number of pre-foreclosure and short sales issues. In regards to “responds promptly to offers,” a major obstacle to successfully completing short sales, respondents gave the highest marks to National City, HSBC Mortgage and Wells Fargo Home Mortgage. The lowest grades were given to Washington Mutual, American Home Mortgage and Aurora Loan Services.

Mortgage servicers also were rated individually by real estate listing agent in 15 separate categories related to their performance in handling pre-foreclosure and short-sales. In these company “report cards,” Wachovia scored the best, posting above average ratings in 11 categories. Countrywide scored the worst, receiving above average grades in only two categories.

When asked “In your experience, which incentive to the homeowner would most increase completed pre-foreclosure and/or short sales?” survey respondents most frequently chose “no adverse report to credit bureau.”

For information on how to obtain the full study entitled “Loss Mitigation in 2008: Real Estate Agents Report on Lender Practices,” contact John Campbell at Campbell Communications at john@campbellsurveys.com or (202) 363-2069. ♦

Significant Reasons Why Pre-Foreclosure/Short Sales Fail

- 1) Home inspection/damage to property
- 2) Seller would not sign deficiency note on short of mortgage balance
- 3) Seller cannot pay real estate commission and/or HUD-1 closing costs
- 4) Mortgage servicer attempted to reduce real estate commission
- 5) Appraisal for buyer’s lender lower than contract price

Source: Study on “Mortgage Loss Mitigation in 2008” by Campbell Communications

Servicers on Pre-Foreclosure and Short Sales

Best in Responding Promptly to Offers

- 1) National City
- 2) HSBC Mortgage
- 3) Wells Fargo
- 4) IndyMac
- 5) Wachovia

Worst in Responding Promptly to Offers

- 1) Washington Mutual
- 2) American Home Mortgage
- 3) Aurora Loan Services
- 4) Homecomings Financial Network
- 5) Countrywide

Source: Study on “Mortgage Loss Mitigation in 2008” by Campbell Communications

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