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New Software Feature Was Like a Slap in the Face

This all started when the owner of a software company said he had a surprise for me. He had me go online to his website and bring up this new surprise feature. To say I was astonished was an understatement. He knew from my non-response that I knew what he had amazingly put together.

What I was looking at was actual confirmation of what I have been saying and teaching for years and it was available for most every county in Florida. The data that I was looking at was a compilation of the short sales and REO sales for the previous year in a ½ mile radius of a specific property that I had picked, and for the entire county at the same time. This table set forth the gory details of the discounts the lenders were taking by agreeing to short sales, or by foreclosing and selling the properties directly. Needless to say, the discounts were significantly different for short sales and REO sales.

For example, the data dramatically showed that short sales took discounts in a specific area of say 30% from the amount owed on the homeowner's loan while the properties that were REO sales in the same area took 65% discounts. The Cape Coral area shows REO discounts of 90% off the final judgment amounts and many of these properties have never been occupied.

Clearly everyone in the lending industry knew this except for maybe the listing agents of REOs who keep telling us that all their listings sell at or above the listing prices. They are right because the listing prices free-fall from time to time until the property is sold and then the listing price is reduced when the property goes under contract. So, yes, in these situations of decreasing listing prices, REOs trade at or near the "last" listing price so the realtor's logic is "true" in this sense.

What about the short sales? Gurus are selling more courses on how to do short sales and making more money than the amount of money that is being made by investors who are actually doing short sales. I was at a conference in California and during a lunch break, I listened to a "maverick" short sale guru tell his buddy how he made more money on selling his course and services than on the few short sales his firm actually completed.

Short sales are very easy to do, if you have time on your hands, and some gurus spout success rates of 99%. This is easy when you over-pay for the property. Over-pay is relative to what a buyer wants to pay, for example, price isn't all that important for an end-buyer who will be living in the property and buys it with his emotions, not as an investment. This end-buyer's frame of reference is what the property was financed for and he is buying with his heart, not his head. After all, someone has to pay retail as some great salesman once said.

For an investor the same price the end-buyer paid might be fatal for a wholesale deal or even for a rehabber if he spends too much to rehab it and then can't sell it quickly. The age-old question always comes up, "What is a good price for a short sale on a property?" Loss mitigation representatives who handle short sales for the lenders are authorized to accept 80% of the BPO (Broker's Price Opinion) evaluation. The loss mit reps are paid bonuses to get anything above this amount and realtors are there to help them by listing the properties close to the buyer's offer and coming in with high BPOs to get the short sales approved.

We all know there are clever ways for investors to stack the odds in their favor to get the best possible deal they can get below the 80% "first floor". Some of these are illegal and other methods are questionable at best, but the loss mit rep will make his decision or let it go into the foreclosure process and it will become an REO.

It is generally believed that REOs cost the lender an average \$40,000 to get through the foreclosure process. Knowing this, and the lenders do, "Why in the world don't the lenders do more short sales?" I could speculate for hours but the reasons don't matter. What matters is our opportunity to legally take advantage of whatever situation can be profitable for us as investors. I say "can" be possible because, as investors, we always take a financial risk when we purchase a property, unless we use no money techniques.

To be specific about the discounts that lenders are taking, following is an example from Broward County. The address of this property was chosen randomly and does not represent the largest discounts in the counties.

Here is the example –

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DISCOUNT REPORT

Subject Area	County Area	
	Quantity	Quantity
Pre-Foreclosed Sold	7	6466
Average Days of Shortsale	281.33	357.41
Average Amount of Discount	44415.41	56622.71
Average Percentage of Discount	34.08%	19.05%
Foreclosed Sold	51	25820
Average Days of Sale After File Date	838.10	805.23
Average Days of Sale After Judgement Date (Auction)	559.82	507.14
Average Amount of Discount	127123.27	159961.64
Average Percentage of Discount	71.99%	54.41%

Courtesy of XIMAUSA.com®

For the non-believers, this data was collected from the foreclosure filings in the Clerk of the Court's records, the public records for the final sales price and mortgage data. While the "Average Days of Sale" above includes days on the market (DOM) it also includes the rest of the process or the short sale negotiation and the foreclosure process before it became an REO. This is why the numbers of days seems extreme, but it is taken from the public records and the Clerk of the Court's site directly.

Combining all these data bases culminates in the fields you see above. If you haven't noticed the "Average Days of Shortsale" in the above example, they are staggering if you are trying to make a living doing short sales, However, for the REOs the "Average Days After the Auction" are the best thing possible for investors – the longer the better!

To be successful at consistently doing short sales, the end- buyer must pay over 80% of the BPO to get it approved reasonably quickly. Thus, if you do short sales with retail buyers, they work by selling them on the MLS®, but for investors this resale issue is more difficult to deal with. I don't want to debate the issues of doing short sales and whether they work or not. They do work especially well for retail buyers getting conventional financing – keep up your good work! For us as wholesalers, we choose to make money with the "Low hanging fruit method" and only deal with cash buyers.

Now, what can you do with this information? For those doing short sales, the above information is a nice add-in to your package to the loss mit rep. Think what his thoughts will be when he sees how much more will be lost if the property goes to foreclosure. The loss mit rep may not care but it beats simply putting in the data on the sexual predators in the neighborhood.

For investors doing REOs the data can be used to justify the offers you make, if and when you are asked how you got your ridiculous offer. Actually, this may not matter at all if the listing agent isn't submitting your offer to the asset manager. This is becoming so common that we are taking action to correct this situation by getting compliance help from regulatory authorities.

If you believe your listing agent has not submitted your REO offer, for any reason whatsoever, you have options to correct the situation or get his license revoked. If you take no action, this inappropriate behavior will continue and we will all pay for it. What is almost astonishing is that some arrogant realtors actually put it in writing (email) that they will not submit your offer because it is "too low" or "embarrassing" or even "I know the seller won't accept it". It is not the listing agent's right to decide this, and it violates their legal standards and always brings up the question of fraud and collusion with another party. The most ironic part is that these same ridiculous offers are buying deals every day.

To your limitless success,

Dave Dinkel