

Short Sale Frequently Asked Questions

What is a short sale?

A short sale takes place when a lender allows a borrower to sell their home for less than the amount owed on the property.

Why is it to my advantage to short sale my home?

- For starters, we will work with your lender in an attempt to get you completely forgiven of the deficiency that remains after the sale's proceeds are taken into account. If successful, your bank would forfeit their right to ever pursue judgment on the deficiency amount. In many states, after a foreclosure, the lender holds the right to seek judgment in the amount owed and can even come after other properties and assets of the borrowers, including vehicles.
- A short sale has a less negative effect on your credit than foreclosure, especially in the long run. Some banks don't even report a short sale. Your credit could recover from a short sale in less than two years, whereas a foreclosure or bankruptcy can take 7-10 years.
- Some lender programs offer \$3,000 up to \$20,000 BACK to a borrower to complete a short sale transaction.

How is the short sale process different from a traditional sale?

During a traditional sale, the homeowner decides to sell their property, often for much more than they owe. This means the loan would be fully paid off and the borrower would actually make a profit. When offers on the home are received, it is up to the homeowner to accept or deny the offer.

A short sale on the other hand, puts things in the lender's hands for the most part. Since the lender understands they will not be paid back in full on the money they lent the borrower, it is up to them to accept or deny offers received. The main aspects of the sale remain the same. The home is listed for sale and shown to prospective buyers until an offer is received. The process differs from a traditional sale once the offer comes in. When received, the offer is sent in to the bank in hopes of approval. Waiting for the bank's approval is the most time consuming in many cases. This is when we will work with your bank, gaining you every benefit possible. Once the bank responds with approval or disapproval as well as the short sale's terms (release from deficiency, etc.), a closing date can be set.

Why would my lender allow me to sell my home short?

It costs a lender \$58,000 on average to foreclose on a home. The bank will attempt to sell the home at auction which is not always successful. If the home doesn't sell, the property must go through the bank REO process, which can be lengthy. Because of this, many banks are now stuck with vacant properties that have been foreclosed on, each of which is only deteriorating with time. It is for these reasons that it is much easier for a bank to allow you to sell your home short, forgive you of the deficiency, and count their losses.

Can I get any money back from a short sale?

This depends on your lender. Lenders have the option to allow “relocation expenses” or not. Typically the homeowner does not receive any funds at closing from the sale of their home when performing a short sale. Recently as part of the Making Home Affordable Plan, and specifically the new Home Affordable Foreclosure Alternatives (HAFA) Program, qualified home owners can get **\$3,000 or more at closing from a short sale (depending on whether your lender allows this or not) to use towards relocation expenses!** How do you know? You must ask your lender if they will allow you to receive an amount at closing to be used by toward your relocation expenses, which could include moving costs and/or deposit on your new rental and utilities.

How can a Realtor® help me?

Yes, lenders require you to select a Realtor to list your property for sale. In addition to this, a Realtor will work with your lender to get a lower payoff amount approved, allowing you to price your home below the competition.

If I already have a Realtor®, can he/she short sale my home?

In most cases, the answer is no. It takes a Realtor especially knowledgeable in the arena of short sales to successfully complete one. This is not a process for just any real estate agent. Ask your Realtor how many short sales they have closed and find out how familiar with the process they seem to be. Some Realtors would rather not associate with short sales because it is such a specialized process that requires hard work.

What are the qualifications for a Short Sale?

In order to qualify, it is important to prove to your bank that you are in no position financially to continue paying on your home. This must be due to a financial hardship such as: loss of employment or income, divorce or separation, relocation or job transfer, major illness, medical expenses, high dollar repairs without the resources to make them, or increased bills or living expenses. A good rule of thumb is that a short sale is not for those who "want" to sell, but only for those who "have" to sell.

If I sell my home short, can the bank come after me for the money?

The answer is no, in most cases. We will work to get a full release secured for you at closing. This release will fully forgive any deficiency between the amount you owe, and the proceeds from the sale of the home.

Who will pay the Realtor’s commission?

Your lender will pay a regular Real Estate Brokerage fee, just like a home seller would in a traditional transaction, and just like they would if they foreclosed on your home. Again, you pay \$0 out of pocket, period.

Who will pay the closing costs?

Your lender will pay all closing costs that typically are paid by the seller. Due to the hardship situation, you will not be expected to cover any of the closing costs.

How much work will this take?

A short sale requires very little work on your part. We will ask you to gather certain financial information and forms for us to present to your lender. Our agents will handle the short sale processing and details with your bank as well as the listing and marketing of your property.

What is the expected time frame to complete a short sale?

The average short sale timeframe is 2-4 months. This depends on many different factors. The transaction tends to be quicker when motivated sellers and buyers are very cooperative throughout the process. Also, if a high offer is received, the bank is more likely to approve the sale quicker. However, buyers who are not very motivated tend to slow down the short sale process.

The other main factors that contribute to the time process are: 1.) Multiple liens and mortgages to negotiate, 2.) Mortgage Insurance company approval, 3.) HOA or other liens that have to be negotiated to be paid off at closing, and 4.) Investor approval.

What happens to the money that is forgiven by my lender?

Any balance shortfall on your mortgage will likely be written off as a loss by your lender. Because of this, your lender may also send you a "1099 form" for any amount forgiven to you. Due to the Mortgage Debt Relief Act of 2007, you may NOT be required to pay taxes on this money if you short sale your primary residence. Consult your accountant with any other questions regarding this.

What will a short sale do to my credit?

A short sale will show up on your credit as "Settled in Full" or "Paid as Negotiated." This looks much better to future lenders and employers than foreclosure. A short sale itself typically lowers one's credit score by only 30-70 points. The major damage to a credit score is usually the missed mortgage payments, which can average around 30 points or more each. If a borrower is in default and then completes a short sale, the short term effect on a credit score can be similar to a foreclosure.

If I am going through foreclosure, can I do a short sale?

YES! In fact, your bank should be more than happy to work through a short sale with you. It is to the bank's advantage as well as yours to go the short sale route and avoid foreclosure. It costs a lender \$58,000 on average to go through foreclosure proceedings on a home.

Will the bank continue their collection activities?

Yes, the bank will continue its collection activities. This means they may still call or send you letters looking for a payment, even if you are currently pursuing a short sale. Most banks will not foreclose on your home if you are actively working on the short sale.

Can I stay in my house until the short sale is completed?

Yes, you will not have to move out until the closing. In fact, if you are facing foreclosure and we are actively working with your bank, we can typically get your lender to delay the foreclosure proceedings and make it possible for you to stay in the home for an extended period of time.

What if the short sale terms are unfavorable?

If the terms of the short sale are not in your best interest, you are not required to sell the property and complete the short sale. Keep in mind, through a short sale your lender will forgive you of the debt and it is the best option to avoid foreclosure or bankruptcy and will have the least negative effect on your credit. If you choose not to do a short sale, the bank will NOT forgive you of the debt and may continue to pursue you for the outstanding loan balance.

Are there any dangers to be aware of when working a Short Sale?

Be careful of "scam artists" or shady individuals if you are in financial hardship or facing foreclosure! These sharks can cause more harm than good. Never sign a quit claim deed, power of attorney or a \$10 option to purchase your home without consulting an attorney. It is impossible for any investor or home buyer to look out for your best interests while simultaneously intending to profit as much as possible from your misfortune. Realtors work on your behalf and are licensed and regulated by their respective states and must adhere to a strict code of ethics and laws.

If I choose to short sale my home, where do I start?

Give us a call. We will provide you with all of the information you need to get started after finding out a little more about your current situation. We will guide you through the entire short sale process, which includes listing your home and working with your lender. We are the experts and have closed many short sales.

Sincerely,

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