

Arizona Mortgage Holders Turn to Short Sales

A growing number of individuals behind on their Arizona mortgage and facing foreclosure are finding a way to sell despite the glut of Valley homes for sale.

These people are turning to “short sales,” which are similar to regular home sales except a deal is worked out in which the lender accepts what the house is appraised for or what it will currently sell for instead of what is owed on it.

Therefore, a homeowner would sell the house to a buyer willing to pay the current market value of the home, while the lender takes a loss on the rest.

Short sales are the latest trend for the metro Phoenix housing market, as housing advocates are advising struggling homeowners to contact their lender about a sale before falling into foreclosure.

As foreclosures rise, lenders are more motivated to do the sales because they at least get most of what they’re owed.

Owners don’t receive any home equity from the sale, but they also don’t get a nasty foreclosure mark on their credit record. And although lenders lose out on money they’re owed, a short sale lets them avoid a costly foreclosure on the home.



“Short sales are the buzz in the market now,” said Tom Ruff of Information Market, a research data firm based in Glendale. “With foreclosures climbing and homes prices falling, short sales are bound to climb.”

There is no way to track the exact number of short sales closing in the Valley because they show up on public records as a regular sale between a buyer and a seller. For the Valley’s housing market, a short sale means one less foreclosure at a time when the number of people defaulting on their mortgages has tripled from a year ago.

Short sales lower an area’s “comps,” or comparable sales prices, too, but not as badly. For some homeowners, they are the best option.

A brother and sister from California recently approached Phoenix real estate agent Brett Barry about their house here in the Valley. The pair paid \$597,000 for the investment home in Tatum Ranch at the height of the housing market in 2005.

Now, they can no longer afford to keep it. And with a record number of Valley homes for sale, their chances of selling the home for what they paid are slim.

“I ran the numbers, and the house won’t sell for more than \$495,000 now,” said Barry, of Realty Executives. “They didn’t put any money into it. They have an interest-only loan. They could only rent it for about \$1,800 and month, but their payment is \$3,500.”

He told them they could do one of two things: Work out a short sale or call the lender and hand over their keys.

Lenders can benefit, too

Most lenders prefer short sales because foreclosures cost them time and anywhere from \$30,000 to \$50,000 per house in legal, appraisal, marketing and servings fees. A short sale gets a home off their books and typically costs a mortgage lender less than a foreclosure.

At a recent foreclosure-prevention town hall meeting in Phoenix, the director of National Initiatives for mortgage giant Freddie Mac encouraged housing advocacy groups and lenders to steer people toward short sales if their only other option is foreclosure.

“We have an investment to protect as well as a moral responsibility to help people avoid foreclosure,” Christina Diaz-Malones said.

A few years ago, most Valley homes to go to the foreclosure auction block enticed multiple bids from investors. But now, lenders are taking back 80 percent of the homes they are foreclosing on. Investors have stopped bidding on many houses because they can’t make money on a resale.

To be eligible for a short sale, homeowners must prove they can’t pay their mortgage because of some type of hardship such as a job loss, medical expenses, death of a spouse or, sometimes, too much debt.