

Frequently Asked Questions - Short Sales

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What is a Short Sale?

A Short Sale is the sale of a home when sales proceeds do not fully pay off the existing loan(s) and lender(s) accept a discounted payoff to fully satisfy the loan. The lender pays virtually all sales costs, including commissions, escrow and title fees and repair costs. You get your home sold, the loan(s) paid off and you avoid foreclosure.

Is a Short Sale right for me?

If you are faced with a hardship that makes it likely you will be unable to meet your obligation on your mortgage and your home is now worth less than what you owe on it, a short sale is your best option. Short Sales are proving to be the best win-win situation for not only the seller, but also the banks.

I hear Short Sales rarely get done, is that correct?

Mortgage lenders are increasingly willing to work with borrowers faced with a financial hardship to accept a discounted payoff on a mortgage. Faced with foreclosure, your lender would nearly always prefer to settle the matter with you as opposed to taking the property through foreclosure. Your lender is looking to limit any potential loss on your loan. By completing a Short Sale, your lender has arrived at a solution that is, for them, much better than a foreclosure. Bottom line, your lender does not want your property back. The biggest problem getting in the way of a successful Short Sale is usually the inability of an inexperienced agent. Unfortunately there are far too many individuals claiming to be experts only to lack the skill and knowhow necessary to get the Short Sale accepted by the lender.

If I do a Short Sale, how much will I have to pay to sell my home?

Nothing. All commissions, title and escrow fees, are paid by the lender as part of the Short Sale approval. You will pay literally no sales costs if your lender approves the Short Sale. We will include a Short Sale addendum with all contracts outlining the approval of the sale and all costs associated with the sale is contingent upon approval from the lender(s).

Remember, lenders approve Short Sales and accept the resulting loss in an effort to avoid bigger losses through foreclosure.

How do I get started on a Short Sale?

The first thing you will need to do is simply pick up the phone and give us a call, which may prove to be the hardest part of the whole process. We recognize that the first step is sometimes the most difficult part of the journey, but it is also the most necessary. After speaking to us, we are confident you will be very comfortable moving forward. While the Short Sale process can be tedious, we promise to be there with you every step of the way.

Can I simply deed my property to someone else and avoid the hassle?

When you deed your property to someone else, you give up control of the property. Along with the deed goes the ability to control the property. Secondly, the lender still considers you primarily responsible for payment on the loan. If loan payments do not get paid, or if the lender ultimately forecloses, this will show on your credit. Do not deed your property to someone without paying off the loan unless you have consulted with an attorney experienced in real estate.

What sort of hardship would my lender consider legitimate?

To some extent, that will depend upon the mortgage company considering the Short Sale request. Generally, so long as the hardship is real and the mortgage company believes the loan is likely to become delinquent as a result, the Short Sale request will be processed by the Loss Mitigation Department. A big key to getting Loss Mitigation to accept a hardship is to submit a strong hardship letter. The hardship letter sets the tone for the entire file.

Below you will find a list of "hardships" that are common and frequently accepted by mortgage lenders:

- Family illness or injury
- Illness or injury in the extended family – particularly if it forces relocation
- Job relocation when the property is equity deficient
- Job loss or significant income loss
- Divorce or split of domestic partners
- Adjustment in mortgage payment or unforeseen increase in living expenses

I am current on my mortgage, will my lender consider a Short Sale?

The answer is, maybe. Some lenders will accept a Short Sale file for approval on loans that are not delinquent. Most lenders will not accept the file until the loan is delinquent. There are some circumstances where we can get a Short Sale approved by the lender when there have been no payments missed. However, most lenders are so flooded with Short Sale requests that if a customer is current on their mortgage they have no incentive to approve the Short Sale. Remember, they are not approving the Short Sale because they feel sorry for you. The banks are approving Short Sales out of self-preservation only. They do not want your house back. However, our experience tells us they will not approve the Short Sale if the borrower is current. Why would they? There are just far too many others about to go into foreclosure that are ahead of you.

Why would a mortgage company agree to accept a Short Sale?

There are actually several reasons why a mortgage company would approve a Short Sale payoff, including the following:

Legal Concerns – Mortgage lenders have come under legal pressure to work with borrowers to equitably resolve situations where borrowers are unable to meet their mortgage obligation, particularly when the borrower makes an effort to arrive at a compromise solution.

Wall Street is Watching – Mortgage lenders rely heavily on their ability to package and sell bundles of loans on the secondary mortgage market. They need to sell these bundles of loans in order to put the funds back to work by loaning the money again and collect loan fees along the way. If mortgages perform poorly after they are sold, it could impact the lenders' ability to sell their loans on the secondary market. A successful Short Sale gets the loan payoff resolved quickly.

Asset Management Expenses- If a lender acquires a property through foreclosure, the property will be managed until it is repaired and resold. It is expensive to manage real property assets - homes – spread throughout the state, the region, and possibly even the nation. Keeping properties maintained, keeping utilities on, making repairs and the administrative costs attached to these activities are all costs the lender would prefer to avoid. A successful Short Sale eliminates most of these costs

* One the biggest reasons, which is also one of the least talked about is the Reserve Requirement- Delinquent and non-performing loans place another burden on mortgage lenders. For all delinquent and non-performing loans, lenders must set aside funds in reserve to deal with potential losses. These funds cannot be put to work generating new loan fees until the bad loans are resolved. A successful Short Sale lets the lender put more money to work.

Do lenders approve all Short Sales?

No. Most often the lack of approval falls squarely on the shoulders of the listing agent. If files are not correct or if there is lack of follow up or inability of the agent to build a proper relationship with the negotiator, then the file dies and the property is foreclosed. Additionally, it is up to the agent to not only get an offer(s), but also ones that will be accepted by the bank. While the overall process is not rocket science, it is vital that the agent/company understands the process and executes it with precision. It is critical to work with someone that has extensive experience at getting Short Sales approved. From how to present the Short Sale package to the lender, to negotiating with the lenders Loss Mitigations Department, we know how to keep the file moving towards approval. Because RE/MAX sells more real estate than anyone else, we will also get the offers that the bank will want to accept.

I have two loans, can I still do a Short Sale?

Yes. We can work with both lenders. It is easier when both lenders are the same company, but we have completed many transactions when there were loans with two different companies. We have also settled liens with collection agencies and even the lenders' insurance company as well as third party liens. Even if the value of your home is below the balance of the first mortgage, we can normally get the two lenders to cooperate.

REMEMBER: The first lender does not want your home back and the second lender is willing to take the little bit of compensation the first lien holder is offering since they know that if the home goes into foreclosure they will in all likelihood get nothing.

My property is in rough shape and needs work; can I still do a Short Sale?

Absolutely. In fact, lenders are more motivated to do a Short Sale on a property that needs work than on a property that doesn't. The lender knows the risk of loss goes up when they foreclose on a property that needs lots of work.

I am concerned about my credit. How will a Short Sale affect my credit?

The big key here is to avoid foreclosure. By nearly any measure, a foreclosure is the most damaging event your credit status can encounter - worse than bankruptcy. In the course of getting your Short Sale approved, you may miss your mortgage payments, and these will show on your credit. By avoiding foreclosure, you will likely be able to resume normal borrowing (car loans, credit cards, consumer goods and such) relatively quickly.

My income problem was temporary. Do I need to sell my home?

You may be able to keep your home. You need to convince your mortgage company of two things:

- 1) The problem that caused the mortgage payment disruption was beyond your control – illness, injury, temporary disability or forced job change are a few examples.
- 2) You are now solidly in a position to stay current on your mortgage payments and make some progress towards making up the delinquent amount.

What is a Forbearance Agreement?

A Forbearance Agreement is a written agreement with your mortgage company in which you arrange to keep your home. The agreement will normally include two primary elements:

- 1) The borrowers' promise to remain current on the mortgage going forward.
- 2) Some plan for making up the delinquent interest and other charges.

It may mean making additional payments to the mortgage company or the delinquent amount could be added to the loan to be paid later.