■ WHEN LEXI DAVIS AND ANDY MAY BOUGHT THEIR HOME IN SALT LAKE CITY, THE SELLER KICKED IN $3,500 IN CLOSING COSTS.

IN THIS SECTION

NOW'S THE TIME TO BUY A HOME

PRICES ARE NEAR BOTTOM, RATES ARE CHEAP AND THERE ARE PLENTY OF HOUSES TO CHOOSE FROM. >>

BY PATRICIA MERTZ ESSWEIN

PHOTOGRAPH BY MARK PETERMAN

THIS SPRING, OPPORTUNITY IS KNOCKING HARD FOR HOME buyers. Aside from the soon-to-expire tax credit worth as much as $8,000 (you must have a contract by April 30 and close the deal by June 30), affordability has returned to pre-boom levels and mortgage money is cheap, with the 30-year fixed rate hovering around 5%.

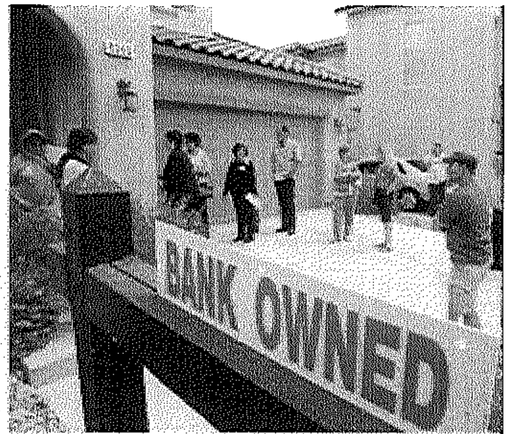
Before you leap, you'll have to weigh the risk of further price declines in your market. The median price for single-family homes is $163,600, according to the National Association of Realtors—about what it was in 2002. Fiserv Lending Solutions, a research company in Cambridge, Mass., forecasts that it will fall another 6.4% in 2010. But the price trend varies a lot by city. For example, prices in Washington, D.C., could fall another 12%, while prices are predicted to rise 1% in Pittsburgh, Pa. The biggest predictors of further price declines in most markets are joblessness and distressed sales. More foreclosures and short sales (properties sold with the lender's okay for less than what's owed on the mortgage) are coming, but they'll ease their way onto the market instead of hitting it like a bomb.

Unless your area is rife with foreclosures that promise to drag down prices, there's little reason to wait to buy. Mortgage rates are likely to head higher—the 30-year fixed rate may hit 5.7% by year-end, according to Freddie Mac—which may negate any benefit you'd get by waiting for lower prices. Suppose you buy a home with a $300,000 mortgage now and lock in a 5% rate. Your monthly principal and interest payments would be $1,610. If you wait until prices drop 6% and borrow $282,000—but have to pay 5.7% on the loan—your monthly payment would be $1,637.

The supply of homes for sale nationally has drifted downward from its peak in 2008 but is still stacked in favor of buyers—although in many cities the inventory of entry-level homes has dropped quickly, as first-time buyers and investors have scooped up bargains. On the new-home front, most builders have burned off their existing supply of homes and reduced or eliminated concessions and incentives. They may pay closing costs, but later this year Federal Housing Administration (FHA) rules will limit the seller's contribution to 3% of the purchase price. You can still get upgrades, but you'll pay for them upfront, says Jody Kahn, vice-president of John Burns Real Estate Consulting.

If you need to sell a home before you can buy again, your best strategy is to price it realistically to move it fast (see "3 Keys to Selling Your Home," April). That was Andy May's strategy when he sold his condo in Rochester, Minn., for a loss before he and his fiancée, Lexi Davis, moved to Salt Lake City. In their search for a home, the couple started their shopping on the Internet. Once they began to tour homes, they discovered that many properties that had looked good online didn't cut it in person—because of unappealing floor plans or unacceptable commutes. "In home buying, what you want—or not—evolves after you actually see the homes," says May.

After visiting at least 20 houses, they put a bid on a home with four bedrooms, three bathrooms and a big yard for their dog. The home was listed for $250,000 and had been for sale for six months. The couple offered $230,000, and after negotiating settled on a price of $238,500 with $3,500 in seller-paid closing costs—including a home warranty and a year's worth of homeowners insurance. They put down $7,000 and took out a 30-year, fixed-rate FHA mortgage with a rate of 4.75%. As a first-time home buyer, Davis qualified for a tax credit of $4,000.



IS IT WORTH THE HASSLE?

Lured by the prospect of a spectacular deal, many buyers start their search with short sales and foreclosures, only to discover that those properties come with more baggage than they bargained for.

Distressed properties may be concentrated in undesirable areas. They are often in poor condition because strapped owners either couldn't afford to maintain them or stripped them before moving out. Lenders have learned to low-ball prices on short sales and nicer bank-owned foreclosures, known as REOs, in order to attract a frenzy of bids that ultimately jack up the price. Investors nabbing deals with cash often beat out buyers who require financing and protective contingencies in their contracts.

Short sales can take months to gain lender approval and close, and banks often won't start the process until they have an offer. Some multiple-listing services now require sellers to indicate whether the lender has yet to approve the short sale ("pending approval") or has approved the short sale and price, which spells a much quicker closing. Beginning in April, lenders participating in the federal Home Affordable Foreclosure Alternatives program must respond to offers on "price approved" homes within ten days of receiving an offer.

Looking for a deal on a condo? Be careful. For example, in Miami, so few owners are paying up that association fees are skyrocketing and condo associations are going bankrupt. Buyers who need financing are all but locked out because Fannie Mae, Freddie Mac and the FHA won't back loans in buildings dominated by investors and delinquent owners. You'll have lots of competition to buy in buildings that do qualify. If you decide to shop for a condo anyway, look for buildings with high occupancy (how many lights are on at night?), and talk to current residents.

SHOP SMART

Start your search by looking at homes at the bottom of your price range, giving you room to make a higher offer.

BEFORE YOU SET FOOT IN YOUR FIRST open house, find out what you can *really* afford to buy. You'll need a minimum down payment of 3.5% to get an FHA mortgage and 5% for a conforming one backed by Fannie Mae or Freddie Mac—available for loans of $417,000 or less. If you're buying a home that requires a jumbo loan, you must put down a minimum of 10% to 15% to get a conforming loan of up to $729,750 in cities designated as high-cost. Closing costs typically run 3% to 6% of the purchase price. You'll need cash for an earnest-money deposit, too—from 1% to 3% of the purchase price, depending on where you live.

Get preapproved with a lender to reassure sellers of your purchasing power. A loan officer will pull your credit score (this may cost $50 or so) and assess your income and savings.

Most buyers begin their search online. But remember, photographs may steer you wrong. You might dismiss a great house if photos are missing or poorly executed. Or, attracted by a photo of a gorgeously updated kitchen, you might visit only to find that the rest of the house requires buckets of money and time. Touring open houses is another good way to start homing in on neighborhoods.

In a process akin to speed dating, exclusive buyer's agent Benjamin Clark—the Salt Lake City agent who represented Andy May and Lexi Davis—likes to show buyers as many homes as possible, as quickly as possible. This helps them refine their wish list. "Pretty soon they're telling me, 'This is a good deal,'" says Clark. In the end, that helps them avoid buyer's remorse. Clark also likes to look at listings that sellers have recently pulled from the market, perhaps because they've begun a remodeling project or decided they want a later closing. Those can be good deals.

It's smart to start looking at homes near the bottom of your price range rather than the top because you'll have room to bid higher. Also, if you start high and decide you can't or don't want to spend that much, you may end up disappointed because nothing at the lower end is as appealing, says Coral Gables, Fla., agent Linda Tartak.

Once you begin to visit homes, avoid the common mistake of expecting everything to look like HGTV, says Milwaukee agent Patricia Tasker. Don't overlook houses that might simply need paint and a bit of updating. They may be a good value, and investing a little sweat equity won't kill you, she says.

KipTip

FIND THE RIGHT AGENT

Think of a buyer's agent as a matchmaker who will introduce you to prospects you might otherwise have missed, help find the best home for you, and protect your interests.

Look for agents who have earned the Accredited Buyer's Representative (ABR) credential (visit www.rebac.net) or who belong to the National Association of Exclusive Buyer Agents (www.naeba.org), whose companies don't take listings from sellers. Interview agents for a good fit. The best ones will interview you, too, to scope out what you really want and put together a package of homes.

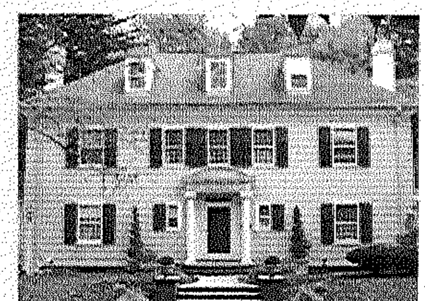
An agent may ask you to sign a buyer's broker agreement, which outlines your rights and responsibilities to each other. Although agents may ask for a term of 90 days, you can negotiate a shorter one. Don't sign if agents won't agree upfront that they will end the relationship if it isn't working.

WHAT $500,000 WILL BUY

AFFORDABILITY IN THE U.S. HAS RETURNED to the historical average, but what you get for your money depends on where you look.

SAN FRANCISCO
1,062-square-foot, semi-attached bungalow in the Excelsior District built in 1908 with 2 bedrooms, 1 bathroom, 2-car garage, patio
LISTING PRICE: $499,000
MEDIAN HOME PRICE: $677,000

FARMINGTON HILLS, MICH.
4,100-square-foot home built in 1993 on 1 acre with 4 bedrooms, 4.5 bathrooms, 3-car garage
LISTING PRICE: $499,900
MEDIAN HOME PRICE: $120,000



HARTFORD, CONN.
3,283-square-foot colonial built in 1911 on 0.63 acre in historic West End with 6 bedrooms, 3.5 bathrooms, 2-car garage
LISTING PRICE: $499,500
MEDIAN HOME PRICE: $235,000

Note: Annual inventory figures are from December of each year

Sales Price of Existing Homes as of August 2010

Year		U.S.	Northeast	Midwest	South	West	U.S.	Northeast	Midwest	South	West
				Median					Average (Mean)		
2007		$219,000	$279,100	$165,100	$179,300	$335,000	$266,000	$307,100	$200,500	$225,600	$365,900
2008		198,100	266,400	154,100	169,200	271,500	242,700	297,800	183,400	211,600	312,300
2009		172,500	240,500	144,100	153,000	211,100	216,900	276,300	171,100	192,700	256,700
				Not Seasonally Adjusted					Not Seasonally Adjusted		
2009	Aug r	177,200	241,900	149,000	157,300	220,200	222,200	280,600	174,100	199,000	266,100
2009	Sept	175,900	242,500	147,300	153,500	224,500	221,900	279,400	174,700	193,200	273,700
2009	Oct	172,000	235,700	144,700	149,600	219,800	217,200	272,500	172,300	188,000	266,900
2009	Nov	170,000	222,000	140,400	151,900	211,700	211,800	258,300	168,900	189,500	257,500
2009	Dec	170,500	240,700	135,300	148,400	216,200	218,700	279,500	166,900	192,100	265,400
2010	Jan	164,900	245,400	130,100	139,900	205,000	212,200	284,500	162,500	180,600	256,900
2010	Feb	164,600	254,200	128,600	140,100	200,600	208,700	286,000	157,200	178,400	248,200
2010	Mar	169,600	239,400	135,600	147,900	216,100	214,500	273,700	162,700	188,500	263,100
2010	Apr	172,300	243,100	140,900	149,200	217,200	217,300	277,600	166,700	190,600	264,300
2010	May	174,600	226,500	148,800	153,700	220,100	220,900	269,900	174,900	195,600	271,000
2010	Jun	183,000	253,000	155,800	159,400	220,500	230,000	290,800	186,000	205,300	268,000
2010	Jul r	182,100	263,000	151,100	156,000	223,800	231,700	297,300	186,000	202,100	274,100
2010	Aug p	178,600	260,300	149,600	155,000	214,700	228,700	294,600	185,400	200,200	267,500
	vs. last year:	**0.8%**	**7.6%**	**0.4%**	**-1.5%**	**-2.5%**	**2.9%**	**5.0%**	**6.5%**	**0.6%**	**0.5%**

Department (PDF: 238KB) (May 21)
Realtors® Help Counsel Distressed Sellers Through Short Sale Process (May 13)
Information on FHA & VA Short Sales Programs (PDF: 244 KB) (Apr. 14)

Short Sales Commissions Policies
HAFA Commissions Policies (PDF 319K) (Sept. 10)
Freddie Mac Short Sales Commission Policy (PDF 128K) (Oct. 27)
Fannie Mae Short Sales Commissions Policy and Appeals Process (PDF 299K) (Oct. 27)

SHARE

What is a short sale?

A short sale is a transaction in which the lender, or lenders, agree to accept less than the mortgage amount owed by the current homeowner. In some cases, the difference is forgiven by the lender, and in others the homeowner must make arrangements with the lender to settle the remainder of the debt.

Why is the number of short sales rising?

Due to the recent economic crisis, including rising unemployment, and drops in home prices in communities across the nation, the number of short sales is increasing. Since a short sale generally costs the lender less than a foreclosure, it can be a viable way for a lender to minimize its losses.

A short sale can also be the best option for a homeowners who are "upside down" on mortgages because a short sale may not hurt their credit history as much as a foreclosure. As a result, homeowners may qualify for another mortgage sooner once they get back on their feet financially.

What challenges have short sales presented for REALTORS®?

The rapid increase in the number of short sales, and the short sales process itself present a number of challenges for REALTORS®. Major challenges include:

1. **Limited experience**
   Many REALTORS® are new to the short sales process; a difficulty which is compounded by many lenders' lack of sufficient and experienced staff to process short sales. Even if the REALTORS® are experienced, most servicers are under-staffed and still not adequately trained, making negotiating a short sale particularly difficult.
2. **Absence of a uniform process and application**
   Until HAFA guidelines were established, both short-sales

NAR Hails Bill to Hasten Lender Response to Short Sale Requests

Washington, September 16, 2010

Homeowners who are underwater with their mortgage may find that relief is on the way from a bill strongly supported by the National Association of Realtors® that would impose a deadline on lenders to respond to short-sale requests.

The legislation, H.R. 6133, "Prompt Decision for Qualification of Short Sale Act of 2010," was offered yesterday in Congress by U.S. Reps. Robert Andrews (D-N.J.) and Tom Rooney (R-Fla.). The bill would require lenders to respond to consumer short sale requests within 45 days.

"The short sale, which requires lender approval, is an important instrument for homeowners who owe more than their home is worth," said NAR President Vicki Cox Golder, owner of Vicki L. Cox & Associates in Tucson, Ariz. "While the lending community has worked to improve the size and training of their short sales staffs, they still have a long way to go on improving response times."

"As the leading advocate for homeownership issues, NAR believes that quicker attention to the short sales process is vital to help homeowners who are underwater and their communities, as well as the nation's economy," said Golder.

The number of potential short sale properties is rising across the country. According to NAR data, in the second quarter of 2010, Nevada, California, Florida and Arizona are states where significant shares of all properties on the market are potential short sales: 32 percent, 28 percent, 27 percent and 24 percent, respectively.

"Unfortunately, homeowners who need to execute a short sale are severely hampered because lenders (loan servicers) are unable to decide whether to approve a short sale within a reasonable amount of time. Potential homebuyers are walking away from purchasing short sale property because the lender has taken many months and still not responded to their request for an approval of a proposed short sale price. Many consumers have mentioned that the delay in short sale price approval exceeds 90 days, and in many cases never arrives," Golder said.

She commended Reps. Andrews and Rooney for their efforts on the bill and urged Congress to pass the bill quickly.

The National Association of Realtors®, "The Voice for Real Estate," is America's largest trade association, representing 1.1 million members involved in all aspects of the residential and commercial real estate industries.

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Information about NAR is available at *www.realtor.org*. This and other news releases are posted in the News Media section.

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Nearly Eight Out of 10 Still Believe Buying a Home Is a Good Financial Decision

WASHINGTON (October 6, 2010) – Nearly eight out of 10 respondents believe buying a home is a good financial decision, despite ongoing challenges with the economy and housing market. That's according to the 2010 National Housing Pulse Survey, an annual report released today by the National Association of Realtors®.

The survey, which measures how affordable housing issues affect consumers, also found job security concerns to be the highest in eight years of sampling, with 70 percent of Americans saying that job layoffs and unemployment are a big problem in their area; eight in 10 cite these issues as a barrier to homeownership.

"The real issue facing the nation's economy right now is that many Americans can't find meaningful work to support their families," said NAR President Vicki Cox Golder, owner of Vicki L. Cox & Associates in Tucson, Ariz. "While a job recovery is what's needed right now to get the economy and housing market back on the right track, owning a home continues to be part of the American Dream and one of the best long-term investments in your future."

Despite economic uncertainty, 68 percent of those surveyed still believe now is a good time to buy a home; while that number is down from last year (75 percent) it's up from 2008 (66 percent) and 2007 (59 percent). Lower home prices and record-low mortgage interest rates may be attracting buyers to the housing market – more than one-fourth of renters said they are thinking more about buying a home than they were a year ago. Sixty-three percent of renter respondents said that owning a home is a priority in their future; and nearly 40 percent said it was one of their highest priorities.

Lower home prices have improved affordability. In fact, the percentage of renters who are worried that the cost of housing is getting so unaffordable that they will never be able to buy a home has decreased steadily since 2007, from 63 to 57 percent.

Despite improved affordability, 79 percent of respondents still consider having enough money for down payment and closing costs to be among of the biggest obstacles to buying a home. Another obstacle is a lack of confidence in their ability to be approved for a loan, reported by 73 percent of respondents.

The good news is that Americans are seeing more stability in the real estate market. Nearly seven out of 10 believe that home values have stabilized in their area; the same number expects home sales to remain about the same through the end of the year.

-more-

While more than half (51 percent) say foreclosures are a problem in their area, the rate of foreclosures is also seen as stabilizing; 51 percent say the rate is about the same as last year. Thirty-six percent of respondents cite the recession, loss of jobs and the poor economy as the main reason for the ongoing foreclosure problem. This has also led to a slight increase in the number of people who believe the federal government should take a more active role overseeing loans and mortgages (44 percent, up from 43 percent last year).

While nearly seven out of 10 say it's harder to sell a home in their area today than it was a year ago, it's less of a concern from last year when the number was 10 percentage points higher This is most likely the result of lower home inventories.

The *2010 National Housing Pulse Survey* is conducted by American Strategies and Myers Research & Strategic Services for NAR's Housing Opportunity Program. The telephone survey was among 1,209 adults living in the 25 most populous metropolitan statistical areas. The study has a margin of error of plus or minus 3.1 percentage points.

NAR's Housing Opportunity Program, *www.realtor.org/housingopportunity*, was created in 2002 to encourage local Realtor® associations to create initiatives that help increase housing opportunities available to consumers and make affordable housing more readily available in their communities.

The National Association of Realtors®, "The Voice for Real Estate," is America's largest trade association, representing 1.1 million members involved in all aspects of the residential and commercial real estate industries.

# # #

Information about NAR is available at *www.realtor.org*. This and other news releases are posted in the News Media section. Statistical data in this release, other tables and surveys also may be found by clicking on Research.

MLA
(Modern Language Assoc.)

Works Cited

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Regional Sales by Price
Existing Single Family Homes
August 2010

% Change in Sales from 1 Year Ago						
Region	**$0-100K**	**$100-250K**	**$250-500K**	**$500-750K**	**$750K-1M**	**$1M+**
Northeast	-20.9%	-28.9%	-19.7%	-8.1%	0.8%	24.0%
Midwest	-15.4%	-31.9%	-10.1%	6.6%	0.6%	2.6%
South	6.9%	-21.8%	-10.8%	-2.8%	5.9%	0.5%
West	-19.5%	-17.5%	-15.7%	-11.1%	2.7%	11.9%
U.S.	-7.5%	-23.8%	-14.7%	-6.9%	4.6%	11.5%

Sales Distribution						
Region	**$0-100K**	**$100-250K**	**$250-500K**	**$500-750K**	**$750-1M**	**$1M+**
U.S.	21.9%	42.3%	24.7%	7.0%	2.0%	1.9%

August Metro Area Existing Single-Family Home Sales and Prices

***All data reported herein is unadjusted for seasonality**

		Median Price		% Change from 1 Year Ago	
#	MSA	Aug-09	Aug-10	Price	Sales
1	Atlanta	129,600	111,100	-14.3%	-10.1%
2	Baltimore	264,400	260,600	-1.4%	-11.3%
3	Boston	364,000	382,900	5.2%	-16.9%
4	Cincinnati	133,100	132,200	-0.7%	-25.9%
5	Dallas-Fort Worth	150,900	153,800	1.9%	-16.8%
6	Houston	161,600	159,300	-1.4%	-17.4%
7	Indianapolis	125,600	128,000	1.9%	-19.8%
8	Kansas City	144,200	138,400	-4.0%	-24.7%
9	Miami-Ft. Lauderdale	220,500	n/a	n/a	-3.7%
10	Minneapolis-St. Paul	175,000	172,155	-1.6%	-34.2%
11	New Orleans	160,000	161,600	1.0%	-19.8%
12	New York-Northern New Jersey-Long Island	406,900	420,300	3.3%	-16.6%
13	Philadelphia	219,900	234,900	6.8%	-25.2%
14	Phoenix	139,600	137,700	-1.4%	-11.9%
15	Portland	247,500	245,300	-0.9%	-25.7%
16	San Antonio	149,900	161,100	7.5%	-6.8%
17	San Diego	375,600	384,700	2.4%	-1.0%
18	St. Louis	132,300	134,900	2.0%	-25.2%
19	Washington, DC	327,700	345,500	5.4%	-9.7%

***NOTE: There may be differences between this data and locally reported data because of differences in geographic coverage area and housing types.*

Area Market Survey - Active, Pending and Expired Listings

List Price Range	# Act Lists	# Pend Lists	Pend Avg DOM	# Exp Lists	Exp Avg DOM	Tot Listings
$29,999 or Under	33	1	607	25	211	59
$30,000 - $39,999	1	0	0	0	0	1
$40,000 - $49,999	2	0	0	0	0	2
$50,000 - $59,999	6	0	0	4	197	10
$60,000 - $69,999	11	4	40	2	370	17
$70,000 - $79,999	14	3	112	4	237	21
$80,000 - $89,999	27	11	93	8	211	46
$90,000 - $99,999	56	3	24	15	189	74
$100,000 - $119,999	97	21	104	41	173	159
$120,000 - $149,999	264	38	69	185	175	487
$150,000 - $179,999	384	67	64	251	184	702
$180,000 - $199,999	273	59	75	158	160	490
$200,000 - $249,999	604	111	78	314	194	1029
$250,000 - $299,999	437	89	69	235	193	761
$300,000 - $399,999	551	100	55	297	221	948
$400,000 - $499,999	253	44	88	152	209	449
$500,000 - $599,999	205	34	86	123	237	362
$600,000 - $699,999	155	14	156	95	234	264
$700,000 - $799,999	91	9	141	61	239	161
$800,000 - $899,999	80	4	407	36	291	120
$900,000 - $999,999	43	4	273	25	223	72
$1,000,000 and Over	217	6	158	118	295	341

	# Act Lists	# Pend Lists	# Exp Lists	Totals
Total Listings	3804	622	2149	6575
Avg DOM	0	30	207	178
Median Price	269000	2499[illegible]0	265000	264900
Avg Price	416358	3014[illegible]3	1350535	709805
High Price	12500000	2350[illegible]0	999999999	999999999
Low Price	1500	60[illegible]0	1500	1500
Total Dollar Vol	1578412765	187208[illegible]9	2879340150	4644961514

Note: The above statistics refers only to the Virginia Beach areas, VA.

Area Market Survey - Sold Listings

Sold Price Range	# Sold Lists	Sold Avg DOM
$29,999 or Under	0	0
$30,000 - $39,999	0	0
$40,000 - $49,999	0	0
$50,000 - $59,999	3	174
$60,000 - $69,999	16	64
$70,000 - $79,999	24	78
$80,000 - $89,999	33	76
$90,000 - $99,999	26	53
$100,000 - $119,999	115	59
$120,000 - $149,999	272	55
$150,000 - $179,999	452	52
$180,000 - $199,999	303	52
$200,000 - $249,999	851	49
$250,000 - $299,999	559	48
$300,000 - $399,999	590	50
$400,000 - $499,999	213	49
$500,000 - $599,999	3	41
$600,000 - $699,999	0	0
$700,000 - $799,999	0	0
$800,000 - $899,999	0	0
$900,000 - $999,999	0	0
$1,000,000 and Over	0	0

	# Sold Lists
Total Listings	3460
Avg DOM	51
Median Price	229,000
Avg Price	240,282
High Price	523,000
Low Price	51,000
Total Dollar Vol	831,374,278

Note: The above statistics refers only to the Virginia Beach areas, VA.

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A Much-Needed Road Map

As lenders adopt new federal guidelines, short sales should become less frustrating for all.

By Robert Freedman | February 2010

The short-sales process, often agonizingly long, may not speed up overnight, but there's reason to believe that better days are ahead. The federal government's long-awaited guidelines for standardizing short sales were released at the end of 2009, and although they don't take effect until April, mortgage servicers have the option of implementing them early.

The short sales guidelines are part of the government's new Home Affordable Foreclosure Alternative Program, known as HAFA, which is an add-on to the Obama Administration's more wide-reaching Home Affordable Modification Program launched in early 2009. The idea is that if borrowers are eligible for the modification program but are unable to work out a plan to stay in their home, they—and their lenders—have a well-mapped route for executing a short sale or a deed in lieu of foreclosure.

The new HAFA program applies to the large volume of so-called "risky" loans that were ssued outside of Fannie Mae and Freddie Mac guidelines during the housing boom, such as zero-down loans, o tion ARMs, and Alt-A mortgages that didn't require extensive income documentation (see sidebar, "Which Lo ns Are Eligible?"). As of this writing, Fannie and Freddie were developing their own, similar guidance for loans they'v e backed.

The HAFA guidelines are voluntary, but major banks and servicers—including Bank of A merica, Chase, Wells Fargo, and Citimortgage—as well as dozens of smaller lenders, are expected to participate, cle aring up the logjam of potential short sales on their books.

To participate, a mortgage servicer must have opted in to the government's Home Affor able Modification Program by the close of last year. Through the end of November 2009, there were 78 such mortg age servicers, which together cover approximately 85 percent of eligible mortgage debt, according to the program's se vicer performance report.

How the Rules Will Help

Observers say the HAFA guidelines speak to many of the real estate industry's ongoing frustrations over short sales. For starters, lenders will have a financial incentive to get these deals moving. Servicers get $1,000 to cover their costs, and subordinate lien holders get up to $3,000 through a matching arrangement in exchange for relinquishing their lien. In addition, borrowers receive $1,500 to defray their moving costs.

The guidelines also include standardized forms, procedures, and timelines—and allow t e borrower to receive preapproved short sale terms prior to the property listing. These measures should addre ss the resistance of serious buyers to invest time, money, and effort into a purchase offer without having any assura ice that the lender will accept their offer or even look at it in a reasonable time frame (or, just as bad, accept a ast-minute rival offer).

Also, the HAFA rules require that borrowers be fully released from future liability for the debt. That will be a relief to home owners in recourse states who would otherwise remain liable for debt collection. S lightly fewer than half of the states are recourse states.

Getting New Systems In Place

Bank of America in late 2009 rolled out an initiative to dovetail with the guidelines, and c her lenders may follow with their own programs that anticipate the new rules. Through its "cooperative program," the bank's mortgage servicers reach out to owners who are unable to modify their mortgage. "We developed our progr m in anticipation of the federal guidelines," says David Sunlin, Bank of America Home Loans senior vice presid nt who oversees the company's foreclosure and REO activities. Sunlin participated in a webinar hosted by R :ALTOR® Magazine in mid-December to talk about the bank's new procedures.

Sunlin says the bank's program gives troubled owners "a preapproved solicitation for a hort sale" along with proactive processing of all the required steps: "appraisals, review of financials, investor pprovals, mortgage insurer approvals, second-lien approvals—all of these can be done while the property is being r arketed," he says, "so when an offer is brought to the table we can do a much quicker turnaround."

It will take months for lenders to modify their procedures in accordance with the guidelin es (and, for agency loans, in accordance with the Fannie Mae and Freddie Mac guidelines), and even then, the new ules surely won't be a cure-all. But there does seem to be a light at the end of the tunnel.

Sunlin says the fall-out rate for short sales at Bank of America has been as high as 70 p ercent. His hope is that with the new guidelines, that rate will drop to something similar to that for REO transactions, which have a 10 percent to 15 percent fall-out rate.

"Short sales have always been a reactive process," he says. "We need a proactive proc ss, and the guidelines are a good start." REALTORS® no doubt would like to see that hold true.

Which Loans Are Eligible?

The Home Affordable Foreclosure Alternative Program provides short sales guidelines f r loans not owned or guaranteed by Fannie Mae or Freddie Mac (those agencies are expected to release the own, similar guidance). The following conditions also must be met:

The property is the borrower's principal residence.
The mortgage loan is a first lien mortgage originated on or before Jan. 1, 2009.
The mortgage is delinquent or default is reasonably foreseeable.
The current unpaid principal balance is equal to or less than $729,750.
The borrower's total monthly mortgage payment exceeds 31 percent of the borrower's g oss income.

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Information on FHA & VA Short Sales Programs
(Published: 3/22/10)

National Association of REALTORS® Government Affairs Division
500 New Jersey Avenue, NW, Washington DC, 20001

FHA Pre-Foreclosure Sale Program (PFS or Short Sale Program)

If you own a home with a mortgage insured by the Federal Housing Administration (FHA) and you are finding it difficult to make your mortgage payments or you are in default on your mortgage payments, you may be able to take advantage of the FHA Pre-Foreclosure Sale (PFS) Program to sell your home at its current value and avoid foreclosure, even if the sales proceeds will not enough to pay off your mortgage debt in full. This allows you to transition to more affordable housing while avoiding a foreclosure.

To participate in the program, homeowners must be willing to make a commitment to actively market their property for a period of 3 months, during which time their mortgage lender delays foreclosure action. Homeowners who successfully sell their property at near the present fair market value within the required time may receive a cash payment from FHA of up to $1,000 to help the homeowner transition to more affordable housing arrangements. If the property does not sell, the homeowner can choose to deed the property to the mortgage lender (deed-in-lieu of foreclosure).

For more information about the FHA PFS Program contact the mortgage servicer collecting your monthly mortgage payments or go to the following FHA websites:

FHA Website "Avoid Foreclosure"

FHA Mortgagee Letter 2008-43, "Pre-Foreclosure Sale (PFS) Program - Utilizing the PFS Loss Mitigation Option to Assist Families Facing Foreclosure"

VA Compromise Sale Program (Short Sale Program)

If you own a home with a Veterans Administration (VA) guaranteed mortgage and you are finding it difficult to make your mortgage payments or you are in default on your mortgage payments, you may be able to take advantage of the VA Compromise Sale Program to sell your home at its current value and avoid foreclosure, even if the sales proceeds are not enough to pay off your mortgage debt in full. This allows you to transition to more affordable housing while avoiding foreclosure.

For more information about the VA Compromise Sale Program contact the mortgage servicer collecting your monthly mortgage payments or read the VA Roanoke Loan Center Compromise Sale Booklet below. This booklet provides comprehensive information borrowers should know about VA's Compromise Sale Program.

VA's Compromise Loan Program