A home is sold as a short sale when the purchase price and selling costs cannot cover the amount of debt or mortgage owed on the home. Essentially, the sale is "short" of the money needed.

In a short sale, the owner and seller of the home is still involved. They will be making decisions relative to the contract and sales terms, but are not the only decision makers in the process. If the home is selling "short," the lender or bank that holds the note must agree to take the loss.

Since the lender or bank needs to agree to the sale, they often attach their own terms to the purchase, which vary from bank to bank. The involvement of multiple parties approving all steps along the way can cause a short sale to take more time than a regular transaction.

The timing of a short sale can create risks and challenges in the purchase. Some short sales take a month, some take a year. It depends on how many lenders have to agree to the sale, as in the case where the seller has more than one loan on the house, and the timing of responses from the short sale managers. While you can often get a good deal on the home, especially if you can hang in there for a long closing, you may have to pay for extensions of an interest rate lock, or have flexibility for when you can move.