

Hardships force homeowners, mortgage holders to accept short sales

08:15 AM PDT on Sunday, September 23, 2007

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The Press-Enterprise

Eileen Capizzo gets teary eyed when she visits the "dream house" in Beaumont that she and her husband, Joe, bought less than two years ago.

Soon after that, her husband died in a car accident and she was diagnosed with lung cancer. Now she can't afford the house and has tried in vain to sell. Even though she paid a \$100,000 down payment, she has watched that equity evaporate as real estate prices tumble.

She can't work and has drained her savings to pay her mortgage.

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Terry Pierson / The Press-Enterprise

Eileen Capizzo's dream home in Beaumont sits empty as she tries to sell it for less than the mortgage balance.

She has followed the path of an increasing number of Inland homeowners and resorted to what's

known as a short sale, reducing the price on her house to where it will no longer cover the amount of the mortgage.

"I am trying to keep my credit," Capizzo said. "The short sale will ding my credit but not as much as a foreclosure."

Short sales must be approved by lenders, who traditionally have reserved them for mortgage holders like Capizzo who are blindsided by an unavoidable, long-term hardship, such as a death, serious illness, divorce or job loss.

Escaping Adjustables

Real estate agents say this year lenders are approving short sales as an escape route for borrowers whose adjustable-rate mortgages have skyrocketed beyond their means.

"The old school mentality was the hardship had to be marital, medical or job related. But I have had short sales approved and the hardship is that the loan is adjusting," said Jacob Swodeck, short sale manager for ForecloseHelp.com, a company in Covina.

Mortgage industry officials say lenders do not wish to reward people who used poor judgment by refinancing too often or using their house as an ATM machine to buy recreational vehicles and other luxuries. Nor do lenders want to let customers sell homes short if they can afford higher mortgage payments but desire to dump a property or mortgage they now perceive as a bad deal.

Taking a Beating

Real estate agents say lenders generally won't even consider a short sale offer unless a homeowner is already at least one to three months behind on mortgage payments.

"If everyone comes out of the woodwork, even those able to pay, the next thing you know the bank is being pummeled," said Chris Thornberg, a real estate economist. "The problem with a short sale or a foreclosure is that the process forces the bank to have to acknowledge its losses."

Maureen Gagne, servicing manager for Guild Mortgage Co., a San Diego based mortgage banker with branches serving Riverside and San Bernardino counties, said she is receiving more requests for short sales but weeding out many that are "low ball" offers or where the homeowner has the ability to pay the mortgage but is spending on something else.

Better Than Foreclosure

Lenders said they prefer a short sale to a foreclosure, which the Bank of America said is \$30,000 to \$50,000 more costly because of the expenses of seizing a home and putting it on the market. Also, delaying a sale until foreclosure may result in a lower price in neighborhoods where property values are deteriorating.

"In a foreclosure nobody wins. The lender loses and the borrower loses," said Bank of America spokesman Terry Francisco. He said the Bank of America is seeing an uptick in short sale requests in areas like California where the housing market is in decline after a long run up.

Harder to Negotiate

It is uncertain how many short sales are being attempted and what portion succeed. The California Association of Realtors, DataQuick Information Systems and RealtyTrac all follow real estate trends but don't track short sales. The Multi-Regional Multiple Listing Service that serves the Inland Empire and part of the San Gabriel Valley had 3,983 short sale listings about a week ago. It does not track them month to month.

DataQuick analyst JohnKarevoll said short sales were significant during the 1990s, but he does not think that is true now. He said today's delinquent borrowers are more likely to have multiple mortgages, making it difficult to negotiate with several lenders on a sales price or split the deficient proceeds.

Lengthy Waits for Approval

Swodeck said only a small fraction of short sales succeed. He attributed the high failure rate to a combination of factors, including the sluggish market, the time lenders take to approve an offer and the stigma that short sales have among agents who represent buyers.

Nick Manfredie, chief executive of The Short Sale Processor, a new company in Corona, said a homeowner wanting a short sale must submit a letter to lenders explaining the hardship and include documentation, such as bank statements and tax returns, to prove he or she cannot afford the mortgage.

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Capizzo's home in Beaumont is reflected in a mirror, shattered like her dreams after her husband died. She hopes to sell the home for less than the mortgage amount of balance.

Of the 43 prospective short sales his firm is working with, Manfredie estimated that about half will get an offer lenders will accept.

Lenders Overwhelmed

The biggest frustration, say agents, is that it can take months for a lender to decide whether to accept an offer, in part because lenders' mitigation departments are being inundated with such requests.

"The loss mitigators in the loan servicing offices may have as many as 175 short sales each. They are so overwhelmed that all they can do is just work on the ones close to being auctioned off," said Karen Beer, an agent with Coldwell Banker Associated Brokers Realty in Murrieta.

Capizzo had a short sale offer of \$319,000 for her house but lost it when the prospective buyer decided not to wait for a lender to decide and bought a new house nearby on which the builder offered \$25,000 in incentives, said Wayne Kelley, Capizzo's real estate agent.

Richard Macias, 42, also has had no luck selling his house in Corona's Horsethief Canyon for \$329,000, which is \$88,000 less than enough to repay his mortgage. Macias said he can't afford the adjustable mortgage he got two years ago when he refinanced his house to raise funds to develop an invention.

Rising Adjustable Rates

Macias, a dock builder for the city of Los Angeles, said in the last year the interest rate on his mortgage has steadily risen, pushing up his monthly payments from \$2,200 to \$3,600.

When he tried to refinance to a fixed rate, he said, he still could not get a payment he could afford because late mortgage payments hurt his credit score.

Macias, who was also injured on the job and is on disability, said if he finds a buyer for his house, he hopes that his lender, Chase, will accept a short sale. With a trustee sale scheduled next month, he doesn't have much time left.

Consequences

John Merrill, president of One Source Data in Carlsbad, a credit reporting agency, said a short sale is less damaging to credit scores than a foreclosure. He said his model shows that a short sale will lower a credit score by 30 to 60 points while a foreclosure will lower it by more than 100.

How a short sale will affect the ability of a borrower to obtain another mortgage will vary from lender to lender and depend on the borrower's current financial circumstances, said Dustin Hobbs,

spokesman for the California Association of Mortgage Bankers.

Hobbs said most lenders "regard a short sale and past hardship much better than a past foreclosure because a short sale in most cases shows much more effort on the part of the homeowner to stave off losses."

But Karen Hirsch, business administrator for Mountain West Financial, said underwriters for the Redlands-based mortgage banker view short sales as negatively as foreclosures and it would take time before a short seller would be considered a reasonable credit risk for another mortgage.

"If (borrowers put) themselves in a position where they were unable to make their house payment, it tells you about their sense of responsibility," she said.

Taxed Like Income

Short sellers may also face tax consequences.

Paul Prescott, a tax principal with Deloitte & Touche in Costa Mesa, said the amount of debt that a lender forgives on a mortgage by accepting a short sale can be taxed as regular income by the federal government if the mortgage was a refinance or equity line of credit.

There are exceptions if the borrower was in bankruptcy or insolvent at the time of the short sale, Prescott said. The amount by which the short seller's debts exceed his assets can be excluded from taxation.

Also, the debt forgiven on a mortgage used for the original purchase of a house is not taxable, Prescott said.

President Bush has said he will work with Congress to try to eliminate the income tax involving short sales.