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## Short sales in California surpass sales of foreclosed homes

In recent months, short sales have surpassed sales of foreclosed homes in California for the first time since the start of the housing crash in 2007, data show.

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The owner of this home in the Crystal Cove section of Newport Beach sought a short sale in 2009. Short sales -- in which banks allow homeowners to sell for less than they owe -- now represent about a quarter of the market, a surge driven by rising home prices, government crackdowns on foreclosures and banks' increasing capacity to process the deals. (Tim Rue, Bloomberg / December 14, 2009)

By Alejandro Lazo, Los Angeles Times  
January 8, 2013 | 7:18 p.m.

When housing prices first went off the cliff, most mortgage lenders refused to cut deals with homeowners, choosing instead to repossess homes on a grand scale.

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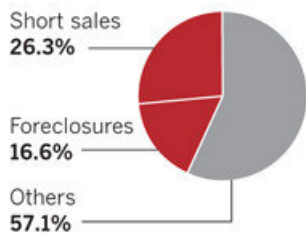
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QUOTE:

## Comparing sales

Statewide ratio of all previously owned homes sold in November:



Source: DataQuick

Los Angeles Times



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Five years and billions of dollars in losses later, many banks can't cut those deals fast enough, writing off large chunks of mortgage debt and even paying homeowners to move out.

In recent months, short sales — in which banks allow homeowners to sell for less than they owe — have surpassed sales of foreclosed homes in California for the first time since the start of the housing crash in 2007, according to real estate research firm DataQuick. The transactions now represent about a quarter of the market, a surge driven by rising home prices, government crackdowns on foreclosures and banks' increasing capacity to process the deals.

Lenders have revamped short sale departments, streamlining paperwork, creating new software systems and enlisting newly formed companies as liaisons with borrowers. Some institutions are even paying homeowners sizable sums to move, similar to "cash for keys" arrangements used as an alternative to eviction in foreclosures. Bank of America pays up to \$30,000 in relocation assistance for certain successful short sales. JPMorgan Chase will pay up to \$35,000. Wells Fargo offers similar aid, though it declined to specify an amount.

When William Morrison asked Bank of America to approve a short sale on his Seal Beach condo, the lender obliged in October — letting him sell for about \$192,000 and forgiving an additional \$98,000 he owed on his mortgage, according to public records. The bank threw in enough relocation assistance to cover one month's rent and the deposit on a new place.

"They gave me \$3,000," Morrison said. "And that is exactly what it cost me to secure a little studio apartment in Seal Beach, pretty close to the old place."

The surge in short sales stems in part from last year's national mortgage settlement with the nation's five largest banks. To avoid going to court over foreclosure improprieties, the banks agreed to certain levels of debt forgiveness for underwater homeowners. Short sales count toward those commitments.

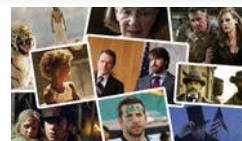
But the trend also marks a triumph of economic common sense. Short sales have long been less costly to banks than foreclosures. Homeowners often remain in a property until a new buyer is found, which helps banks avoid maintenance costs and keeps out squatters and vandals. Moreover, many buyers of foreclosures expect a discount, whereas banks aim to get market value for short sales.

"In general, short sales produce less of a loss than if the property goes through foreclosure," Wells Fargo spokesman Gary Kishner said. "In addition, the property is usually conveyed in better condition, which ultimately benefits the neighborhood."

### On hold for months

At the height of the housing crisis, short sales seemed like a misnomer: neither short nor resulting in a sale. Homeowners waited months for a bank response to a short sale offer — often a rejection — even as banks deployed robo-signing factories to rubber-stamp foreclosures by the thousands. Properties with multiple loans proved particularly difficult to short-sell because each lender had to agree to take write-downs. Frustrated buyers moved on.

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But banks now embrace the transactions, if only as a necessary evil. Ben Salem, a real estate agent for Rodeo Realty who specializes in distressed properties, has seen much of his business shift to short sales this year.

"You are seeing a lot of people from the foreclosure departments going over to short sale departments," Salem said. "What is happening is a good thing."

Since the crisis, major investors, including banks and government-sponsored mortgage titans Fannie Mae and Freddie Mac, have eased their rules to make short sales easier. New government programs offer more incentives to borrowers and banks, prompting lenders to work with buyers to market properties instead of waiting for offers to arrive.

Kimberly Dawson, a short sale specialist with Bank of America, said banks have simply become more adept at the transactions, which were rare before the housing bust. When a homeowner agrees to one of the bank's proactive short sales, the bank typically makes a decision on an offer in five to 10 days, she said. And with home prices rising and inventory tight, banks can more easily approve a sale.

"What we are looking for is market value. It is obviously the best thing for our investors and the community," Dawson said.

### Forgiving debt, repairing credit

The incentives for short sales are more than just economic. Banks face a slew of new regulations after revelations of improper foreclosures based on forged or faulty paperwork. Avoiding foreclosure also means avoiding the legal hassle and expense of home repossessions.

"If you go through a short sale and a homeowner signs off on it, there is no downstream worry of litigation," said Sean O'Toole, founder of ForeclosureRadar.

Short sales have also become more beneficial for consumers. Banks now typically approve short sales that include deficiency waivers, meaning debt is forgiven. These kinds of short sales are less harmful to credit scores, according to Fair Isaac Corp., which developed the nation's most widely used credit-scoring formula.

For homeowners with hardships, such as job loss or illness, agreeing to a short sale means a waiting period of two years before the possibility of getting a new home loan backed by Fannie Mae or Freddie Mac, compared with three years for a foreclosure. A homeowner without such circumstances can also get a new loan two years after a short sale with a 20% down payment, compared with seven years for a foreclosure.

Leonard Roth hopes to use those two years to repair his finances so he can buy another house. He's working with his bank to short-sell his home in Redlands because he can no longer handle the monthly payment, which doubled to \$2,800 after five years because of a variable rate.

"Two years," he said, "should give me enough time to save."

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**LisaPelos** at 3:39 PM January 09, 2013

Prop 13 needs to be overturned so that the poor, disenfranchised, undocumented and their children can be fed, clothed and educated. Why can't the well off pay their fair share to save the children?

**MeValeMadre** at 3:17 PM January 09, 2013

California Senate Bill 458 was signed into law on July 15, 2011 and became effective immediately for all short sale transactions that closed after July 15, 2011. The law provides that junior lienholders no longer have any deficiency rights against the borrower after a short sale. A previously enacted law enacted in 2010 banned senior lienholders from collecting deficiencies after short sales.

**mizzmax1** at 11:27 AM January 09, 2013

The housing market has been a sad situation all they way around. The crooks all sleep in the same bed, but I still believe in justice and even if they don't pay in the judicial system, the debt will be paid with blood, that is for sure!



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