

Educational Release

The Listing Process for a Home in Foreclosure

by **Justin Ryan**

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Foreclosure Transactions Require a Different Listing Approach

San Diego, CA – My fellow foreclosure professionals ask me this question all the time: **Is the listing process any different on a short-sale transaction?** The answer is a resounding YES.

A short-sale is much different than a standard real estate transaction. All of these differences require a much different listing strategy in order for us to be effective. Let's examine this process in detail.

THE PROCESS

I use a very specific process to list a home in foreclosure. The biggest challenge with foreclosure listings right now is that:

#1: There are a lot of them, and

#2: Many Agents dislike showing them to the retail homebuyer (because of all the complexities they contain).

The words “subject to bank approval” scare many agents away because they do not want their qualified retail buyer to get excited about a home that they may never be able to get. While the buyer is waiting for feedback on that offer, it is tempting to want to keep looking at other homes. It can take months to get feedback from the bank, and by then the buyer has cooled off, and possibly missed out on other good properties.

Most agents are afraid that showing foreclosure homes to the retail buyer will result in a “wild goose chase” where the buyer is chasing an unrealistic pipe-dream. This problem is

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solved with a different listing process that is much better suited to the home in foreclosure.

Step 1: Meet with the homeowner and do your normal analysis of the homeowner's needs. After your initial discussion you have determined what solution will best fit the homeowner's needs. If a listing is involved, complete all listing docs. If a qualified short-sale is involved, complete all of the foreclosure / short-sale package documents as well.

Step 2: Determine if the transaction is a **qualified short-sale transaction**. For more detail on what a qualified transaction consists of, see my training piece titled *How to Qualify a Foreclosure Transaction*

Step 3: List the home right away at a high price and start bringing documents together. We do not want an offer yet from an excited retail buyer. If we get one too soon (before the file has been assigned to a rep) that buyer will likely cool off by the time approval is received. The piece that's coming next is probably the most important part of the entire foreclosure listing process.

On average, it takes between 2 - 4 months to complete a short-sale file. This is why it is so critical to list the home at a high price. If you start off at a competitive price you are in trouble. You will have an offer in 2 weeks. But at this point the bank hasn't even assigned the file to a rep. It can take 4 weeks (or more) just to get the file assigned to a rep at the lender's office. Until the file is assigned no one is working on it and it's impossible to get a single ounce of feedback. The buyer will be begging you for feedback, but you won't be able to provide a single drop of it. Eventually, the buyer gets frustrated and walks away. There is a **much** better way to manage a short-sale listing.

Start out with a HIGH listing price. Add up what is owed on all the mortgages. Add back property taxes. Add a full real estate commission, and costs. And now you have your listing price. Now, if this figure is *outrageously* high start out lower. For example, if total pay-off is \$600,000 but today's market value of the property is \$300,000 do not list the home at \$600,000. In this case take the current market value of the property and add 30%. This will put your listing price at an inflated \$390,000 – high enough to deter showings, but low enough to be “within reason”. This inflated price also creates some *intrigue and curiosity*. Any time I see a home listed “too high” it makes me wonder: Why is it “too high”? Is it in flawless condition? Does it have marble, granite, and flat screen TV's

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on the walls? Does it simply knock your socks off when you walk through it? The intrigue that you have created is very valuable from a marketing perspective.

Remember: We do NOT want an offer yet. If we get an offer right away the buyer will cool off by the time the lender is ready to take action. Our goal is to demonstrate to the lenders that we have been trying to sell the home at a higher price – with no luck. One of the required documents in the short-sale package is the listing agreement. The lenders want proof that the home can't be sold at the higher price before they are willing to take a discount. If the home was listed on May 1st, and the offer appeared on May 2nd things look a little fishy to the lender. It looks like we cut the bottom out of the list price in order to get an offer quickly. The lenders don't like this. They want the home to have adequate time on market so that we can procure the best possible price.

If the home was listed on May 1st, and the offer appeared on June 14th the lender is thinking "OK, that is reasonable". It is important for us to have some seasoning time on market so we can demonstrate that we took all efforts to procure a good price for the lender.

Now, here's where an important piece of strategy enters. Many lenders won't even talk to my office unless there is an offer in place. We can fax homeowner documents, and get the file "set up", but the file ultimately can not make progress without an actual offer. So how to we address this problem?

It is actually much easier to get an offer than you might realize. Real estate investors are willing to write offers left and right. It will be important for you to have several real estate investors in your network. When you take a new short-sale listing, you can notify one of your real estate investors and ask him to write the offer that works for him. Obviously, this will be a "low offer", but that does not matter. We are not looking for the highest and best offer at this point. We are looking for an offer that will allow us to get the process started. If, low and behold, the bank approves the investor's offer that is fantastic for him. This is very unlikely of course. Our purpose for procuring this offer is to get the process started, and have the lender order their BPO.

After the BPO has been ordered, **now** the price can come down in the MLS. The BPO will be back to the lender about 1 week after it happened (two weeks with some lenders). After the BPO is back, the lender knows exactly what type of offer they will accept – and what type of offer they will *not* accept. **It is now much easier to get feedback on an offer.** Our office can now *talk values* with the lender. Now we know what value the property can be priced at, and the price comes down in the MLS if necessary. "How much" it comes down will depend on what the property appraised for.

Communicate with our office and we will help you determine the correct price reduction.

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Now that the property is priced competitively, new offers will be procured. These new offers are *higher* than the original investor offer – which is great. Nothing makes one of the bank rep’s happier than to hear that we just received a new offer – and that it’s higher than the previous one! This new offer now goes to the lender, and we work it through the approval process.

During the week after your listing appointment, work with the homeowner to get all short-sale documents together. Once they are complete, send them our way and we will complete the set-up of the file. We will let you know what’s missing, and the file will come together. Keep in mind: as the file is coming together we are gaining seasoning time on market. **Very important:** Make sure that you list the property immediately following your listing appointment so that we’re gaining market time from the very beginning.

With the lenders being so overwhelmed today it can take 4 weeks just to get the file assigned and receive initial contact. Now we have had the property in the MLS for a full month, and it is very clear that the home will not sell at the inflated price.

Step 4: The process continues until we have received feedback from the lender on an offer. Once the lender has approved an offer it will just be a matter of time before the approval letter is in hand!

Once the approval letter is in hand it is **full speed ahead**. The buyer will need to order his inspections and appraisal right away. The approval letter is usually good for 30 days from the date it was issued...so the clock is ticking. We get extensions all the time, but it is vastly preferable to close in 30 days. 30 days is more than enough time to close most transactions. It is extremely important for the buyer to be vigorous and work hard to close on time because the lenders are very overwhelmed right now. Which sometimes makes it challenging to get extensions. **In order to get an extension the buyer must have already completed his appraisal and inspections.** Occasionally, we will see a buyer request “more time” at the beginning of the approval process. It is not possible to get more time when nothing has happened. However, after the buyer has dutifully conducted his diligence it is possible to get an extension if more time is needed. We simply need to know: a) the reason more time is needed, b) the new estimated date for close of escrow.

Other things to keep in mind...

Occasionally buyers fall off. Especially in today’s market because there are so many choices –

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and all these choices are very distracting to the buyer. If a buyer falls off it's not something to panic about. It happens, and here's how we respond.

At this moment in time, our short-sale is **approved**. The name of the buyer will change, but the **numbers** have been approved. This makes a significant impact on the transaction. Most short-sales are not already approved. This one is. It is very important to indicate this in your MLS comments. The **first line** of your MLS comments should look something like this:

Short Sale APPROVED! What a bargain on this 2,400 square foot contemporary. Hurry. This short sale is ALREADY approved...no more waiting...simply make your offer at this value and it's yours.

Continue the rest of your comments, and then near the end of the comments finish with something like this: "*Variable commission will be split evenly between brokers. Hurry...*" As you know, the lenders require a discounted commission on foreclosure transactions because they are taking a loss. We don't know what this will be until later, so this phrase keeps everyone happy.

Here is another good strategy. If you wish, to encourage traffic even further, at the end of your comments do one of these: "*Super open house will happen this coming weekend, and home will be gone for sure. Hurry...*" Now you have just created super-urgency. You will be running a super-marketing campaign this weekend that will create massive exposure for the home (Read *How to Sell Your Home in 5 Days* by Bill Effros).

This urgent language in your MLS comments, combined with the correct value will allow us to procure another offer in quick order. From this point forward, everything is the same as a standard real estate transaction. The new buyer's appraisal and inspections happen. The escrow company comes in and does their thing. And the buyer closes on the home.

Note: It is very important for the buyer to come in with a net offer at the approved price. If our approved price is \$599,900 and they want 3% for closing costs they need to come in at about \$618,500 so that \$599,900 remains as the "net". If we don't have our full net, one of two things have to happen. We either have to go back to the lender for another approval, or we have to cut cost. We don't want to go back for another approval if at all possible because we may never get it. The

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lenders are slammed with volume right now and they do not like to have to approve files twice. The re-approval can also stall things for another month. You can ask the buyer's agent if he'd be willing to cut his commission even further, but I'm sure he would rather have his buyer come in at full net. The price is already an outstanding discounted price. One of my favorite expressions is this one: pigs get fed, but hogs go to slaughter. If the buyer is going to be greedy, and try to save *another* couple grand off a great price, he will lose the home altogether. The bank requires us to submit our highest and best offer to them. At the price we've negotiated, it is very likely that another buyer will be reasonable and supply the full net offer. Be sure to explain this scenario to the buyer's agent so that his buyer doesn't lose out. The buyer is also welcome to come in *higher* than full net. If s/he really wants the home, s/he will do exactly that. I see folks come in \$100 higher all the time. It is a very wise bidding strategy that separates s/he from all the other buyers who came in at full net.

It is common for there to be a "shortage of funds" during short sale transactions.

In our prior example, the transaction was "short" because the buyer didn't want to come in at the approved price. The transaction can also be short for other reasons. Unexpected expenses can pop up at the last minute. On one of my recent transactions, a \$7,000 judgment lien popped up on title two days before closing. The seller did not have any funds to pay the judgment, and they refused to discount it by a single penny. If we didn't discover a way to pay this judgment, the entire transaction would have blown up...and 4 months of work would have been washed down the drain. This judgment made the transaction "short" by \$7,000. Needless to say, we were motivated to find a way to cure the shortage. The seller was unable to provide any funds, and the buyer was unwilling to provide all of them. So we ended up having the buyer supply a portion of the shortage, and we paid the other portion out of professional fees. Obviously, we do not like having to sacrifice our professional fees. We work very hard for our money, and we deserve every penny we've earned. If there is a shortage, the best way to solve the shortage is for the buyer and seller to each provide 50% of the shortage. Unfortunately this is not always possible. Many times the seller has no funds. The buyer may be tempted to pursue another property if the shortage is too great. After buyer and seller have made their maximum contributions if a shortage still remains we have a decision to make. If the amount of the shortage is reasonable, we may choose to contribute the remainder of the shortage from professional fees. The other option is to re-activate the listing and begin searching for a new buyer (if

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we have enough time available to do so). Either way, we will make a decision on how to proceed and move forward accordingly.

This foreclosure listing process accomplishes many objectives. The accomplishment of these objectives allows us to accomplish our overall objective of **getting more transactions closed**. And that is exactly what happens when you follow these procedures. I realize that this is a detailed set of strategies. The detailed nature of them is what makes them so effective. Spend lots of time with them. Do not expect to have these strategies mastered overnight. Come back to this document over and over again. Please do not allow yourself to get frustrated because these strategies are “too complicated”. Brain surgery is complicated too, but that doesn’t stop surgeons from saying “this is too hard.”

Justin Ryan is a seasoned foreclosure professional, published author, and national speaker. His experience has taught him that foreclosure is something that happens everyday to good people, so treat every person you help as if they were your own family member. For more information on how he can help your group achieve abundant revenue from foreclosure transactions and help a lot of people in the process, contact him directly: 248.766.4233, justin@foreclosureeducation.com.



Short-Sale Negotiation for Realtors with Justin Ryan



The Realtor's Key to Short-Sale Success

What We Do:

- Build the short-sale package and proof of why the file is qualified
- Ensure that the file is complete before it goes out the door
- Ensure that file has been received by lender, and continue sending until it has been received
- Follow-up with lender until file has been assigned to a rep
- Follow-up with rep until BPO is ordered
- Follow-up once BPO has come back and negotiate the file (with all lienholders)
- Inform you of all requests for additional paperwork
- Solve complicated problems and issues along the way
- Follow-up until lender feedback has become final and short-sale approval letters have been received!

What You Do:

- Meet with the homeowner and complete all documents
- Meet with the agent who performs the BPO
- Check weekly for the NOD filing
- Keep all parties informed of updates

My goal: To change short-sales from something you dread into something you enjoy



Justin Ryan

SHORT-SALE NEGOTIATOR • AUTHOR • SPEAKER



Short-Sale Negotiation for Realtors with Justin Ryan



Order Form

Single file submission, \$199.00 [must be paid by the Realtor in California (not the homeowner)]

Short Sale Silver – Full training program, \$395.00 (\$199 set-up fee per file)

Short Sale Gold – Full Training Program, \$395.00 (unlimited file submissions, \$395.00 per month)

Agent Name : _____

Address: _____

Phone: _____

Email: _____

Total Amount: _____

Payment type: Visa Mastercard Discover AMEX

Check # _____

Cardholder Name: _____

Credit Card Billing Address: _____

CC #: _____ Expiration: _____ Security ID#: _____

Signature

Printed Name

Date