



Paradise Properties of Florida Inc.

Realtor & Mortgage Broker

P: 954,261,1376

F: 561,966,2606

Marcel@ParadiseFL.com

www.ParadisePropertiesofFlorida.com

How to Succeed at Short Sale ?

Unfortunately, short sales are a reality for home owners who owe more than their property is worth.

BY MARIWYN EVANS

Welcome to the world of short sales !

Flat or falling home prices, home-equity credit lines, 100-percent financing that sucked out equity, and spiking interest rates on adjustable mortgages are converging to create a regrettable situation for few home owners: **SHORT SALE STATUS** .

What is a short sale?

A short sale occurs when the net proceeds from the sale of a home are not enough to cover the sellers' mortgage obligations and closing costs, such as property taxes, transfer taxes, and the real estate practitioner's commission. The seller is unwilling or unable to cover the difference.

Some — although by no means all — short sellers may also be in default on their mortgage loans and be headed for foreclosure. However, home owners who bought at the top of the market or who took out large amounts of equity with a refinance and who now need to sell because of divorce or job transfer may also find themselves upside down, owing more than the home is currently worth when closing costs are factored in.

Tip: Losing your home can be very emotional and most people don't want to face up to the reality

until foreclosure sets in. Other sellers simply don't understand that if they have assets, such as stocks or a high-salaried job, a lender is not going to let them just walk away from a short sale without signing a note to repay what they owe.

The presence of two lenders makes a short sale more complicated since it's often the lender holding the second, or junior, mortgage that has to absorb most of the loss

What information will the bank need to decide whether to accept a short sale?

A submission package should include W-2 forms from employers (or a letter explaining the seller is unemployed), bank statements, two years of tax returns, and other financial documents outlining income and debt obligations.

In addition, an "hardship letter," explaining the circumstances that make it impossible to pay the full amount of the loan will be needed.

The owner needs to be able to show true financial hardship.

What are the options besides a short sale?

Thanks to programs such as those proposed by Fannie Mae and Freddie Mac to assist subprime borrowers, many lenders are more willing to offer loan modification options. This option can extend the term of the loan, add on delinquent payments to the loan principal, and/or reduce the interest rate to make the loan more manageable for the home owner.

Another option is a repayment plan that requires home owners to increase their monthly payments until the loan is current. It may be possible to refinance an adjustable rate loan with a Federal Housing Authority or conventional fixed loan.

Note that lenders will not postpone a foreclosure just because a property is listed, although they may postpone if you have a reasonable offer in the works.

How should I price a short sale property?

In general, most short sale experts say to price the property at or near fair market value, although a few will begin with the total payoff amount owned by the seller. How frequently prices are dropped will depend in part on whether the property is in preforeclosure. Most banks have a formula for what percentage under market value they will accept, say interviewees. Figures cited vary from 8 percent under to almost 20 percent under.

How long does it take to complete a short sale?

Although response times vary from lender to lender, it can take two weeks or as long as 60 days to receive an approval of a short sale from a lender. That's why it's critical that buyers and their representative understand and accept that time frame before they make an offer.

An addendum to the California Association of REALTORS® purchase contract includes a provision allowing either party to cancel a short-sale contract within a set period if the seller hasn't gotten the deal approved, says White. Properties with securitized loans (which are the majority these days) may require a longer time to get an approval of a short sale because of the possible need for approval from the entity holding the pool of securities, says Churchill.

Getting a lender to approve a short sale is primarily a question of economics. You have to provide hard numbers to show that the amount of money a bank will realize on the short sale is better than the amount it may recoup from foreclosing on the property and selling the property.

What are the seller's options if a short sale is rejected by the lender?

There are a variety of reasons a bank will reject a short sale — from too low a price to too many files on the loss mitigator's desk. You can look for another buyer or even try resubmitting the same contract. Banks don't want to take properties back in foreclosure, so they are going to do everything they can to make it work,

What financial or credit liabilities will a seller have as a result of a short sale?

Many lenders ask sellers to sign a promissory note for all or part of the difference between the proceeds of the short sale and the debt obligation as a condition to a short sale. In such cases, the note gives lenders the right to sue a seller and attach other assets if the note is not paid when due.

One often overlooked aspect of short sales is that a seller must count any amount forgiven by the lender as income and pay taxes on that income, even if no actual money was received. The IRS requires lenders to submit a Form 1099 stating the forgiven amount. Sellers who meet the Internal Revenue Service definition of insolvency (either in bankruptcy or with debts exceeding assets) will not have to pay taxes on the forgiven amount.



Marcel R Beaumont Realtor T: 954-261-1376