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Short Sale: May be Solution for Delinquent Homeowners

by Phoebe Chongchua

It's not been a pretty picture in the California real estate market. Prices are dropping, appreciation is stalled, and homeowners whose mortgages are adjusting to higher interest rates are worried that they can't keep up.

Foreclosures and short sales are becoming the highly-talked about topic in real estate. DataQuick reports that last quarter the number of default notices (NoDs) sent to California homeowners increased to its highest level in nearly 10 years. This flood of delinquencies is causing short sales to become more popular as a solution for homeowners who need to get out of their properties as painlessly as possible.

"A short sale is the same as a displacement issue. It's when the homeowner cannot afford to make the payments on his loan due to whatever circumstance, and the majority of those distressing circumstances seem to be an adjustment of a mortgage," says Tom Ziegler, Short Sale Support Facilitator in Carlsbad, California.

Ziegler says when homeowners decide that they can no longer stay in the home we come in to help facilitate a short sale rather than having the home go through a foreclosure. These days, lenders, wanting to avoid costly foreclosures, are more inclined to accept a short sale in which the loan balance exceeds the market value of the house.

"The short sale path ends by agreement with the lender that [the lender] will approve the sale of the property to a buyer and it results in an escrow, documentation and we have a short sale consummation," says Ziegler.

Since homeowners know they will be moving they will need to find a new place to live. Ziegler says, "You have to find money for that. How are you going to find money for that? Well you're not going to be making payments on your mortgage any more so you would take that windfall and you apply that to the preservation of your family future."

It's also important to understand that you could face a 1099 in the future - meaning you could be taxed down the road on the sale of your home due to the lender's suffering a loss of principal of \$600 or more. "For the purposes of the homeowner, if he goes the short sale route he is essentially controlling the amount of expenses that are going to proliferate," says Ziegler.

Ziegler adds that if the property goes to a foreclosure, additional fees will be accumulated and later reported by the lender to the IRS as losses.

The benefits of the short sale are numerous. "The homeowner isn't going to be disgruntled and tear the property up; he's going to maintain it for a certain amount of time. The benefits of the short sale are the Realtor is going to receive a commission; there's going to be commerce for the community," says Ziegler.

He says one of the ultimate benefits is that the lender is agreeing with the homeowner. "That yes, indeed, [the homeowner] is incapable of making those payments based on the documentation that the homeowner is giving to the lender to make the decision. The lender is suggesting that [the homeowner] is insolvent, incapable of doing this and therefore [the lender] agrees this is the best approach for both of [them]," says Ziegler.

He says this support can come in handy when IRS comes looking for money. "With this package of documentation, when the IRS hits this poor [homeowner] up a year-and-a-half down the road, he

at least has a basis for a defense, against that claim by the IRS," explains Ziegler.

If you are attempting to do a short sale, recognize you'll likely need expert help. The short sale process is not an easy path, even for experts. Ziegler says when he was doing this method of home sales in the 80s and 90s "95 percent of the ownership of the lenders, such as Home Savings and Loan, Golden State - those people - worked and lived in the state of California and they owned 95 percent of their own [mortgage] paper. They were licensed by the Federal Deposit of Insurance Corporation, the Federal Savings and Loan Insurance Corporation, etc. There were regulatory authorities that oversaw everything that they did. Even though they imploded, there was regulation that oversaw that implosion," says Ziegler.

But in today's market, Ziegler says, it is a very different scenario. "95 percent or more of the lender ownership is out of the state of California and 99 percent of that ownership is in an amorphous ownership. By that I mean they could be part of a syndication, a derivative pool, an individual in China, and most are represented by loan servicing organizations," says Ziegler.

When it comes time to negotiate a short sale, tracking down the right people to negotiate with is an extremely difficult task. Ziegler says the complicated ownership group is separated by a group of organizations referred to as loan servicers with whom Ziegler attempts to negotiate. But, he says, frequently negotiating gets bogged down in this complicated matrix.

"[The loan servicers] have to have some common ground to dialogue with me," says Ziegler. He says that often instructions to not settle for less than a certain amount are given to the loan servicers. That's when the chase begins. According to Ziegler's experience, "What they do give me is a bunch of dummy phone numbers, put me into loops that go nowhere, put me into service phone numbers that go to India, Mexico, Indonesia, South Africa, or whatever they can possibly do to not address the issue in an appropriate, fair, conscionable manner," says Ziegler.

Whether intentionally or unintentionally, getting to the right people to discuss the possibility of a short sale, seems to be a challenge to which even the professionals say there is no easy answer.

However, once an agreement is reached, the short sale can be the best opportunity to get out of a very bad situation with the least amount of harm for all involved.



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Retirees House Rich, Savings Poor

by Broderick Perkins

Not only do most people in or near retirement plan to keep their current home, they also don't plan on tapping the large equity stake they have in their home.

That could be tough to pull off for the vast majority who are not avid savers.

However, a saving grace for retirees is that most of them have already paid off their mortgage and lots of equity is there if they need it.

A recent Harris Interactive poll conducted for financial services provider, Des Moines, IA-based Principal Finance Group, found older Americans feel relatively financially secure about their homes, but stay awake at night worrying about other financial matters.

With the current housing market mayhem adding to retirement time tension most of those who've already retired see home ownership as a financial cushion ~ 73 percent say they'll keep their current home rather than sell or even downsize, according to Principal's Financial Well-Being Index.

That could actually have a positive effect on today's housing market if significantly fewer homes come to a market awash in unsold inventories.

The index also shows that only 21 percent of those still working, but just five years from retirement, also plan to keep their current home.

Both retirees (78 percent) and those on the brink of retirement (76 percent) aren't considering taking out a reverse mortgage or selling their home to help fund retirement.

That might work for retirees, 60 percent of whom have their homes completely paid off. Older workers however, may not be so fortunate. The survey says only 65 percent of those still working own their home and 36 percent of that percentage has a smaller than 20 percent equity stake.

Also some who rely largely upon their home for financial shelter could find themselves unprotected.

Nearly half the workers (45 percent) and most retirees (61 percent) have not received any financial planning assistance. With such planning they could be better savers as a way to bolster their financial well-being.

The survey said while 42 percent of workers think they should save 11 percent or more of their pretax salary for retirement, only a minority (11 percent) actually do.

"Those with inadequate savings during retirement might be forced to consider home equity as a source of retirement income ... it is crucial that retirees and workers develop and implement an adequate retirement savings plan that will allow them to maintain their lifestyles throughout retirement," said Dan Houston, a vice president at Principal.

More than two thirds of workers (67 percent) and more than half of retirees (52 percent) said they are concerned about their long term financial future, but housing wasn't mentioned when they were asked what concerns "keep them awake at night."

For those still working, 39 percent said concerns about being able to enjoy the same quality of life during retirement makes for sleepless nights. So does the ability to afford good medical care (39 percent); outliving savings (32 percent) and inflation that reduces their purchasing power (28 percent) were also nightmare makers.

As for retirees, 29 percent said night sweats come from worrying about the ability to afford good medical care; followed by outliving savings (24 percent), and the ability to pay for basic necessities (21 percent).

Thinking of buying or selling a home in the near future, please call

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for a personal interview and property assessment with no obligation.

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