Below is an interesting Orange County Register article showing data on the gridlock in the short sale pipeline. This is more evidence that Reid's **tax credit closing extension was mostly a meaningless taxpayer giveaway to weak buyers that will not have much effect on Existing Home Sales** through the extended Sept 30th closing deadline.

When Reid got his house purchase tax-credit closing extension passed economists adjusted their Existing Home Sales closing figures higher because NAR claimed there were 180k closings that would be negatively impacted unless it's extended.

I made the comment in various topical notes that "if it didn't close by the original June 30th deadline it means the transaction is likely a short sale on which the buyer and lender can't agree on price. So if the tax-credit was not extended, it will not change most of the outcomes."

Going into the April 30th tax-credit sunset, there was a surge in pended short sales, many by buyers just throwing mud against the wall to see if it sticks. Most short sale pending sales are not really pending sales; they are simply offers to buy the house usually at a low-ball price. Or put another way, **they are a plea to the first mortgage lender to take a large loss** by selling the house for far less than they are owed and if a second mortgage is involved, a plea to them to get mostly wiped out. Needless to say, when short sales are pended it does not mean the lender will accept and a deal will happen; the lender has to approve it and in most cases there is a large bid/ask spread that has to be negotiated.

Point being, the tax-credit extension -- because it was passed after the June 30th closing deadline making it so legitimate buyers had to close by then -- will have no effect other than to give a fraction of the 180k potential buyers (that NAR estimates won't get their credit) more time to haggle with the lender over their offer. If 90k of the 180k half-baked, stale, 'non-deals until they are deals' do end up closing by Reid's new deadline, it will cost the US taxpayer up to $720mm. Now that's a crime.

But there is no reason why lenders would roll over on the price post tax-credit or that buyers would either pay more or drop the sale all together if their bid isn't hit. Therefore, given that all of these short-sale pendings through the April 30th tax-credit contract deadline have already been modeled at a certain closing percentage, nothing changes. More than likely if a change does occur, it's involves fewer closing because of lenders not rolling over on the price.

As an example of how tough it is to close some short sale pending sales, this year there have been:

1) 496 **foreclosure pendings** of which only 14 were pending 60-days+ afterward
2) 2133 **normal pendings** (some could be foreclosure resales) of which only 156 were still pending 60-days+ afterward
3) 3639 **short sale pendings** of which 1854 were still pending 60-days+ afterward...91.6% of all stale pendings are from the short-sale category.

Treasury's new HAFA program, which aims to standardize the short sale process, will have a notable positive effect on these stats once fully rolled out across the big-four servicers.

Broker: Short sale gridlock is ‘dizzying’

August 9th, 2010 by Marilyn Kalfus, real estate reporter

The backlog of pending short sales in Orange County is “dizzying,” Altera Real

Estate broker Steve Thomas says in his latest bi-weekly report on the local housing market. “The lenders are in control of the real estate market and they are taking their sweet ol’ time,” he says.

Check out the numbers he’s compiled:

Total Pendings			Pending 30 Days Plus			Pending
Foreclosures	496	8%	Foreclosures	140	4%	Foreclosures
Short Sales	3,639	58%	Short Sales	2,621	79%	Short Sales
Equity Sellers	2,133	34%	Equity Sellers	576	17%	Equity Sellers
ALL	6,268		ALL	3,337		ALL

Highlights:

- There are 6,268 total pending sales in Orange County. In the first 7 months of 2010, an average of 600 short sales closed every month. But there are some 3,639 short sales currently pending.
- You can see the difference if you look at equity sellers, with an average of 2,302 closed sales for the first 7 months and 2,133 now pending.

Thomas says:

“It is not a secret that many homeowners in Orange County and across the United States have stopped making their mortgage payments and have been sitting in limbo for a very long time. This has often been referred to as the ‘Shadow Inventory.’ Many are seeking loan modifications in hopes of lowering their monthly mortgage payments and, if they are lucky, reduce their loan balances. Others are attempting to sell their homes as short sales where their outstanding loan balance is more than their home is worth.

“The problem lies in the fact that even though short sales have a buyer willing to buy and a seller willing to sell, they cannot close the pending sale until the lender, or often lenders, agree to accept less than a full payoff. On average, this process takes months to complete. When there are multiple lenders, homeowner associations that have not been paid, unpaid property taxes, collection companies and attorneys involved, the process becomes even more complex. The length of time to close increases with a more complicated short sale. But, not all short sales are complicated and no short sale, regardless of its complexity, should take six months or more to close, if it closes at all.

“All of the big lenders have talked about improving their handling of short sales, but ask any real estate agent in the trenches and they will tell you that it just has not changed. There has been no change.”

Best Regards,

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