

# Understanding Short Sales

## What is a Short Sale?

The term *Short Sale* is used in the real estate business when there is more debt owed on the property than the property is worth. Currently in our region, bank-owned properties are affecting home values in some of our neighborhoods. In a Short Sale, the owner can't sell their property unless creditors (third parties) agree to accept a pay off that is less (or short) of the amounts that are actually owed to those third parties. Examples of third parties are mortgage lenders, mortgage insurers, bankruptcy trustees and federal, state and local tax authorities (such as the IRS or state tax commission). But not all creditors will accept a short sale or discounted payoffs, especially if it would make more financial sense to foreclose. Furthermore, not all properties nor all sellers qualify for a Short Sale.

## Why opt for a Short Sale vs. Foreclosure?

If the home is worth less than what is owed on the mortgage, a short sale may be an option. It is an alternative to foreclosure and could prevent you from going through a foreclosure process and being evicted. If your home is already in the foreclosure process but not yet been auctioned and you can find a buyer for the home, your lender must consider the offer. Because the lender is going to sell your property if foreclosed on, presenting them with a short sale offer would save them time and money and effort in finding a buyer on their own. And though your credit will be damaged with a short sale, it will be far less damaged than with a foreclosure. Therefore continue to be persistent in finding a buyer, even if the home may be in foreclosure proceedings. Important - find an agent who is an expert in short sales and can work with your lender to find out if they are willing to work out a short sale.

## The steps in a Short Sale – what to expect

Short sale transactions are not easy to execute but they are getting completed every day! These transactions can be very time consuming to process, and since time is of the essence, it's imperative that your short sale request or "hardship package" is pulled together in a clear, systematic, and persuasive way.

- 1. Talk to your lender at once**

If your home is expected to sell for less than what you still owe on it, immediately contact your lender and get the name of the individual *capable of making decisions*. This will probably not be the "workout" or "real estate short sale" department. Request a short sale package. If you can get your lender to specify the amount they are willing to forgive on the mortgage, your chances of working out a deal with a buyer they can accept and probably the bank too.

- 2. Submit a letter to authorize your real estate agent**

Lenders will want written authorization to disclose any of your personal information. Find a qualified real estate agent who is an expert in short sales and can negotiate with your lender. When you write a letter to the lender

giving them permission to talk with your real estate agent about your loan, you will receive better cooperation from the lender if the letter includes the following:

- Property address
- Loan reference number
- Your name
- The date
- Your agent's name and contact information

3. **Find a real estate lawyer**

Contact a good real estate attorney to find out if a short sale is the right option for you

4. **Talk to your accountant about short sale tax ramifications**

5. **Provide the lender with a thoroughly put together short sale package:**

- ***Cover letter with buyers qualifications***

The cover letter must explain the buyer's qualifications to purchase your home, how much down payment money they intend to put down, the offer to purchase your home, and the buyer's preapproval letter. Also, be sure to tell the lender if the buyer is a first-time homebuyer and requesting closing cost credits. Your real estate agent can help you with this.

- ***Your hardship letter***

Make sure your hardship letter is handwritten. The more heartbreaking, the better. This letter describes how you got into this financial circumstance; whether you lost your job, had an illness or death in the family, are a senior citizen or have other circumstances. Let them know that you are considering filing bankruptcy (bankruptcy stops the foreclosure process). Make a plea to the lender to accept less than full payment. Lenders understand if you lost your job, were hospitalized or involved in some other negative financial circumstance.

- ***Balance sheet with monthly income and expenses***

Be honest when it comes to showing proof of income and assets. Provide your lenders with information about your checking accounts, savings accounts, money market accounts, stocks, bonds, negotiable instruments, cash or other real estate or anything else of value.

- ***Statements from your checking, savings and other asset accounts***

Provide the supporting documentation, including two months' worth of paycheck stubs and all your bills

- ***Your last two federal income tax returns***

- ***Preliminary net sheet***

The preliminary net sheet itemizes estimated closing costs that must be paid in order for the short sale to close. Costs will include the sales price you expect to receive, all the costs of sale, any unpaid loan balances, outstanding payments due, late fees, and any real estate commissions. Your real estate agent or lawyer should be able to prepare this for you.

- ***Comparative Market Analysis (CMA)***

One of the reasons your home is in a short sale may be because of the decline in property values. If this

is true with your home, you should be sure to demonstrate this to the lender with a comparative market analysis (CMA) showing prices of similar homes. Your real estate agent can create this for you:

- Active on the market (traditional, short sale, bank-owned)
- Pending sales
- Solds from the past six-12 months
- **Purchase Agreement & Listing Agreement**  
When an agreement has been met with a prospective buyer, your lender will want a copy of the offer and a copy of the listing agreement. Be aware that the lender will probably want to renegotiate commissions and refuse to pay for various items.

We also recommend contacting a credit counselor:

- HUD
- Consumer Credit Advocates
- United Way Agency

## Thinking of purchasing a short sale property?

A short sale transaction can have its downsides. For your own protection we suggest contacting the following parties, at a minimum:

- **Find a real estate lawyer**  
Contact a good real estate attorney who specializes in short sales
- **Talk to your accountant about short sale tax ramifications**

## Short Sale Resources

- [MakingHomeAffordable.gov](http://MakingHomeAffordable.gov)
- [HousingHelpNow.org](http://HousingHelpNow.org)
- [Alternatives to Foreclosure – What are your options?](#)
- [HOPE for Homeowners](#)
- [National Foundation for Credit Counseling](#)
- [Will the new federal housing plan help you?](#)

## Related Articles

- [Interesting Foreclosure Article](#)
- [First Time Homeowner Reinvestment Act](#)
- [Tax lien information](#)
- [Debt Forgiveness Act of 2007](#)

Filename: UnderstandingShortSales\_whitepaper.doc  
Directory: F:\Websites\New\_DR.com\EE\_entries\Short Sales-Foreclosure-  
REO -  
Template: C:\Documents and Settings\lathyr.DICKSONREALTY\Application  
Data\Microsoft\Templates\Normal.dot  
Title: Understanding Foreclosure  
Subject:  
Author: Amy Thyr  
Keywords:  
Comments:  
Creation Date: 10/28/2009 11:04:00 AM  
Change Number: 13  
Last Saved On: 10/28/2009 11:54:00 AM  
Last Saved By:  
Total Editing Time: 49 Minutes  
Last Printed On: 10/28/2009 11:57:00 AM  
As of Last Complete Printing  
Number of Pages: 3  
Number of Words: 1,137 (approx.)  
Number of Characters: 6,483 (approx.)