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NOTE: If you think your colleagues would benefit from this TIP, please forward it to them and ask them to reply to me by email for inclusion in this free Newsletter.

Also, if you have a topic you would like me to analyze and discuss, please email me and I would be glad to consider it in a future Newsletter

We appear to be in a market of lowering prices. When that has happened in the past, the issue of the SHORT SALE comes up more frequently since there have been many closings where the financing is 95% or 100% of the sales price.

A short sale occurs when the sales proceeds are not enough to pay all expenses of closing including mortgage payoff(s), real estate commissions, legal fees and other customary closing costs. When a short sale becomes reality, in a perfect world the seller would pay the shortfall from other assets such as savings accounts, borrowed money or by other means. This is not a perfect world however. In an imperfect world, the expenses of closing are made to fit the sales proceeds. What that means is that the Seller's attorney will look to everyone, realtor, lawyer and lenders to accept less than what is actually owed. Sometimes the Seller will agree to pay the shortfalls after the closing. However, those sums usually cannot be so easily collected after the closing.

Most of the time, the issue of a short sale is not revealed until very late in the closing process. Sellers are embarrassed to reveal their financial situation or believe they can handle the problem outside the closing. Some believe that they can shift the debt to another property. For example, some sellers who are buying other homes believe they can shift an equity line to the new house. This cannot be done.

How do you protect yourself from becoming embroiled in this problem? If you are the listing agent, you can ask at the listing interview what mortgage(s) the sellers currently have on their property and what the balances are. Ask about equity lines also because many sellers do not understand that an equity line is secured by a mortgage on their house. Of course, these questions have to be asked tactfully and probably should be asked at the end of the listing meeting. Once you have a complete picture, you can act accordingly.

If you are the selling agent and you suspect that the sales proceeds may not be enough to pay all expenses (you may suspect this if you know that the sellers are selling for less than what they paid), I suggest you may want to ask the listing agent before an offer is made if he or she knows the financial situation of the sellers.

The loss of a commission or part of a commission can often be avoided by asking the right questions at the right time.