

SHORT \$ALE



S. J. Fowler Real Estate, inc.



A Guide To Understanding The Process

SHORT SALE



What Is A Short Sale?

It's a transaction where two unique events must occur together.

(1) Net Proceeds Sale Loss

A short sale occurs when your net proceeds from the sale is insufficient to cover your note balance(s).

(2) Lender Agreement

The lender(s) agrees to release its mortgage lien(s) and note obligations on the home in exchange for payment less than the full loan balance.



SHORT SALE



Why Would A Lender Agree To A Short Sale?

(1) Lender Loses Less As Compared To A Foreclosure

The discounted payoff of the short sale must be less than the lender's cost to foreclose.

- Legal fees on foreclosure
- Title closing of property
- Holding of property until a successful resale
- Maintenance of property until a successful resale
- Commission & marketing cost of resale



SHORT SALE



Why Would A Lender Agree To A Short Sale?

(2) Seller Distress

The lender will agree to a short sale if the seller can prove distress.

- Seller is in default on mortgage
- Seller can document financial distress
- Seller has a firm sale which generates insufficient proceeds
- Seller sale provides no net to seller
- Seller proves current market comparables support sale price



SHORT SALE



Why Would A Seller Agree To A Short Sale?

Potential Seller Benefits

1. It may have less impact on your credit rating as compared to a Deed-In-Lieu of foreclosure.
2. Your lender may stop reporting missed payments to credit agencies.
3. Provides more time for you to act in this difficult situation.
4. You may buy another home sooner as compared to a foreclosure.



SHORT SALE



What Must A Seller Do To Prepare For A Short Sale?

The following is a checklist of what you may need to gather to gain permission from your lender to authorize a Short Sale.

- Hardship letter
- Appraisal
- Deed
- Financial information worksheet
- Statement of Assets & Liabilities
- Net worth summary
- Copy of property tax bill
- Copy of 2 recent bank statements
- Copy of 2 recent pay stubs
- Copy of 2 recent IRS tax returns
- Late bills summary
- Medical bills
- Divorce decree
- Child support payments
- Unemployment benefits
- SSI income
- Power of Attorney
- Authorization to sell
- Homeowner association information
- Other to be determined by lender



SHORT SALE



What Is The Short Sale Selling Process?

1. Seller signs listing agreement with real estate agent subject to selling as a short sale with third-part approval.
2. Agent finds buyer who offers less than note owing.
3. Seller accepts buyer's offer.
4. Seller's lender accepts buyer's offer.
5. Transaction closes when the buyer delivers the funds, the lender releases the lien, and the seller delivers the deed.



SHORT SALE



What Are The Qualifications For A Short Sale?

If you cannot answer yes to all four questions, you may not qualify for a short sale.

(1) Has The Home's Market Value Has Dropped?

Appraisal validates and substantiates home is worth less than the unpaid balance due on the note to the lender.

(2) Is The Mortgage In or Near Default Status?

Many lenders are will help homeowners even though there are not actually in default. You will need to consult your lender to determine their position on short sales.



SHORT SALE



What Are The Qualifications For A Short Sale?

(3) Is The Seller In Hardship?

You must submit a letter of hardship explaining why you cannot pay the difference due upon sale, including why you have or will stop making the monthly payments.

(4) Does The Seller Have No Assets?

The lender will want to see a copy of your tax returns and a financial statement. If the lender discovers assets, the lender may grant the short sale but could require seller to pay back all or part of the deficiency.



SHORT SALE



What Constitutes & Triggers Hardship?

1. Unemployment
2. Divorce
3. Medical emergency
4. Sudden illness
5. Death
6. Bankruptcy
7. Increase in mortgage payment due to resetting of ARM(s)



SHORT SALE



What Does Not Constitutes Hardship?

1. Bad Purchase Decisions

Blowing your paycheck on a car stereo system with surround sound does not qualify as a hardship.

2. Unhappy With The Neighbors

This does not qualify as a hardship.

3. Buying Another Home

The lender will not care if you have decided the home is no longer suitable for you or your family.



SHORT SALE



What Does Not Constitutes Hardship?

4. Pregnancy

Having more children is not considered a hardship.

5. Moving Into An Apartment

Whatever the reason for doing so, this doesn't qualify as hardship.

6. In-Laws Coming To Live With You

Sorry, does not qualify as hardship.



SHORT SALE



How Is A Short Sale Different From A Normal Sale?

(1) Marketing

There is no difference. We'll utilize our extensive marketing program.

(2) Buyers

There is a big difference. Short sale buyers are price sensitive & driven.

(3) Home Pricing

There is a big difference. Appraisal is based upon other short sales comparing apples to apples.



SHORT SALE



How Is A Short Sale Different From A Normal Sale?

(3) Other MLS Agents

They will know you are in short sale and will inform their buyers. The appraisal is included in MLS Confidential.

(4) Sale Impact

Having buyers and agents fully aware of the short sale status increases the likelihood of a fast sale.

This is exactly what we want given your financial situation and the decreasing property value trend now prevalent in the market.



SHORT SALE



What Are The Consequences of a Short Sale?

(1) Potential IRS Tax Consequences

If the lender agrees to the short sale, the lender may possess the right to issue you a 1099 for the shorted difference due to a provision in the IRS code about debt forgiveness.

- Many situations are exempt from debt forgiveness, according to the Mortgage Forgiveness Debt Relief Act of 2007.

You should speak to a real estate lawyer and a tax accountant to determine the amount, if any, of short sale tax consequences.



SHORT SALE



What Are The Consequences of a Short Sale?

(2) Deficiency Judgment

The lender may have the right to pursue a summary Judgment for the deficiency.

Example

The bank was owed \$300,000 and sold short for \$210,000. The deficiency is \$90,000. The lender sues the seller for the deficiency.

Without the help of a good attorney, or loss mitigation company, this is far more likely to happen. Therefore you must act in advance in efforts to prevent this issue from happening on your short sale.



SHORT SALE



What Are The Consequences of a Short Sale?

(3) Blemished Credit Record

Short sales will show up on credit reports as a pre-foreclosure in redemption status. Depending on your lender, it may or may not have the same impact as compared to a foreclosure. The typical short sale will affect credit up to 2 years, while a foreclosure 5-7 years

Seek Specific Relief

However most creditors may not make the distinction when reporting unless you seek specific relief. This is why a good attorney, or loss mitigation company, who specializes in the short sale process is well advised.



SHORT SALE



Which Is Better, Foreclosure or Short Sale?

(1) Both Hurt But A Short Sale May Be Better

Fannie Mae: August 2008

Due to the increased incidence of preforeclosure [short] sales, Fannie Mae is establishing a 2-year elapsed time period for reestablishing credit following completion of the action.

A foreclosure client must wait 5 to 7 years, maintain at least a 680 credit score in the sixth and seventh year, and pay a minimum 10 percent down on future home purchase.



SHORT SALE



What Are The First Steps To A Short Sale?

1. My Role

As a Realtor I cannot give you legal or financial advice as both fall outside my area of expertise and the scope of my license. It is for this reason I strongly recommend hiring an attorney and a loss mitigation company before you make a final selling decision. The 3 keys to successful short sale are: disclose-disclose-disclose!

2. Lender Requirement

You must prepare and submit a Short Sale Approval Application Kit with your lender before you can begin selling as a short sale.

