



## Short Sales Explained

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Completing a real estate short sale is one of the most difficult transactions in all of real estate. It is important to know that the company and team you hire to complete this process for you have expertise in this area.

We found it beneficial to make sure our clients know what is going to happen throughout the process. Below are the most common questions that have been asked by our clients. If you are speaking with others and they can't answer the questions below, we recommend seeking another opinion.

### What is a Short Sale?

A short sale in real estate is selling a property for less than is owed on the property.

For example:

Loan Amount: \$450,000

Market Value of Real Estate: \$375,000

In the above example the property is at a minimum upside down \$75,000. In order to get the bank to take an offer at \$375,000 a team of experts who specialize in negotiations with banks and marketing short sale properties to the real estate community are needed. **That is exactly what the expertise of the members and associates of our team can do.**



## Common Questions:

### How long does it take?

- Banks can take up to 120 business days to give an official approval of an offer once it is received. This process can be improved by communication with the bank by your representation. Open and consistent communication is what improves the process.
- Ensuring that the required paperwork by the bank is correctly filled out increases acceptance by over 45%. Some banks will destroy any application that is even off by one item. Our team ensures that your paperwork is correctly filled out the first time so you have the greatest chance at acceptance.

### How long do I have until I have to move out?

- The bank is required to let you know when they have filed the notice of default with the county recorder's office for the county you are in. The majority of banks do this after you have become 90 days late on your mortgage or 3 consecutive mortgage payments. From this time the earliest a sale date can usually be set is 90 days from that date. After the bank approves the short sale, they typically require a 30 day escrow. Once escrow is open you will have 30 days to move out. The banks want you to stay in the home and maintain it during this process.

### What are the consequences of doing a short sale?

#### #1 Mortgage Forgiveness/cancelled debt

- Ask your CPA how HR 3648 "The Mortgage Forgiveness Debt Relief Act" benefits primary residences and whether special IRS section 108(a)(1)(b) "Insolvency Exemption" can be applied to you investment properties.

#### #2 Deficiency Judgments

- You will also want to talk with your CPA about how purchase money loans (non-recourse loan) and non purchase money loans



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(recourse loan) enable the lender to pursue a deficiency judgment. <http://banking.about.com/od/loans/a/recourseloan.htm>

- Completing a successful short sale will mean that you will not have a foreclosure reported on your credit. This will also mean that on all future loan applications where it asks if you have had a property foreclosed upon you will be able to answer NO. Answering yes will affect your interest rates. This is one of the most important reasons to do a short sale. Foreclosure stays on your credit report for approximately 7 years.

### What happens if it doesn't work?

- If your property does not sell as a short sale it may end up being foreclosed upon by the bank.
- It is of the utmost importance to get the bank an offer to review so that they can decide how to best help you and to accept the offer you have received. It is for this reason that you need to have a Real Estate professional who specializes in short sales and works with our team to negotiate with the bank on your behalf.

### What kind of information will the bank ask for?

- Each bank has their own set of forms that they may request you fill out. In fact if you have two loans the amount of information required can be different with each bank.

The types of information that can be asked for are as follows:

- Signed hardship letter
  - Copies of last several paychecks for all owners of the property
  - Copies of P&L statements if you are self employed
  - Complete financial form (Each bank has their own standard)
  - Copy of Tax Returns
  - Copy of Bank Statements
  - Copy of Investment Account Statements
  - Copy of Listing Agreement
  - Estimated net sheet
  - Identification of liens on property
- Our team will guide you through all of the requirements regardless of which bank is involved and the forms that are required.



### What is a hardship letter?

- A hardship letter is a statement of how you and your family got behind on your payments. Banks are people too and they need to know what happened in order to help you in the best possible manner.

Events that should be included in a hardship letter are as follows:



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- Loss of Job
- Loss of overtime or income from a job
- Family issues pending divorce, medical bills, other family issues

**\*\*See our HOMEOWNER HARDSHIPS section of this website for more details\*\***

• This is one of the main pieces of information that the bank uses to make its decisions from. It is important that it is truthful and explains what happened to the fullest extent possible.

### What if I have declared bankruptcy?

- Bankruptcy can delay a sale of your home at a trust sale. Your bankruptcy attorney may have additional advice for you and our team.
- If you have declared bankruptcy please let our team know ASAP and give us your attorney's information so we may be in contact with them.

### What about bankruptcy?

- Bankruptcy can delay the sale of your home. Please refer to your legal representation for detailed questions on bankruptcy.

### What do I do with letters from the bank?

- Read, review, and get a copy of them to our team ASAP. These letters contain different pieces of information and it is critical to review all of them as they may have legal consequences to them.

### Banks can send you letters in regards to the following:

- Loan Modifications - They can modify your loan so that the payment is more affordable for you and your family.
- Loan Forbearance - This is a temporary adjustment by the bank of the requirement to pay your mortgage. They can do this for reasons such as health, job, or family issues. The amount that you do not pay is generally added to your loan balance or spread out over multiple payments.

### What do I do about people offering to buy my house if I just sign the deed over to them?

- Unfortunately there are many individuals out there who do not care about helping home owners in a time of need. They in fact only care about being able to profit from your situation. Our recommendation is that you make sure to have a real estate professional look at anything prior to signing any offer from one of these individuals. If the person has a legitimate offer they will not care who reviews the offer. Do not sign over the deed and beware of Investor Option Contracts.

### How do I choose someone to represent me on a short sale?

- The team that you select first of all needs to have the expertise and training necessary in order to complete a short sale transaction.
- The team should be experienced with loss mitigation negotiations.



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- The representatives should be able to tell you up front if they can help you and what they are going to be doing for you.

Shouldn't I just call my local Realtor who markets in the area?

- Unfortunately a high percentage of Real Estate professionals are not trained on how to handle a property where more is owed than the property is worth. They are not trained in negotiations and not trained on how to deal with the banks or the banks representatives.

- Agents need to have specialized training in order to complete this process so as to prevent further action by the bank against you. In addition agents need to have a deep understanding of the process and be able to explain the value to the bank of working with the homeowner.

### Are all short sales the same?

- No. It would be great if they were as it would make things easier for homeowners. Any team who has helped both buyers and sellers of short sale properties will tell you that not all short sales are created equal.

Reasons Short Sales fail:

- Uncooperative banks
- Inadequate disclosure by the seller
- Poorly prepared buyer
- Bank delays
- Poor communication by listing agent with bank
- Buyers back out
- Seller fails to cooperate



### Will I get a 1099 for the difference between the sale price and what I owe?

- Yes. Each bank is different and the vast majority of banks will send you a 1099 for the difference. The difference or shortage may be forgiven under the Mortgage Debt Relief Act. We recommend you contact your tax advisor for assistance.

### Why shouldn't I just let the home go to foreclosure?

- Your credit! Foreclosure is one of the biggest damages to your credit that can be done. You will have to disclose the fact that you had a foreclosure every time you try and purchase a new property in the future no matter how long it has been since you had the foreclosure.

### Why is having a team working for me important?

- Specialization. You don't go to a regular dentist for oral surgery, you go to a specialist. Teams have specialists in each area. The team members are Certified Distressed Property Experts, who have administrative personnel, trained to handle all aspects of short sales.





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- Teams cost no more than a single Agent and you get more experience for the same price.

### How do you get paid?

- The bank decides. Since the bank is losing money on the transaction they will decide what our team gets paid. The most important thing in this process is you the homeowner and we hope to help you next time with a buy or purchase.

### Is it better or worse if I have two loans?

- It depends. Having two different lenders is one of the hardest short sales that can be done. It depends on how each bank has viewed the transaction and how they have both been communicated with during the entire process.

### Is communication important and do I still have to keep calling the bank?

- Yes and Not with us! The number one reason for foreclosure is a lack of communication. We stop this from happening because we do the communication for you. You have a job but this is our job! We get authorization to speak to the lender on your behalf. We take care of the communication and make sure you stay informed of what is happening.

### How do I know what is going on?

- This web site is designed to allow you to get an update on your Short Sale anytime you would like by going to the "Details" tab of your property. You also receive e-mail communication from our team.

### What if I have a prepayment penalty?

- We will negotiate with your lender to resolve this for you so you can get back to your life.

### Can the bank come after me or do they just get my property?

- We specialize in negotiating with the bank and making sure they understand that working with us and you is in everyone's best interest. The bank can ask for more information or seek other means to get payment if you have lied on your mortgage application, and may or may not do this depending on the situation. If you believe you may have lied on your mortgage application, please tell us. Our goal is to make sure the bank works with us and you to resolve this stressful situation.

### Why would a bank agree to do this, don't they just want my home?

- The bank doesn't want to own your home. The foreclosure process is a very expensive process for the bank to carry out. There are legal fees, property fees, court fees, and additional staff required by the bank to handle foreclosures. Their goal is to prevent properties from going into foreclosure.

### Can't I just do this all myself?

- You could, but would you go to court without a lawyer if the side that was facing you had 15 lawyers? The fact is that this is a complicated real estate transaction with a large lending institution. This process can take 100's of hours for a trained professional to complete. Most people do not have the time to specialize in completing this kind of transaction. Our team is here to take the worry out of the transaction for you.