



(253) 284-3838

SHORT SALE "PRE-APPROVALS": IS THERE REALLY SUCH AN ANIMAL?

In listings all over the Multiple Listing Service there are short sales identified as "Pre-Approvals" or "Pre-Approved." Is there really such a thing?

In our practice as late as five to six years ago, almost 95% of our practice involved pre-approved short sales. Lenders at that time would agree to a listing price, a commission amount, and it would all be agreed upon even before an offer came in. However, with the advent of the recession, the rules have changed dramatically.

Now, lenders look for a "bona fide" offer before they will even agree to a short sale negotiation. However, there is such a long length of time that it takes to negotiate a transaction that many times buyers "walk away" about the same time as the lender has approved the offer. If there is another offer ready to take the place of the approved offer, many times the new buyer can be substituted and it will appear that it has been pre-approved. In reality, the new buyer has not been pre-approved.

Approvals are limited to a certain defined named buyer for a specific defined purchase amount and specified terms. When a new offer is presented "very soon" or immediately upon approval, it has a high likelihood of acceptance in the same fashion as another already existing offer. However, price may be the same but terms may be very different regarding the lender to again underwrite the new buyer.

In reality, if an approval is lost because the buyer walks away, the lender may start where they left off or may require that the process start all over again with a totally new submission of a new application. Lenders vary in their approach and there may be no consistent determination as to how a lender may respond.

In our opinion, there is no such thing as a "Pre-Approval." Even in certain government loans that speak of "Pre-Approval" in their paperwork they refer to a certain purchaser and certain terms in such determination.

Lenders vary greatly as to what they will allow and will not allow in short sale negotiations. Based upon a particular type of loan, the guidelines may vary as well. One should not guarantee that a lender will always accept a second offer automatically as a similar offer was accepted before.

We encourage our sellers and their agents to have a "backup buyer" or even two "backup buyers" in the event that their primary offer should fail. Then we can swiftly notify the lender that we want to negotiate a new offer – often even before they knew that the last one walked away.

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