



SHORT SALE

WHAT IS A "SHORT SALE"

A Short Sale is also known as a "Pre-foreclosure". When the sale price of a home is insufficient to pay for outstanding costs, including:

- Mortgage balance and
- Closing Costs
- ... *AND* ...
- The Seller can prove a financial hardship,
- ... *THEN* ...
- The financial institution (and only the financial institution), can grant a "SHORT SALE", or a renegotiated sale price below the outstanding mortgage balance.



HIGHLIGHTS

This is a great opportunity for ALL parties, in that:

<u>RESULT</u>	<u>BENEFIT</u>
- The <i>Seller</i> receives:	A satisfaction of mortgage
- The <i>Buyer</i> receives:	A below-market price on a nice home
- The <i>Mortgage Holder</i> avoids:	The high costs of a foreclosure.

REQUIREMENTS

These requirements vary from lender to lender, but many of the forms and procedures have now been standardized throughout the industry, but for the most part:

1. The seller must write a financial hardship letter and provide financial statements to the Mortgage Lien-Holder showing that they can no longer make the payments.
2. The home must be listed through a Real estate agent. The agent represents BOTH the Seller's and the Lien-Holder's interests. The asking price of the home will be below the current market price to attract an offer quickly.
3. Any contract/offer received will be forwarded to the Lien-Holder for evaluation.
4. The Lien-Holder will evaluate the offer, and respond with an acceptance or a counter-offer for the Buyer and Seller.
5. The closing date will be dictated by the Lien-Holder. The entire process usually takes 45 - 90 days, but can take up to 6 months.

CONCLUSION

At the closing, the Seller does not receive any money from the sale, BUT does receive a *Satisfaction of Mortgage*, thus avoiding Foreclosure. Credit scores go down depending upon how many "*lates*" the borrower has had (typically by 200 points), but this score can rebound in as little as two years with diligence on the part of the borrower.



HR3648 - Mortgage Forgiveness Debt Relief Act of 2007

12/20/2007--Public Law. (This measure has not been amended since it was passed by the Senate on December 14, 2007. The summary of that version is repeated here.) For additional information on HR3648, goto: www.program3648.org.

- Amends the Internal Revenue Code to exclude from gross income amounts attributable to a discharge, prior to January 1, 2010, of indebtedness incurred to acquire a principal residence.
- Limits to \$2 million the excludable amount of such indebtedness.
- Reduces the basis of a principal residence by the amount of discharged indebtedness excluded from gross income.
- Disallows exclusion for a discharge of indebtedness on account of services performed for the lender or any other factor not directly related to a decline in the value of the residence or to the financial condition of the taxpayer.
- Sets forth rules for determining the allowable amount of the exclusion for taxpayers with nonqualifying indebtedness and taxpayers who are insolvent.
- Extends through 2010 the tax deduction for mortgage insurance premiums.
- Sets forth alternative tests for qualifying as a cooperative housing corporation for purposes of the tax deduction for payments to such corporations.
- Qualifies a corporation if:
 - (1) 80% or more of the total square footage of the corporation's property is used or available for use by its tenant-stockholders for residential purposes, or
 - (2) 90% of the corporation's expenditures are for the acquisition, construction, management, maintenance, or care of its property for the benefit of the tenant-stockholders.
- Allows members of a qualified volunteer emergency response organization (i.e., an organization that provides firefighting and emergency medical services) an exclusion from gross income for state and local tax benefits and for certain payments for services. Terminates such exclusion after 2010.
- Allows certain full-time students who are single parents and their children to live in housing units eligible for the low-income housing tax credit provided that their children are not dependents of another individual (other than a parent of such children).
- Allows a surviving spouse to exclude from gross income up to \$500,000 of the gain from the sale or exchange of a principal residence owned jointly with a deceased spouse if the sale/exchange occurs within 2 years of the death of the spouse and other ownership and use requirements have been met.
- Increases the penalty for failure to file a partnership tax return and extends from five to 12 the number of months in which such penalty may be imposed.
- Limits disclosure of tax return information that includes individual taxpayer information.
- Imposes an additional penalty on S corporations for failure to file required tax returns.
- Amends the Tax Increase Prevention and Reconciliation Act of 2005 to increase the estimated tax payment due in the third quarter of 2012 for corporations with assets of at least \$1 billion.





Short Sales - Q & A

What is a Short Sale?

Simply put, a Short Sale is used to describe the sale of a home in which the homeowner owes more than the home is worth and the bank agrees to sell the home for less than what is owed.

Would I qualify for a short sale?

Yes, it is not difficult to qualify. Good Short Sale candidates have no equity in their home, are not able to sell their home, and cannot pay off the loans/debt secured by the property.

If you owe more against your home than it is currently worth and want or need to sell it but can't or won't bring cash to closing to make up the difference between what you owe and what your home is worth, then you are a prime candidate.

Is doing a short sale right for me?

We would like to say: "Yes!" But the truth is, short selling a home isn't the right move for everybody. Here are signs that can help you determine if doing a short sale is right for you:

- You **are behind on your mortgage** payment and are unable to keep up with all of your monthly obligations. Some of the reasons for falling behind on your mortgage payment may include sudden change in monthly household income, loss of job, divorce, and more.
- You **are NOT behind** on your monthly mortgage payment **but know that you will soon be** unable to keep up with all of your monthly obligations and therefore in the near future will not be able to afford to keep your home.
- You **are NOT behind** on your monthly mortgage payment but **need or want to move**. Reasons could include a job transfer, a health reason, retirement, and more.
- You **are NOT behind** on your monthly mortgage payment and have come to the decision that staying in your home is **not a good "business decision" or "financial decision."**

If you match any of these scenarios then doing a short sale could be the perfect solution..

Why would the bank agree to a Short Sale?

With foreclosures on the rise, banks are looking for any way they can to decrease the amount of loss due to these foreclosures, as much as 10 - 30% or more over a foreclosure..

Basically, it is much more cost effective for a bank to do a short sale rather than a foreclosure.

Banks are in the business of owning real estate and collecting monthly mortgage payments, so a bank will take a minor loss in a short sale to start that payment cycle again.

Do you work with all banks?

Yes, we are currently working with all banks. Unlike some agents and investors, we do not "selectively choose" which banks we work with and which banks we won't. We have experience in working with over 50 different banks/lenders across the United States.

Are there any fees associated with a short sale?

The good news about a Short Sale is that you as the Seller, there are no out of pocket expenses to you. However, what we ask for is your commitment to the transaction and cooperation throughout the process. There will be times when additional paperwork will be necessary and we need to be able to get those items in a timely matter to handle the negotiations properly.



Short Sale Myths

A short sale can be an excellent solution for homeowners who must sell and owe more on their homes than they are worth. Unfortunately, a number of myths about short sales have developed, and it is important to understand the reality of this process should you find it meets your current needs.

Myth #1 - The Bank Would Rather Foreclose than Bother with a Short Sale

This is one of the most common misconceptions. The reality is that banks do not want to foreclose on your property because the foreclosure process is incredibly costly. Banks, investors, and even the federal government have all publicly stated that if a person is qualified for a short sale, the deal needs to be considered. Overwhelmingly, banks receive more on their investment through a short sale than a foreclosure.

The qualifications for a short sale include:

1. **Financial Hardship** - There is a situation causing you to have trouble affording your mortgage.
2. **Monthly Income Shortfall** - *"You have more month than money."* A lender will want to see that you cannot afford, or soon will not be able to afford your mortgage.
3. **Insolvency** - The lender will want to see that you do not have significant liquid assets that would allow you to pay down your mortgage.

Myth #2 - You Must Be Behind on Your Mortgage to Negotiate a Short Sale

While this may have previously been the case, today lenders are looking for verifiable hardship, monthly cash flow shortfall, or pending shortfall and insolvency.

If you meet these three requirements and believe that you soon may be unable to afford your mortgage, act immediately. Any delay could limit your options. Do not wait until the countdown clock to foreclosure has started and you have even less time left.

Myth #3 - There is Not Enough Time to Negotiate a Short Sale Before My Foreclosure

This is a myth that probably hurts homeowners the most. Many do not realize that foreclosure is a process, and that there is time to make decisions that may result in better outcomes.

The foreclosing party—in most cases a lender—can stall a foreclosure up to the final day of the process. Today, many lenders will stall a foreclosure with as little as a phone call from you explaining that you are trying to sell, and almost all lenders will stall a foreclosure with a legitimate contract. For real estate professionals who understand foreclosures and short sales, there is time available until the foreclosure process is complete.



Myth #4 - Listing My Home as a Short Sale is an Embarrassment

It is understandable to have reservations about letting the world know that you owe more on your home than it is worth. However, according to recent estimates, more than one out of eight homeowners in the U.S. is in the same situation. You are to be congratulated for admitting you need help, taking action, and finding a professional who can work with you toward a solution.

With recent estimates showing 40-60% of U.S. sales will be short sales or foreclosures, you are not alone.

Myth #5 - Short Sales are Impossible and Never Get Approved

This is a complete falsehood. Are short sales more difficult to execute? Yes. Do you, as a homeowner, need to learn about a new process? Yes. Are they impossible? Absolutely not.

For example, agents with the Certified Distressed Property Expert® (CDPE) Designation receive thousands of short sale approvals on a monthly basis. These professionals have undergone extensive training in methods to help homeowners in distress and process short sales. While there are no guarantees in any transaction, more and more short sales are being approved regularly. This is far from an impossible process.

Myth #6 - Banks are Waiting on a Bailout and Not Accepting Short Sales

You may have heard this, but the reality is that banks (and the U.S. government) are trying to do anything they can, within reason, to avoid foreclosing on properties. It is preposterous to believe they would deny a short sale in hopes that some future legislation would pass and pay them for losses.

Today, more banks are aggressively pursuing short sales and working with agents who understand how to process them. Freddie Mac recently hosted a national training Webinar for real estate agents where they expressly stated the organizational goal of “eliminating distressed assets through modification or short sale.”

Myth #7 - Buyers are Not Interested in Short Sale Properties

This is a myth that potential sellers hear all the time. Thankfully, this is just not true. In fact, many agents are getting calls from buyers who say they only want to look at foreclosure and short sales.

For buyers, short sales and foreclosures have become synonymous with “good deals.” More specifically, international buyers are targeting these properties. Listing with an experienced agent who is educated in the short sale process will provide you with a great chance of quickly seeing a contract on your property.

In conclusion, Agents with the SFR Designation have been trained in all aspects of the short sale process, and know how to deal with the parties involved in foreclosures. Finding a CDPE can explain what options you have, and get you on the path to recovery.