

The Four Fatal Mistakes that Most Seasoned Investors Make When Attempting To Get A Short Sale Approved – Steve Dillon

Are you one of the thousands of seasoned investors who are having nightmares getting their Short Sale Packages approved? So, why is it so hard to get the bank to do the simple task of reading and responding to fair priced offer? Doesn't it make sense for them to act QUICKLY? Don't they lose even more money by waiting 60 days before reviewing the deal?

If you have asked yourself any of these questions then I bet your one of the investors that has made one of the four fatal mistakes that makes a Loss Mitigator throw your package to the bottom of a stack files that might be as big as 200 to 300 deep.

There are four fatal errors that most investors make when submitting a package to the bank. The first fatal rule is to submit an incomplete package. An investor must know all the critical documents and information that a Loss Mitigator needs to say yes. If all the critical information is in a short, concise and complete package **your deal gets moved to the top of the stack** of offers and can be reviewed in minutes not weeks.

RULE #1 A Complete Package Must Contain The Following Completed Documents:

- 1) Always use a CLEAN fax cover sheet that contains;
 - a. Your contact info
 - b. The debtor's name, loan number, and prop add
 - c. The bank's name, phone and fax number
 - d. The story of the deal

- 2) Send a Completed Contract (Purchase and Sale)
- 3) Send an Estimated HUD1 or Net Sheet
- 4) Send an Authorization to Release
- 5) Send Loan Product Specific Documents**
- 6) DON'T send anything they did not ask for (see Rule 2)

This all seems basic but let me show you the difference between a deal that gets ignored vs. the deal that gets assigned immediately.

The Fax Cover Sheet is usually overlooked by most investors because they don't realize what kind of an impact it has when the Loss Mitigator sees the company logo that reads;

“Foreclosures-R-Us Inc” or “We Buy Houses LLC”

Understand that a Loss Mitigator may recognize this information as an opportunity to negotiate more money from you. Or, as an investor, they know that you are NOT in a rush. If you ARE in a rush, then there must be some financially beneficial reason for this and thus, the longer they wait, the softer you become. So here is an EASY fix. Your fax cover sheet should be void of logos or company names. It should just read; “From the Desk of ____”

The fax Cover sheet needs to have your Name, Phone, and Fax number on it. As well, it should contain the name of the recipient and their fax number. It should contain the DEBTOR’S name, loan number and property address as well. And finally, it should contain the Story of the Deal.

This is HUGE. Most investors miss this small but crucial detail when they send their package or they get it wrong. The story of the deal is NOT about how ugly the house is and they should do the deal or else. The Story of the deal is broken down into 5 sentences. Not 5 paragraphs; 5 sentences.

Sentence 1 – The debtor became delinquent because...

(The Reason For Default (RFD))

Sentence 2 – The debtor cannot afford the house because...

(The reason why they cannot overcome the above RFD)

Sentence 3 – The debtor can’t sell for the payoff because...

(Validate the LTV issue)

Sentence 4 – In the event that the bank needs to gain access to the property for an Appraisal (we secretly mean BPO), feel free to call me at _____ as the debtor is ____ (give reason why the debtor cannot be there) and I will let the Appraiser into the house.

(You control the BPO/Appraisal)

Sentence 5 – This fax contains...

(List the items you are sending to them)

What about the Contract, is that important? It most absolutely is. Did you know that Freddie Mac backed loans under Short Sale Review require Freddie Mac Sr. Management Authority if the Buyer of the property is a LLC, Corporation or a Trust? I'll be that you did not know that. I'll get to that later.

The Purchase and Sale agreement that you use must be in line with the usual and customary Real Estate Transactions that occur in that area. Make sure that the Offer Acceptance section of the contract contains a DATE and TIME. But most importantly, the contract needs to contain a "Short Sale Contingency Clause".

"This contract is contingent upon Short Sale approval from all lien holders of record at the time of closing and Buyer's final approval"

Oh yeah, if you send in a Contract that says "CASH OFFER", be prepared to send in a Proof of Funds Letter. The bank will want to make sure that they are not wasting their time working on a file that you cannot afford to pay for. If you are financing the purchase of the house, then be prepared to send in your Pre-Qual letter.

Now that we have the contract squared away, it is time to work up the HUD-1/Net Sheet. Many of you do NOT know how to fill out a HUD-1 Settlement Statement (properly) and that is OK. You can use a Net Sheet instead of a HUD-1. If you fill out the document like most people, then you will probably not HARM your deal.

But did you know that there is a way to fill out a Net Sheet that will make the Loss Mitigator WANT to do your deal? The trick is to basically "paint the picture" for the Loss Mitigator. In order to do this, your NET SHEET should also show the Loss Mitigator the projected OUTCOME of an REO Liquidation. This way, the Loss Mitigator can see WHY YOUR OFFER IS SO MUCH BETTER THAN GOING TO FORECLOSURE AND WHY THEY NEED TO HURRY.

Now, in regards to sending the Authorization to Release Information, I don't care that you have already faxed it 25 times to 25 different fax numbers. It is one sheet of paper and it should be included. Just do it. Trust me.

For those of you who are advanced in your investing careers, this next section is for you. There are special types of Short Sale Deals that require special handling because of the type of loan that is in default (Fannie Mae, Freddie Mac, FHA, VA, Conventional with PMI, Pooled Loans, Securitized Loans, etc). If you know that you are working on an FHA deal; then make sure to include the 90036 and 90038 FHA forms. If you do that, you will move your deal to the top of ANY Loss Mitigator's pile. They will immediately recognize that you know how to make their job easier and are going to WANT to work your file.

If you don't know what these forms are, don't worry. The bank will send them to you to get completed. Then, the next time you have one, you will know.

What about that Freddie Mac thing? Well, if you are buying the property into a Corp, LLC or Trust, then you need to know the LOAN PRODUCT before you send the offer. Otherwise, you could be killing your deal before you get started.

There are some other LOAN PRODUCT SECRETS that you probably did NOT know. Did you know that the VA will not let the bank sit on a file and wait for 60 days? Did you know that Fannie Mae has its own Loss Mitigation shop and will also expedite files? Did you know that Private Mortgage Insurance companies also expedite files? Did you know that the approval % for FHA is much lower than 82%?

And finally, don't send things that they did not ask for which leads us into RULE 2.

RULE #2 A Short Sale Package Should Never Be Overwhelming

It is OK to send a couple of extra documents that are pertinent to the initial review. But you should not send in your whole file. In other words, hang on to those Contractor Estimates. Hold on to those Inspection Reports. There will be a time to send those into the bank but NOW is not the time.

Many investors think that if they send a 102 page fax covering every single detail and answering every possible objection that a Loss Mitigator might have, that they will win the respect of the Mitigator and/or leave the Mitigator no choice but to concede. This strategy does not work. Rather, most Mitigators look at a file like that as a "Problem Child". That file looks TOO COMPLICATED to be a slam dunk deal.

I mentioned that my net sheet shows a comparison to the bank; Short Sale Net vs. REO Net. If there are repairs, then the repair cost will be reflected in that sheet. If there is a disclosure issue (Toxic Mold, Sink Hole, 67 Cats live in the house and there's only 1 litter box, etc) then I list that on the Fax Cover (sentence # 3).

Trust me, there are very few scenarios that the bank has not already worked through. Your situation may be unique to you but most Loss Mitigators have dealt with a house like the one you are trying to purchase at some point in time in the past. Over-Validation raises a cautious eyebrow.

RULE #3 The Story Doesn't Make Sense

So many deals sit on the shelf because the Mitigator sees through the LIES that the investor is telling. Yes, the Loss Mitigators have ways of gathering information. I have seen so many deals come in wherein the investor/buyer tells a lie in the very beginning;

“The debtors do not have a job, nor do they have a bank account, nor have they filed tax returns for the last 2 years. Because of this, the debtors have left town and are nowhere to be found. But, right before they left town, they signed a Power of Attorney that will allow me to purchase the house.”

Don't laugh, not only have I seen this (a lot) as a Loss Mitigator but I have seen people TEACH THIS TACTIC!!!! First of all, most banks have already been in contact with the debtor long before you ever talked with them. And even in cases where they are not in contact with the debtor, once they pull a Credit Bureau Report, they will see through this lie.

The bottom line is that the debtor will need to be a part of the Short Sale deal. They will need to submit Financial Disclosures at some point in time to validate their inability to afford the house. If you are working on a file where the debtor CAN afford the house but just chooses not to, then you need to know that you CANNOT use the word “SETTLEMENT” anywhere in your documents. In fact, the term “SHORT SALE” should not be used either but rather, you should use the term “Partial Release”. This is Loss Mitigator terminology indicating that the deal will NOT satisfy the debt but rather just release the lien for the negotiated payoff.

RULE #4 Know Thy Product

If you know absolutely nothing about FHA, VA, Fannie Mae, Freddie Mac, Conventional Uninsured, Conventional with PMI, Pooled Loans, HELOC loans, etc; then you will have some experiences where you are doing everything right, making a perfect offer, and still the Loss Mitigator tells you, “NO DEAL”.

Did you know that you could make an offer to the bank for 100% of the VALUE of the house (still less than full payoff) and the bank would be justified by rejecting your offer, taking the house through foreclosure, and then only getting ½ of that from an REO????!!!! Well it is TRUE. This is all because of loan product.

What is happening behind the scenes at the Loss Mitigator's office is a mystery to most investors but once you know that inside information, it becomes crystal clear. And once the Mitigators recognize your ability to work with them through these issues, they will bring deals to you!