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## **Frequently Asked Questions**

### **What is a short sale?**

A short sale is when a homeowner owes more on their property than the home is worth and the bank agrees to take less than what is owed.

### **Who qualifies for a short sale?**

There are 2 primary qualifications for a good short sale candidate:

1. The property owner is behind (or will be behind) on their mortgage payment and is unable to keep up with all of their monthly obligations
2. The property owner also has no equity in their home and therefore, is not able to pay off all the outstanding loans that are secured against their property.

### **Who do I hire to successfully manage and negotiate my short sale?**

You want to hire a qualified agent who understands all the work that is required to see you through to the end. A properly trained Short Sale Agent knows how to qualify you for a short sale transaction and therefore has a higher success rate of getting the lender(s) to approve the sale. Most investors and real estate agents do not understand how to qualify you and your lender for a short sale & they often have low success rates when it comes to getting a short sale approved and successfully closed.

Be smart and ask many questions of any potential agents you consider hiring before trusting your future to them.

### **How long does it take to do a short sale?**

Several stages impact how long a short sale actually takes . . .

1. The homeowner must submit all of the documentation that the bank will require to the listing agent – this should only take a few days
2. The listing agent then prepares all of the listing paperwork for the homeowner and gets it signed – this should also only take a few days
3. The listing agent then lists your home on the MLS and, along with consistent price reductions, implements an aggressive marketing plan to attract an offer – this generally takes 3-6 weeks

4. Now that an offer has been received, we present the offer and short sale packet to the lender(s) and start the negotiations . . . this is where it is critically important to have the right team representing you as every lender has a different process and requirement. This stage can take anywhere from 4 weeks to many months, depending on the lender
5. The final stage is getting the approval letter from the lender and proceeding forward to close of escrow – this is generally 3-4 weeks.

### **How much will a short sale cost me?**

While there is a small up-front fee for our out of pocket marketing and negotiation expenses, you as the seller do not have to pay the Realtor commissions, closing costs, etc. Depending on your financial situation, the type of loan(s) that you have and the lender, you may be asked to pay a lump sum at close of escrow and/or sign an unsecured note for part of the balance.

### **What are the tax ramifications of a short sale?**

You may have heard “don’t do a short sale because you will get a 1099 and have to pay taxes on the difference between what you owed on your home and what you sold it for or the amount the bank wrote off.” This is true, but this is not the whole story . . .

If you do a short sale you will receive a 1099 from your bank. This 1099 will be called a 1099-C. If your property goes into foreclosure, you will also be issued a 1099. This 1099 will be called a 1099-A.

What’s the difference? The C stands for Cancellation of Debt and the A stands for Acquisition or Abandonment of Secured Property. There are many differences between the two – however, the tax consequences are the same. You may or may not be required to pay taxes on the “income” as shown on the 1099-C, please don’t just assume you won’t have to pay. **Before making your final decision, first consult your CPA or Tax Preparer.** While we are very good at successfully closing short sales, we are not tax experts, so please consult a professional CPA or Tax Attorney before beginning this process.

One more thing you should know in approximately 99% if all cases, the amount of loss at foreclosure is greater than that of a short sale. If you are going to receive a 1099 in either case, it is in your best interest to do a short sale instead of allowing your property to be sold for less through for foreclosure.

### **What are the consequences to my credit?**

The big key here is to avoid foreclosure. By nearly any measure, credit experts have said that a foreclosure is the most damaging event a 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 may be likely to resume normal borrowing (car loans, credit cards, consumer goods and such) relatively quickly. Your credit will recover much quicker from the credit dings of a few late mortgage payments, if you keep your other accounts current. Always stay on top of your consumer credit. So, consider allocating your funds to meet basic necessities (food, utilities, household needs, auto expenses and such) first. Beyond paying for necessities plan to pay other bills to keep as many accounts current as possible. Keep “necessary” accounts current when deciding which credit bills to pay. If you are using a credit card to temporarily pay for necessities, you want to be sure to not jeopardize the availability of that account. A short sale may be just one part of a larger effort to get through a tough period. We want to help make it possible for your credit to recover quickly. YOU need to avoid foreclosure — and that’s where we can assist you.

### **Can I be held responsible for the difference of what I owe and what is paid?**

This is a good question that is best answered by a qualified Real Estate Attorney. What you should know is Arizona is a “Non-Judgment Deficiency” state, which means that generally speaking, if the bank forecloses on your home or agrees to a short sale, they cannot pursue you for a deficiency judgment. For more specifics on this topic, please refer to the Arizona Revised Statutes and consult a qualified real estate attorney.

It is also important to know that most Home Equity Lines of Credit (HELOC) are not just secured to your home, they are also personally “backed” by you. What this means is that even though your HELOC bank may agree to do a short sale or foreclose on your property, they still may attempt to collect on your account – even after the short sale or foreclosure is complete.

### **If I’m already behind on my payments and/or the foreclosure date has been set, can I still short sale my property?**

Yes, most lenders will postpone a foreclosure date if a valid offer to purchase the property has been received and is under review.